

## Welcome to your CDP Climate Change Questionnaire 2020

### C0. Introduction

#### C0.1

##### **(C0.1) Give a general description and introduction to your organization.**

Our Company, Grupo Financiero Banorte (hence, “GFNorte”, “the Group” or “Our Company”) is one of the leading institutions in Mexico, currently the second largest bank in Mexico; first in pension funds (Afore XXI Banorte), annuities resolutions and government loans, second in mortgage loans, third in car and payroll loans, consumer credits and point of sales (POS), and fourth in company loans and credit cards. Our Company has a network of 1,182 branches, 8,919 ATMs, 166,505 POS terminals and 14,181 correspondents; it is also the only large financial institution which is not owned in majority by a global international bank. Additionally, we operate the money transfer companies Motran and Uniteller, in California and New Jersey, respectively, as well as Banorte-Ixe Securities in New York

Our growth capacity through new acquisitions can be resumed as follows:

Banorte was founded in 1899 in the city of Monterrey, where it began operations as a regional bank. In 1992, in the banking privatization process, Banorte was acquired by a group of businessmen, led by Mr. Roberto González Barrera. Through a series of strategic acquisitions following the Mexican financial crisis in the mid-1990s, Banorte consolidated a national presence in Mexico. It currently operates as a financial group called Grupo Financiero Banorte (GFNorte), under a universal banking model offering a wide variety of products and services through its brokerage house, pension and insurance companies, Afore, mutual funds, as well as the leasing and factoring and the storage companies. At the end of June 2020, GFNorte manages US \$125 billion in AUM and is already the second largest financial group in Mexico since the acquisition of Grupo Financiero Interacciones, consolidated in July, 2018.

The shares of GFNorte are listed on the Mexican Stock Exchange (BMV) with the ticker "GFNORTEO" - the most relevant share in Mexico - in the Stock Exchange of Madrid under the "XNOR" symbol and in the US market through an ADR listed in the OTCQX market with the "GBOOY" symbol. Also, GFNorte is part of the following sustainability indexes: Bloomberg Gender Equality Index (GEI), FTSE4Good Emerging Markets Latam, FTSE4Good BIVA, MSCI Mexico ESG Select Focus Index, Dow Jones Sustainability Index MILA Pacific Alliance, S&P/BMV Total Mexico ESG Index and Index Americas .



Grupo Financiero Banorte, S.A.B. de C.V. (“GFNorte”, “the Group” or “Our Company”) cautions that the information in this questionnaire contains forward looking statements. These forward looking statements are found in various places throughout this document and include, without limitation, statements concerning our future business development and economic performance of the Company. While these forward looking statements represent our judgment and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to:

- (1) General market, macro-economic, governmental and regulatory trends;
- (2) Movements in local and international securities markets, currency exchange rates, and interest rates;
- (3) Competitive pressures;
- (4) Technological developments;
- (5) Changes in the financial position or credit worthiness of our customers, obligors and counterparties; and
- (6) Climate-related issues.

## C0.2

**(C0.2) State the start and end date of the year for which you are reporting data.**

	Start date	End date	Indicate if you are providing emissions data for past reporting years
Reporting year	January 1, 2019	December 31, 2019	No

## C0.3

**(C0.3) Select the countries/areas for which you will be supplying data.**

- Mexico
- United States of America

## C0.4

**(C0.4) Select the currency used for all financial information disclosed throughout your response.**

- MXN



## C0.5

**(C0.5) Select the option that describes the reporting boundary for which climate-related impacts on your business are being reported. Note that this option should align with your chosen approach for consolidating your GHG inventory.**

Financial control

## C-FS0.7

**(C-FS0.7) Which organizational activities does your organization undertake?**

Bank lending (Bank)

Investing (Asset manager)

Investing (Asset owner)

Insurance underwriting (Insurance company)

## C1. Governance

### C1.1

**(C1.1) Is there board-level oversight of climate-related issues within your organization?**

Yes

### C1.1a

**(C1.1a) Identify the position(s) (do not include any names) of the individual(s) on the board with responsibility for climate-related issues.**

Position of individual(s)	Please explain
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Chief Executive Officer (CEO)	Our CEO actively participates in the Sustainability Committee, which was created with the purpose of defining the Group's sustainability strategy and its accountability. This Committee reports directly to the Risk Policy Committee (CPR), and is integrated by seven members; five members of the Board of Directors (including the CEO) an alternate Board Member and the Chief Risk Officer (CRO). In turn, the CPR reports to the Board of Directors.
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## C1.1b

**(C1.1b) Provide further details on the board's oversight of climate-related issues.**

Frequency with which climate-related issues are a scheduled agenda item	Governance mechanisms into which climate-related issues are integrated	Scope of board-level oversight	Please explain
Sporadic - as important matters arise	Reviewing and guiding strategy Reviewing and guiding major plans of action	Climate-related risks and opportunities to our own operations	The matters were presented to the Board of Directors as they emerged during the reporting year and became relevant. During the third session that was held on July 25, 2019, a renewable energy supply project and the amount for initial investment required for this project were discussed and approved.

## C1.2

**(C1.2) Provide the highest management-level position(s) or committee(s) with responsibility for climate-related issues.**

Name of the position(s) and/or committee(s)	Reporting line	Responsibility	Coverage of responsibility	Frequency of reporting to the board on climate-related issues
Sustainability committee	Other, please specify Committee to the Risk Policies Committee (CPR), which is a Support Committee for GFNorte's Board	Both assessing and managing climate-related risks and opportunities	Risks and opportunities related to our bank lending activities	Half-yearly



	of Directors comprised by five Board Members (four Independent), the CEO and the CRO.		Risks and opportunities related to our own operations	
Credit committee	CEO reporting line	Managing climate-related risks and opportunities	Risks and opportunities related to our bank lending activities	More frequently than quarterly
Investment committee	Investment - CIO reporting line	Both assessing and managing climate-related risks and opportunities	Risks and opportunities related to our investing activities	More frequently than quarterly

## C1.2a

**(C1.2a) Describe where in the organizational structure this/these position(s) and/or committees lie, what their associated responsibilities are, and how climate-related issues are monitored (do not include the names of individuals).**

As founders and signing members of the Principles for Responsible Banking (PRB), we are committed to their implementation. Therefore, our commitment with Principle 5. Governance and culture, is to implement these Principles through effective governance and a culture of responsible banking.

Since 2019, a Sustainability Committee was developed and meets semi-annually. The Committee manages the sustainability strategy and aligns it to Banorte's vision, strategy and interests. The Committee is composed by six members from strategic areas (Chief Administration Officer, Chief Risk Officer, Chief Credit Officer, Public Relations Officer, Chief Legal Officer and the Investor Relations and Sustainability Executive Director), and a representative of the Internal Audit department. The Investor Relations and Sustainability Executive Director presides the Committee, and the Head of Sustainability and Responsible Investment serves as the secretary. The functions of this Committee include the following:

- (i) Define the Group's sustainability strategy and action plan;
- (ii) Periodically review sustainability policies;
- (iii) Promote environmental, social and corporate governance issues;
- (iv) Set goals and follow up on results;
- (v) Integrate environmental, social and corporate governance aspects into business risks;
- (vi) Communicate relevant sustainability issues related inside and outside the Group;

- (vii) Promote strategic alliances inside and outside the Group;
- (viii) Encourage employee´s engagement in sustainability initiatives; and
- (ix) Assign a budget item and define the amount for the activities derived from the topics discussed in the Committee

The responsibilities that are associated with climate related issues from each member are the following;

- CAO: provide information about new projects related to the prevention and mitigation of operational environmental impacts from the GFNorte (building facilities, energy efficiency projects, among others);
- CRO: identify and manage environmental, social and corporate governance risks related to the business, present guidelines related to Risk Acceptance criteria, establish and apply guidelines related to risk management and process information for the detection of opportunities;
- CCO: provide information, identify and manage environmental, social and corporate governance risks related to the business, present proposals on the social, environmental and corporate governance component implicit in credit products, discuss customer cases with impacts on environmental, social issues and relevant corporate governance and identify opportunities and present proposals for credit products, linked to the social, environmental or corporate governance component;
- PRO: propose internal and external communication campaigns according to the strategies and alliances approved by the Committee;
- CLO: coordinate development of internal regulations and be aware of current and emerging regulations; and
- Investor Relations and Sustainability Executive Director: follow up on the sustainability action plan and goals and propose initiatives and best practices of corporate sustainability.

As the Committee was developed in 2019, it has only been session once.

Likewise, subcommittees have been developed for each issue (risks, environment and social), which are made up of strategic operative positions and whose purpose is to follow up on the actions and comply with the goals established by the Committee. The subcommittees that involves climate related issues are;

- Environment Subcommittee: is comprised with the areas of sustainability, facilities, material resources and general services and aims to manage the strategy and plan of action against climate change, strengthen current initiatives and promote others to reduce our environmental impact, and to properly manage performance indicators of operations.
- Risk Subcommittee: conformed by the area of sustainability, risk, credit and specialized areas (tourism, real estate and agriculture), the objective is to promote the consideration of environmental and social risks within the granting process of credit.



In 2019, our Risk Policies Committee approved the Sustainability and Responsible Investment department has an active participation as an speaking member of the Central Credit Committee and National Credit Committee for the projects with high or medium socio-environmental risk with a credit amount equal to or greater than \$ 500,000,000 pesos and belonging to sensitive sectors such as oil and gas, mining or large infrastructure .

To sustain our commitment to responsible investment, the duties of the Asset Owner Investment Committee includes;

- (i) The incorporation of an analysis of the characteristics and risks of each issuer, and of ESG factors in each investment or investment proposal that make up the retirement fund portfolio
- (ii) To validate the ESG ranking, it should provide annual follow-up and prepare opinions on issuers whose ratings represent a risk to the portfolio.

### C1.3

**(C1.3) Do you provide incentives for the management of climate-related issues, including the attainment of targets?**

	Provide incentives for the management of climate-related issues	Comment
Row 1	Yes	

### C1.3a

**(C1.3a) Provide further details on the incentives provided for the management of climate-related issues (do not include the names of individuals).**

Entitled to incentive	Type of incentive	Activity incentivized	Comment
Other C-Suite Officer	Monetary reward	Efficiency target	A monetary reward is given to the Chief Administrative Officer (CAO) as percentage of the annual bonus that is directly related to performance and/results in decreasing the operating expenses: staff expense, administration and promotion expenses, among others. Within the administration category, the expenditure in energy consumption is measured. In conjunction with the Energy Department, initiatives to reduce this expense, such as the development of energy projects and energy consumption efficiency in operations, are performed. Furthermore, the expense in other supplies is measured,



			such as paper consumption, reduced with digital tools, and the expenditure in business travel, reduced by video conferences and online meetings.
Environment/Sustainability manager	Monetary reward	Energy reduction project Behavior change related indicator	A monetary reward is given as an annual bonus for the Sustainability and Responsible Investment and the Energy and Maintenance departments (including middle management to directors), that is directly related to performance and/results in: (i) Measuring environmental indicators management and their performance (energy consumption, GHG emissions, waste disposal, waste recycled, among others), and development of operational efficiency projects; energy efficiency (reductions also are reflected in Scope 1 and 2 GHG emissions), waste disposal projects associated with reducing and recycling programs (paper priority), employees commuting to the organization and employee awareness about environmental issues. (ii) Management of socio-environmental risks in credit and investment portfolios.
All employees	Non-monetary reward	Other (please specify) Employees facing environmental concerns	Our Sustainability Champions network aims to sensitize our employees and be spokespersons on sustainability issues regarding the programs, campaigns and activities that are implemented. For this, at least two Champions were convened per floor of our main administrative buildings, which sign a letter of commitment and attend monthly meetings where the Sustainability Department shares information regarding current issues of sustainability and ongoing projects. For each of them we gave an acknowledgment with which they can also be identified by other employees. Also, as the Social and Environmental Risk Management System (SEMS) have a group of executives that serve as a link between the Social and Environmental Risk Area (ARSA) and the Credit area to promote the proper management of social and environmental risks in all the territories of the country. They receive recognition awards and are periodically trained in this kind of issues.

### C-FS1.4

**(C-FS1.4) Does your organization offer its employees an employment-based retirement scheme that incorporates ESG principles, including climate change?**



	<b>We offer an employment-based retirement scheme that incorporates ESG principles, including climate change.</b>	<b>Comment</b>
Row 1	Yes, as the default investment option for all plans offered	Employees have a retirement plan called "Plan de Contribución Definida", which is in addition to the retirement savings plan scheme established by Mexican law. This Plan allows employees to save a percentage of their salary and Banorte also makes a complementary contribution. The Plan is administered by our Afore XXI Banorte, which is a signatory of the Principles of Responsible Investment (PRI) since 2017. For more information about Afore XXI Banorte responsible investment strategy and performance, visit the following link (only available in Spanish): <a href="https://www.xxi-banorte.com/asg/">https://www.xxi-banorte.com/asg/</a>

## C2. Risks and opportunities

### C2.1

**(C2.1) Does your organization have a process for identifying, assessing, and responding to climate-related risks and opportunities?**

Yes

### C2.1a

**(C2.1a) How does your organization define short-, medium- and long-term time horizons?**

	<b>From (years)</b>	<b>To (years)</b>	<b>Comment</b>
Short-term	0	3	
Medium-term	3	5	
Long-term	5	10	10 or more.

## C2.1b

### **(C2.1b) How does your organization define substantive financial or strategic impact on your business?**

The financial impact on a particular business depends on the payment capacity that the client has at the time of its analysis. In this payment capacity, we include different qualitative and quantitative aspects; for the qualitative part we consider the type of administration that the business has, experience in the sector, seniority in the activity, who are its clients, suppliers, perspectives of the sector, among other issues, and for the quantitative part we consider the type of short or long-term credit if it has the capacity to pay to face this debt with the Institution, how it obtains its income, etc. Once evaluated, the case is analyzed in the corresponding committee and authorized. It is important to highlight the follow-up given to clients, which controls a possible negative impact on that particular sector. We have tools or models where, depending on the client's risk level or risk scale, they are analyzed in the corresponding committee, that is, the greater the exposure to financing and the type of credit risk, a corresponding committee is assigned. The financial or strategic impact is managed with different metrics and their respective risk thresholds consolidated in Risk Appetite and is governed mainly by the following pillars;

1. The financial Group seeks to maintain a general medium-low risk profile based on a diversified business model, focused on Retail Banking with relevant market shares, and a Wholesale Banking business model that highlights the relationship with customers in the Group's main markets:
  - (i) Maintaining a diversified portfolio avoiding risk concentrations
  - (ii) Leadership position in priority businesses for the Group's strategy, applying innovative strategies and targeted campaigns
  - (iii) Emphasis on generating business with a comprehensive vision of the client, seeking the growth of the Group through the placement of new products and services to the current client base, seeking to increase profitability per client
  - (iv) Internal culture focused on customer satisfaction, so that the Group is recognized for its quality of service
  - (v) Innovation to enrich the offer of segments, products and channels with new technologies that meet customer needs in a functional and attractive way
2. Maintain a proactive strategy related to Environmental, Social and Corporate Governance risks, incorporating this culture in all the Group's activities.
3. A stable and recurring policy of generating results and remuneration to shareholders (dividends), based on a strong capital base, solvency, liquidity and an effective diversification strategy of assets and liabilities:
  - (i) Growth strategy with high quality of the Group's assets, taking care of the credit origination processes and parameters as well as the control and monitoring processes
  - (ii) Portfolio approach considering the risk-return-opportunity relationship with adequate levels of capitalization to ensure the solvency of the institution
  - (iii) Stability of financial results creating value for shareholders through the generation of recurring profits.

Additionally, according to our Socio-environmental Risk Policy, socio-environmental impact is defined as a positive or negative modification of the physical, natural, social or cultural environment, including surrounding communities and workers, caused by commercial activities financed by banks.

## C2.2

**(C2.2) Describe your process(es) for identifying, assessing and responding to climate-related risks and opportunities.**

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### **Value chain stage(s) covered**

Direct operations  
Upstream  
Downstream

### **Risk management process**

Integrated into multi-disciplinary company-wide risk management process

### **Frequency of assessment**

More than once a year

### **Time horizon(s) covered**

Short-term  
Medium-term  
Long-term

### **Description of process**

As founders and signing members of the Principles for Responsible Banking (PRB), we are committed to their implementation. Therefore, our commitment for Principle 2. Impact & Target Setting, is to continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we have to set and publish targets where we can have the most significant impacts.

- Operational risks:

We follow a management system for risks assessment through our Environmental Impacts Matrix (RIECM), which prioritize 128 environmental

aspects by weighting their type, activity, input and output, six possible environmental impacts, time, gravity, relevance, reversibility and evolution. The result of this assessment comprises values from 0 to 505+ (the higher the value, the higher relevance) and determines the impact's significance to prioritize in the short- and long-term. In addition, in this matrix we have identified the current environmental laws that apply to us and if we are complying with it, prioritizing these regulations depending on their economic sanctions.

To address high impact external events, GFNorte has a Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) that set out guidelines for what to do in case of a sinister based on a same-time data replication system at an alternate computer site. All the above cover the backup and recovery of the Institution's critical applications in the event or any relevant operating contingency such as earthquakes, hurricanes, floods, among other physical events, for one particular site or a definite region that can affect our facilities and by subsequent, our operations.

There is a Recovery and Continuity Committee, which is the body with faculties for in case of service interruption, evaluate the impact of damages, identify affected business areas, estimate the recovery time. This Committee reports directly to the Risk Policies Committee (CRP). Also, the CPR is in charge of the assessment of the scope and effectiveness of the BCP, its disclosure among the corresponding areas and identification, if the case, of the necessary adjustments for its update and strengthening. At least once a year, the CPR should test the BCP to verify its effectiveness.

- Business risks:

1. For lending activities:

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 (SEMS) aligned with the Equator Principles (EP).

The analysis follow 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:

(i) Identification; the Social and Environmental Risk Area (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 (not risky or prohibited activities).

(ii) 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, classified according to the EP in A (high risk), B (medium risk) and C (low risk).

(iii) Evaluation; once the financing 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 EP, the IFC Performance Standards and the SEMS Evaluation, so the ARSA asks customers for information related to permits, resolutives, licenses, plans, programs, specialized studies and good practices to elaborate the due diligence.

(iv) Management; monitoring the socio-environmental performance of the credits during the life cycle of the financing. Mainly considers the

credits analyzed under the EP and includes annual reviews, continuous advice for clients and business executives, site visits and reputational risk monitoring of the projects.

2. For investment activities:

(i) Asset Management; in line with the Principles for Responsible Investment (PRI), the Sustainability and Responsible Investment Department annually analyze ESG factors, as well as controversies, and quantify Scope 3 emissions (category 15. Investments of the GHG Protocol) of the most representative issuers of listed equity assets. The results are reported to the Asset Management Department, for informational purposes only, in order to be considered through the investment strategy process without implying any obligation in the final decision making.

The implementation of these actions may encourage the financial market to adopt better practices, contributing to the transformation of the market in order to have a positive impact on the society, businesses and the environment.

(ii) Asset Owners (Afore XXI Banorte); We identify risks and opportunities for each type of industry and asset subject to investment, through a quantitative and qualitative model that analyses the commitment of companies to sustainable principles and their low incidence in controversies that mainly affect their reputation. The model uses a rating scale from AAA to CCC.

On the other hand, we have and will continue being an active investor in the emerging market of thematic bonds (green, social and sustainable), fostering the evolution and sophistication of the debt market as the main pillar.

So far, we send a questionnaire to the administrators of structured instruments that contains the following topics of interest: Vulnerability to Climate Change, Environmental Impact by Financing, ESG Risk Identification and Management and Sustainable Corporate.

Also, we are developing a National Climate Strategy in which we will map the assets of the real estate sector and superimpose it on the map of municipalities most vulnerable to climate change defined by the National Institute of Ecology and Climate Change (INECC). The foregoing allows us to have a general overview of the percentage of exposure of our portfolio with presence in areas highly vulnerable to climate change and thus consider ESG issues as part of the monitoring and follow-up that we give to each of our assets.

3. For insurance activities:

For all hydrometeorological phenomena such as hurricane, storm surge, flood, heavy rainfall, hail and windstorm, among others (excluding tsunami), we use Catastrophe (CAT) Models not only to establish the pricing but also to determine the amount of CAT reinsurance capacity we need and also to determine the reserves. The models we use are ERN (statutory), RMS and AIR.

## C2.2a

**(C2.2a) Which risk types are considered in your organization's climate-related risk assessments?**

	Relevance & inclusion	Please explain
Current regulation	Relevant, always included	<p>Current regulation risk is defined as the potential loss due regulatory inspections, examinations, inquiries and audits that could result in sanctions or the imposition of corrective measures.</p> <ul style="list-style-type: none"> <li>- Operational risks: as a financial company, our direct impacts related with climate change are derived mainly from fuel and electricity consumption. Therefore, the identified risks regard the Mexican General Climate Change Law, National Registry of Emissions.</li> <li>- Business risks: there are no current regulations for climate-related issues for financial institutions. Nevertheless, as part of our SEMS process we verify that our clients comply with the national environmental regulations due this represent a risk for both.</li> </ul>
Emerging regulation	Relevant, always included	<p>Emerging regulation risk is defined as a potential loss due to governmental regulation frequent revisions and changes. Many of the climate-related applicable laws and regulations have been subject to extensive changes in recent years.</p> <ul style="list-style-type: none"> <li>- Operational risks: since 2009 we started calculating our GHG emissions and we verified them since 2013; by 2015 it was already mandatory for companies with emissions exceeding 25 thousand tons of CO<sub>2</sub>e per year to report them to SEMARNAT and by 2018 its verification was also mandatory, in accordance with the General Law on Climate Change and its regulations on National Registry of Emissions. Therefore, this did not affect our activities or imply an additional cost once it entered into force. Also, we attended to several trainings on the new carbon emissions trading market in Mexico, which will take effect in 2021.</li> <li>- Business risks: in Mexico there is no regulation related to climate-related issues for financial institutions yet. Nevertheless, we already have operating since 2012 our Social and Environmental risk Management System (SEMS) that analyzes the environmental and social risks involved in the activities we finance, and we have already developed an internal methodology to incorporate ESG issues into our investment decision-making. As part of the SEMS process, we follow up to upgrades of the current and new regulations in the Mexican government newspaper (DOF) and it is integrated to our periodic reviews.</li> </ul>
Technology	Relevant, always included	<p>Technological risks is defined as the potential loss due a lack of ability to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner.</p> <ul style="list-style-type: none"> <li>- Operational risks: we constantly evaluate technological improvements or innovations that support the transition to a lower-carbon and have a significant impact on our organization. Our ability to remain competitive in the markets in which we</li> </ul>

		<p>operate depends partially on our ability to upgrade our information technology infrastructure on a timely and profitable basis, through continuous investment. The opening of new offices and branches requires us to improve our information technology infrastructure, and to maintain and upgrade our software and hardware systems and back office operations. For that reason, one of our relevant contracts of the Group includes the agreements with IBM de Mexico, Comercializacion y Servicios, S. de R.L. de C.V.: (i) for the acquisition of products (equipment or software licenses) and services, and (ii) leasing of technological equipment. Any failure to improve effectively or upgrade our information technology infrastructure and management information systems in a timely manner or to achieve the expected results from our alliance with IBM could materially and adversely affect our competitiveness, financial position and results of operations, and result in losses for our customers, resulting in liabilities for us.</p> <p>- Business risks: through the SEMS process we share recommendations to our clients from different industrial sectors about good environmental and social practices, which may include the use of high efficiency technology to reduce resources consumption and improve their processes.</p>
Legal	Relevant, always included	<p>Legal risk is defined as a potential loss due to non-compliance with the applicable legal and administrative provisions, the issuance of applicable administrative and judicial unfavorable resolutions and the application of sanctions, in relation to the operations that Banorte carries out.</p> <p>- Operational risks: our Legal department attends claims and issues regarding environmental topics, in case these issues arise. In 2018, GFNorte did not receive any environmental fines, which was reported in our Integrated Annual Report and verified by a third party in accordance with GRI 307-1: "Non-compliance with environmental laws and regulations".</p> <p>- Business risks: one of the objectives of the SEMS is to avoid non-compliance with environmental legislation as it may have consequences for penalties, including monetary, operative and administrative sanctions.</p>
Market	Relevant, always included	<p>Market risk is defined as a potential loss due to changes in risk factors that affect the valuation or expected results of active, passive or contingent liability operations.</p> <p>- Operational risks: due to the growing demand for the best ESG practices from global investors, it is important to have an updated sustainability strategy that allows us to be more competitive on an international level. This is reflected with better ratings issued by the ESG Rating Agencies and adherence and permanence in sustainability indices, which open new market opportunities.</p> <p>- Business risks: lack of sustainable financial products, such as green credit lines, green, social and sustainable bonds, ESG funds, climate insurance, among others, can limit our offer in the market, which has repercussions in the loss of some potential clients who seek these products.</p>



<p>Reputation</p>	<p>Relevant, always included</p>	<p>Reputational risk is defined as the potential loss in the development of the activity of each of the entities that make up the Group caused by the deterioration in the perception that the different interested parties, both internal and external, have of their solvency and viability.</p> <ul style="list-style-type: none"> <li>- Operational risks: because the Group is a publicly-owned corporation, it must effectively manage its behavior, discourse and image in society, aware of the impact these variables have on its corporate reputation. One of our basic operational principles has been to safeguard the group's reputation through prudent but transparent communication, to avoid rumors or the generation of voids that might be filled with incorrect information. Faced with these momentary challenges, we chose to distribute appropriate information on events through internal and external media and social networks, contributing to our stewardship of the group's intangible capital.</li> <li>- Business risks: as part of the SEMS and responsible investment process, the reputational risk of projects and assets with significant risks are analyzed through the monitoring of controversial issues. By having a relationship with clients or controversial projects in our portfolios, the image of the Group can be affected with our stakeholders, losing presence and brand value.</li> </ul>
<p>Acute physical</p>	<p>Relevant, always included</p>	<p>Acute physical risks are included within the operational risk. Operational risk is defined as the potential loss, either direct or indirect, due different causes including natural disasters such as cyclones, hurricanes, floods, among others.</p> <ul style="list-style-type: none"> <li>- Operational risks: according to the National Institute of Ecology and Climate Change (INECC), in Mexico there are 25 tropical cyclones a year generated on average; 4 to 5 can enter to the territory and cause serious damage. The degree of direct exposure to tropical cyclones, in any of their categories, is high in at least 17 states of the country: Baja California, Baja California Sur, Sinaloa, Sonora, Nayarit, Jalisco, Colima, Michoacán, Guerrero, Oaxaca, Chiapas, Quintana Roo, Yucatán, Campeche, Tabasco, Veracruz and Tamaulipas. However, the level of vulnerability to the catastrophic presence of a phenomenon of this nature and to the process of climate change is particularly severe in Colima, Veracruz, Tamaulipas, Baja California and Baja California Sur, according to Analysis of the frequency and intensity of tropical cyclones to prevent the effects, present and future, due to variability and climate change in Mexico, published by the INECC. Our facilities and branches located less than 50 kms from the coast are classify as high risk, then, those who are located more than 50 km in near coastal states are classified with medium risk, the others are considered as low risk. Therefore, 441 branches and 71 buildings are directly exposed to hurricanes due their location, and 136 and 21 buildings are in high risk locations.</li> </ul> <p>Regarding floods (level of rainfall greater than 872 millimeters according to the National Water Commission), according to the National Commission for Knowledge and Use of Biodiversity (Conabio), the states that present a high risk of flooding in</p>



		<p>most of their municipalities are Baja California, Baja California Sur and Quintana Roo. Therefore, 55 branches and 12 are exposed to floods.</p> <p>- Business risks: as part of the credit process, the projects that are vulnerable to physical risks due to their geographical location requires insurance policies that may cover the possible damages that may be caused by natural disasters. Similarly, in the SEMS process it is requested that they also have an emergency response plans civil protection programs.</p>
Chronic physical	Not relevant, included	<p>Chronic physical risks are included within the operational risk. Operational risk is defined as the potential loss, either direct or indirect, due different causes including sudden changes in weather patterns such as higher/lower temperatures, among others.</p> <p>- Operational risks: The climate in Mexico is expected to become more extreme, that is, prolonged droughts and severe rains in abnormal seasons. According to the National Institute of Ecology and Climate Change (INECC), the states most affected by drought conditions were Sonora, Sinaloa and Baja California. It is assumed that the states facing drought are the states with the highest temperatures in the country and this represents a risk of increased energy consumption. Therefore, 100 branches and 14 buildings are exposed to drought conditions.</p> <p>- Business risks: due to the changes in the climate that directly affect the activities of our clients, we identify the potential physical chronic risks and begin the development of a series of guides to prevent and manage the different problems that can arise in the different sectors. An example is the recent massive arrival of sargassum on the Mexican coast of the Caribbean that has affected the tourism sector.</p>

## C-FS2.2b

### (C-FS2.2b) Do you assess your portfolio's exposure to climate-related risks and opportunities?

	We assess the portfolio's exposure	Please explain
Bank lending (Bank)	Yes	Since 2012 we have been signing members of the Equator Principles and we have a Social and Environmental Risk Management System (SEMS), developed to analyze the risks and impacts of our lending in the wholesale & corporate banking. SEMS is an integral part of the Bank's lending process and it works based on the identification, categorization, evaluation and management of those risks. During this analysis, we identify the



		<p>potential risks and impacts of our financing, and apply our exclusion list. We classify risks into categories: A for high risk, B for medium risk, and C for low risk, according to the magnitude of impact and possibilities for mitigation. We then evaluate the projects' compliance with the Equator Principles, the IFC Performance Standards and the domestic legal framework (SEMS Assessment). Finally, we regularly follow up on projects, providing advice and contributing value to our clients.</p> <p>We have a list of 1,147 codes called CAS by its acronym in Spanish that are used to identify customer activities according to their sector, of which 91 CAS were defined as Sustainable, since they generate positive impacts. These CAS constitute the bank's sustainable taxonomy and are used to measure the climate-related risks and opportunities.</p>
Investing (Asset manager)	No, but we plan to do so in the next two years	<p>By now, we are quantifying our scope 3 emissions derived from investments, specifically from equity assets. This will allow us to identify the issuers that represent the largest carbon footprint in the portfolio, and eventually, define emissions reduction agreements with them.</p> <p>Likewise, in 2020 we will be updating the methodology for ESG evaluations as part of the continuous improvement, with which we are considering to measure ESG performance (currently only ESG transparency analyzes are carried out). This update includes approximately 44 indicators related to climate change based on GRI Standards 302 - Energy and 305 - Emissions, and the CDP Climate Change questionnaire. With this information we will be able to quantify climate risks and opportunities effectively.</p>
Investing (Asset owner)	Yes	<p>In order to assess the climate-related risks and opportunities, we recently joined the initiatives Climate Action 100+ and Task Force on Climate-related Financial Disclosures (TCFD), through which we will ask companies to:</p> <ul style="list-style-type: none"> <li>(i) Implement a solid governance framework</li> <li>(ii) Take measures to reduce greenhouse gas emissions along the value chain</li> <li>(iii) Provide enhanced corporate disclosure</li> <li>(iv) That they invest informed and responsibly.</li> <li>(v) Make decisions related to the climate.</li> <li>(vi) Mitigate climate risk.</li> <li>(vii) Promote an economy of net zero emissions.</li> </ul> <p>Also we will measure the climate change goal achievement with the 8 objectives defined by our Investment Committee, that includes the definition of policies, buildings with sustainable certifications and involvement that it</p>



		has with the tenants of the real estate sector to take carried out training on energy efficiency, water consumption and waste.
Insurance underwriting (Insurance company)	Yes	We developed an hydrometeorological related CAT coverage for Property Damage and Business Interruption on Property programs. We also proved hydrometeorological related CAT coverage on a stand alone basis both for Property businesses and for Agricultural programs.
Other products and services, please specify	Not applicable	

### C-FS2.2c

**(C-FS2.2c) Describe how you assess your portfolio’s exposure to climate-related risks and opportunities.**

	Portfolio coverage	Assessment type	Description
Bank lending (Bank)	Majority of the portfolio	Qualitative and quantitative	<p>With our SEMS, we identify, categorize and evaluate climate-related risks through a due diligence process, considering greenhouse gas emissions of the sectors with high intensity emission. It is important to mention that the due diligence format was updated during 2019 to punctually identify the projects with the biggest exposure to climate risks. The due diligence considers the IFC Performance Standards (PS), and specifically for the climate-related issues, it is used the PS3. Resource efficiency and pollution prevention.</p> <p>In 2019, we identified the risks and potential impacts of 3,104 loans, representing the analysis of 62.65% of the corporate portfolio and 79.11% of the commercial portfolio.</p> <p>Also, according to the Sustainable CAS, the value of our sustainable portfolio in corporate and commercial loans was estimated at \$9.82 billion pesos (4.24% of the corporate and business portfolio), which was invested in various projects; construction of wind and solar farms, cogeneration of energy from natural gas. capture, pumping, treatment and distribution of fresh water, sustainable agriculture and collection, recycling and disposal of metal waste.</p>



			Our climate portfolio, which by now, includes only renewable energy financing, totals \$6.21 billion pesos (2.72% of the corporate and business portfolio).
Investing (Asset owner)	Majority of the portfolio	Qualitative and quantitative	<p>We are in the process of collecting data, such as the physical location of the projects of our portfolio that will allow us to identify the vulnerability or impact of climate risks on the investments. Additionally, we are including, as part of the information requested, matters regarding climate vulnerability, insurances or protocols for natural disasters, and adaptation measures in case of a shortage of resources, included into projects.</p> <p>Our model for evaluating the environmental impact of the portfolio is comprehensive, with which we seek to strengthen and establish the necessary measures and actions to support and promote the integration of ESG factors in the investment strategy, as well as the incorporation of climate risks, not only in the management from our internal portfolios but also from other fund managers with which we collaborate. In line with our fiduciary duty, we seek to understand and manage the investment risks associated with climate change, ensuring that the administrators and operators of our investment assets are permeating and integrating the sustainability considerations and implementation of strategies to mitigate climate change, both in their practices and in asset management.</p> <p>So far, we have a Materiality Matrix by sector in which sustainability issues or main risks that may affect the financial situation or the operating performance of companies within a particular sector are identified. Based on the matrix and our ex-ante dispute questionnaire, we identify the main risks and they are monitored annually.</p>
Insurance underwriting (Insurance company)	Minority of the portfolio	Quantitative	We use CAT models to determine the CAT reserves. For CAT reserving we run ERN which is the statutory model, for pricing and for CAT reinsurance capacity we use RMS and AIR. These models require Lat / Long data on all risks, specific information on construction codes / characteristics and loss history data. There is no temperature related data to enter the model, however the algorithms do consider it.

## C-FS2.2d

**(C-FS2.2d) Do you assess your portfolio's exposure to water-related risks and opportunities?**



	We assess the portfolio's exposure	Portfolio coverage	Please explain
Bank lending (Bank)	Yes	Majority of the portfolio	<p>With our SEMS, we identified, categorized and evaluated water-related risks through a due diligence process, considering water extraction, treatment, reuse and recycling. The due diligence considers the IFC Performance Standards (PS), and specifically for the climate-related issues, it is used the PS3. Resource efficiency and pollution prevention, and PS6. Conservation of biodiversity and management of natural resources.</p> <p>In 2019, we identified the risks and potential impacts of 3,104 loans, representing the analysis of 62.65% of the corporate portfolio and 79.11% of the commercial portfolio.</p> <p>Also, according to the Sustainable CAS, the value of our sustainable portfolio in corporate and commercial loans was estimated at \$9.82 billion pesos (4.24% of the corporate and business portfolio), which was invested in various projects; construction of wind and solar farms, cogeneration of energy from natural gas. capture, pumping, treatment and distribution of fresh water, sustainable agriculture and collection, recycling and disposal of metal waste.</p>
Investing (Asset manager)	No, but we plan to do so in the next two years		In 2020 we will be updating the methodology for ESG evaluations as part of the continuous improvement, with which we are considering to measure ESG performance (currently only ESG transparency analyzes are carried out). This update includes approximately 19 indicators related to water based on GRI Standards 303 - Water. With this information we will be able to quantify water risks and opportunities effectively.
Investing (Asset owner)	No, we don't assess this		
Insurance underwriting (Insurance company)	No, we don't assess this		



Other products and services, please specify	Not applicable		
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## C-FS2.2e

### (C-FS2.2e) Do you assess your portfolio’s exposure to forests-related risks and opportunities?

	We assess the portfolio's exposure	Portfolio coverage	Please explain
Bank lending (Bank)	Yes	Majority of the portfolio	<p>With our SEMS, we identified, categorized and evaluated forests-related risks through a due diligence process, considering sustainable use of natural resources and biodiversity conservation. The due diligence considers the IFC Performance Standards (PS), and specifically for the climate-related issues, it is used the PS3. Resource efficiency and pollution prevention, and PS6. Conservation of biodiversity and management of natural resources.</p> <p>In 2019, we identified the risks and potential impacts of 3,104 loans, representing the analysis of 62.65% of the corporate portfolio and 79.11% of the commercial portfolio.</p> <p>Also, according to the Sustainable CAS, the value of our sustainable portfolio in corporate and commercial loans was estimated at \$9.82 billion pesos (4.24% of the corporate and business portfolio), which was invested in various projects; construction of wind and solar farms, cogeneration of energy from natural gas. capture, pumping, treatment and distribution of fresh water, sustainable agriculture and collection, recycling and disposal of metal waste.</p> <p>It is important to mention that the forestry sector is not relevant in our portfolio as it represent a very low exposure.</p>
Investing (Asset manager)	No, but we plan to do so in the next two years		In 2020 we will be updating the methodology for ESG evaluations as part of the continuous improvement, with which we are considering to measure ESG performance (currently only ESG transparency analyzes are carried out). This update includes approximately 5 indicators related to

			forest based on GRI Standards 304 - Biodiversity. With this information we will be able to quantify forest risks and opportunities effectively.
Investing (Asset owner)	No, we don't assess this		
Insurance underwriting (Insurance company)	No, we don't assess this		
Other products and services, please specify	No, we don't assess this		

### C-FS2.2f

**(C-FS2.2f) Do you request climate-related information from your clients/investees as part of your due diligence and/or risk assessment practices?**

	We request climate-related information	Please explain
Bank lending (Bank)	Yes, for some	The Social and Environmental Risk Analysis Process follow 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 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 Evaluation, so we ask customers for information related to permits, resolution's, licenses, plans, programs, specialized studies and good practices to elaborate the due diligence.
Investing (Asset manager)	No, but we plan to do so in the next two years	One of our Responsible Investment Policy guidelines is to prioritize engagement efforts with issuers with limited public disclosure of ESG factors or that represent a reputational risk by proposing actions to improve them. Engagement may take the form of letters, personal meetings with the management of the issuers,

		<p>among other activities.</p> <p>In order to carry out more in-depth analysis of the portfolios, in 2020 we plan to promote the more ESG disclosure and data quality in the Mexican stock market, giving it a priority focus on climate change issues. We also plan to share the results of our ESG assessments with issuers to promote best practices.</p>
Investing (Asset owner)	Yes	<p>We focus on encouraging direct investors to seek to mitigate these risks and promote continuous improvement by evaluating the environmental and social impacts throughout the life cycle of their real estate assets, for what we have defined objectives.</p> <p>Likewise, we are developing a Climate Strategy at a national level, to have an overview of the percentage of the portfolio with presence in areas that are highly vulnerable to climate change, considering ESG factors as part of the monitoring and follow-up of each of our assets, by type of sector, through their respective managers.</p> <p>Additionally, through our adherence to Climate Action 100+ and our endorsement of the TCFD principles, we will seek to raise awareness among local issuers about the importance of disclosing information related to climate change.</p>
Insurance underwriting (Insurance company)	Yes	<p>We require information, particularly construction codes, loss data and in many cases we make an underwriting engineering inspection.</p>
Other products and services, please specify	Not applicable	

### C2.3

**(C2.3) Have you identified any inherent climate-related risks with the potential to have a substantive financial or strategic impact on your business?**

Yes



## C2.3a

**(C2.3a) Provide details of risks identified with the potential to have a substantive financial or strategic impact on your business.**

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### Identifier

Risk 1

### Where in the value chain does the risk driver occur?

Direct operations

### Risk type & Primary climate-related risk driver

Current regulation

Enhanced emissions-reporting obligations

### Primary potential financial impact

Increased indirect (operating) costs

### Climate risk type mapped to traditional financial services industry risk classification

Policy and legal risk

### Company-specific description

According to the regulations of the Mexican General Law of Climate Change (LGCC) in relation with the National Emissions Register (RENE), article 3. VI-h, the companies from financial sector that emit more than 25,000 tonnes of CO<sub>2</sub> equivalent from their entire operations are obligated to report their emissions in the Annual Certificate of Operation (COA). Also, in the transients of the law are set ranges of tonnes of CO<sub>2</sub> equivalent by year that are obligated to verify their emissions by an accredited external auditor. Our Company falls in a regulated category, considering 99% of its operations are in Mexican territory and they generate around 70 thousand tons of CO<sub>2</sub>e each year.

### Time horizon

Short-term

**Likelihood**

Unlikely

**Magnitude of impact**

Low

**Are you able to provide a potential financial impact figure?**

Yes, an estimated range

**Potential financial impact figure (currency)**

**Potential financial impact figure – minimum (currency)**

92,780

**Potential financial impact figure – maximum (currency)**

5,566,800

**Explanation of financial impact figure**

If the data and documents required are not submitted the Federal Environmental Protection Agency (PROFEPA) may impose a fine of \$92,780 to \$556,680 MXN. Reporting false information should imply a fine of \$556,680 to \$1,855,600 MXN. This amount can be tripled in case of recurrence (\$5,566,800 MXN).

**Cost of response to risk**

90,500

**Description of response and explanation of cost calculation**

Annually, we collect data needed for the emissions calculation with a 100% of coverage of GFNorte. This data is verified by an accredited external auditor since 2012 and by regulation since this year. Once this information is validated, it is reported to several entities, for example, to the Mexican Ministry of Environmental and Natural Resources (SEMARNAT) by the COA to accomplish with the law. In 2017 we created an emissions management system aligned with the ISO14064 for emissions accounting, which is also verified. This action ensures that there will be continuity in case of a sudden change of responsibilities in the Sustainability Department.

## Comment

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### Identifier

Risk 2

### Where in the value chain does the risk driver occur?

Direct operations

### Risk type & Primary climate-related risk driver

Technology

Transitioning to lower emissions technology

### Primary potential financial impact

Increased direct costs

### Climate risk type mapped to traditional financial services industry risk classification

Operational risk

### Company-specific description

According to the Mexican Ministry of Energy (SENER) in its last National Electricity Sector Prospect report, all scenarios show that in the short term, there will be a significant increase in the average cost of energy because until the year 2021 it will not be possible to add new capacity to the national electrical grid (which currently supplies us with all the energy), so the system is forced to use similar quantities of natural gas, with a higher price; therefore, the price of electricity increases proportionally to the increase in the price of natural gas. In the same report it can be seen that in the medium term it seems that the price will remain stable as of 2022, but always upward.

On the other hand, the parastatal company responsible for managing the national electricity grid faces, in addition to the high costs of fuels and their volatility, interruptions in the supply of natural gas and droughts in recent years that affect the power of hydroelectric plants ( this also damages the electrical emission factor), have made the price of energy continue rising.

### Time horizon

Short-term

**Likelihood**

Virtually certain

**Magnitude of impact**

Low

**Are you able to provide a potential financial impact figure?**

Yes, a single figure estimate

**Potential financial impact figure (currency)**

11,107,827.4

**Potential financial impact figure – minimum (currency)**

**Potential financial impact figure – maximum (currency)**

**Explanation of financial impact figure**

According to the Mexican Ministry of Energy (SENER) in its last National Electricity Sector Prospect report, the average annual growth of fuel prices in a conservative scenario in a short-medium term are as follows: 0.8% carbon, 3.6% fuel oil, 2.5% diesel and 3.4% natural gas. Actually, the national grid depends on these fossil fuels and their prices, and by a weighted average of the current installed capacity, an approximate increase of 3.1% is estimated in the short-medium term. Considering that our electricity consumption does not have much variation, the report year expense was used as a basis to obtain the figure. This figure does not include inflation, nor the exchange rate from dollars to pesos.

**Cost of response to risk**

210,000

**Description of response and explanation of cost calculation**

Because the current network generates electric power from the use of fossil fuels as the main source, the changes in electricity prices depend on fuel costs, which are also subject to the price of the dollar (both seems that will be increasing). On the other hand, the cost of renewable

energy is approximately 30% cheaper than conventional energy because its sources do not imply a cost and are inexhaustible, and also it does not generate GHG emissions, or polluting gases. Currently, we are managing the purchase of renewable energy supply through a third party that is providing advice on the subject, as well as alternatives to evaluate and select a provider depending on our needs. Also, the management costs are related to the third party consulting.

## **Comment**

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### **Identifier**

Risk 3

### **Where in the value chain does the risk driver occur?**

Direct operations

### **Risk type & Primary climate-related risk driver**

Acute physical

Increased severity and frequency of extreme weather events such as cyclones and floods

### **Primary potential financial impact**

Increased capital expenditures

### **Climate risk type mapped to traditional financial services industry risk classification**

Capital adequacy and risk-weighted assets

### **Company-specific description**

According to the National Institute of Ecology and Climate Change (INECC), in Mexico there are 25 tropical cyclones a year generated on average; 4 to 5 can enter to the territory and cause serious damage. The degree of direct exposure to tropical cyclones, in any of their categories, is high in at least 17 states of the country: Baja California, Baja California Sur, Sinaloa, Sonora, Nayarit, Jalisco, Colima, Michoacán, Guerrero, Oaxaca, Chiapas, Quintana Roo, Yucatán, Campeche, Tabasco, Veracruz and Tamaulipas. However, the level of vulnerability to the catastrophic presence of a phenomenon of this nature and to the process of climate change is particularly severe in Colima, Veracruz,

Tamaulipas, Baja California and Baja California Sur, according to Analysis of the frequency and intensity of tropical cyclones to prevent the effects, present and future, due to variability and climate change in Mexico, published by the INECC. Our facilities and branches located less than 50 kms from the coast are classify as high risk, then, those who are located more than 50 km in near coastal states are classified with medium risk, the others are considered as low risk. Therefore, 441 branches and 71 buildings are directly exposed to hurricanes due their location, and 136 and 21 buildings are in high risk locations.

Regarding floods (level of rainfall greater than 872 millimeters according to the National Water Commission), according to the National Commission for Knowledge and Use of Biodiversity (Conabio), the states that present a high risk of flooding in most of their municipalities are Baja California, Baja California Sur and Quintana Roo. Therefore, 55 branches and 12 are exposed to floods.

**Time horizon**

Short-term

**Likelihood**

Very likely

**Magnitude of impact**

Medium-high

**Are you able to provide a potential financial impact figure?**

Yes, a single figure estimate

**Potential financial impact figure (currency)**

19,154,000

**Potential financial impact figure – minimum (currency)**

**Potential financial impact figure – maximum (currency)**

**Explanation of financial impact figure**

According to a governmental analysis in Mexico, the maximum domestic cost derived from floods equals to 768.79 minimum wages or \$61,000 MXN. Considering two rain periods per year in the vulnerable states in Mexico, the total cost estimated is \$122,000 MXN per damaged building. We estimate the total financial implications considering the 14% of our branches, located in states with high vulnerability.

**Cost of response to risk**

8,500,000

**Description of response and explanation of cost calculation**

Regarding the prevention measures that were carried out, we have 16 first response subcommittees in which 481 people participate in 16 regions of the country and a command center enabled for live monitoring of high-impact climatic phenomena that monitored 39 phenomena in this year. Additionally, 5,482 active brigade members carried out an annual program of theoretical and practical face-to-face training, and 95% of the selected personnel participated in the training corresponding to five modules on the subject. In addition to this, we have a plan to strengthen resilience to ensure business processes and efficient return of operations in crisis due to meteorological phenomena in 17 branches with a total cost of \$8.5 million pesos.

**Comment**

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**Identifier**

Risk 4

**Where in the value chain does the risk driver occur?**

Downstream

**Risk type & Primary climate-related risk driver**

Chronic physical  
Rising mean temperatures

**Primary potential financial impact**

Increased credit risk

### **Climate risk type mapped to traditional financial services industry risk classification**

Credit risk

#### **Company-specific description**

In practice we have clearly evidenced branches or activities that are affected by climate change, some examples that are observed are:

- (i) Effects on the cultivation of walnut, it does not reach the low temperatures it requires or the frosts suitable for the cultivation, which in turn represents a product with lower quality or that does not reach the required standards.
- (ii) In hot regions like Sinaloa crops that are affected by temperatures, for example: Tomato.
- (iii) In livestock regions such as Durango, San Luis Potosí, Nuevo León, the effect of droughts that affect cattle and thereby increase the death rate or the costs incurred by the producers themselves to maintain production standards or levels.
- (iv) In States where there is a shortage of water such as Sonora, we finance clients where we make sure that we have water wells, considering that a redistribution of it is necessary.

It is important to note that for the different activities there are risk controls such as insurance that protect us against the effects of: frost, droughts, fires, etc., which the client acquires to protect their own activity.

#### **Time horizon**

Medium-term

#### **Likelihood**

Very likely

#### **Magnitude of impact**

Medium-low

#### **Are you able to provide a potential financial impact figure?**

No, we do not have this figure

#### **Potential financial impact figure (currency)**

#### **Potential financial impact figure – minimum (currency)**



### **Potential financial impact figure – maximum (currency)**

#### **Explanation of financial impact figure**

The portfolio classified in the agricultural sector represents approximately 5% of our corporate and business loan portfolios, of which there is an overdue portfolio ratio of 1.7%. There is no specific quantification of the climate-related risks or the financial impact on this type of risk, however each client evaluated in the different committees of the Institution present a series of projections according to their request for financing or credit, establishing certain parameters or assumptions, which quantify whether the customer can record any additional impact or exposure on its Sales Costs, Operating Expenses or other cash outflows. In these scenarios we try to measure possible future impacts that the activity we are financing may present.

#### **Cost of response to risk**

0

#### **Description of response and explanation of cost calculation**

Given these scenarios, it is encouraged to review the insurance option or the rescheduling of credits, also using the guarantee schemes granted by FIRA (Trusts Established in Relation to Agriculture) for the sector. FIRA is comprised by four public trusts that have the character of entities of the Federal Public Administration, in which the Ministry of Finance and Public Credit acts as trustee and as trustee the Bank of Mexico, whose purpose includes the granting of credit guarantees to projects related to agriculture, livestock, poultry, agribusiness, fishing and other related or related activities carried out in rural areas.

#### **Comment**

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#### **Identifier**

Risk 5

#### **Where in the value chain does the risk driver occur?**

Downstream

**Risk type & Primary climate-related risk driver**

Market  
Uncertainty in market signals

**Primary potential financial impact**

Increased credit risk

**Climate risk type mapped to traditional financial services industry risk classification**

Credit risk

**Company-specific description**

Within the energy sector, specifically the hydrocarbon sector, we have identified that upstream clients (exploration and extraction of crude oil and natural gas), midstream (transportation and distribution of hydrocarbons), and downstream (production and commercialization of petroleum derivatives) , could represent the following risks for Banorte;

- Increase in reserves, restructurings and write-offs
- Loss of potential customers due to reputational risk
- Downgrading of credit rating
- Increase in funding costs due to higher risk associated with customers and stock issues
- Decrease in profit generation
- Emerging regulations that limit the exploitation of these resources, for example, the Energy Transition Law (LTE), which arises from Mexico's commitment to the Paris Agreements

This is due to the fact that they have activities that can generate environmental and social effects, as well as significant reputational and financial impacts on their value chain, including their financial providers.

**Time horizon**

Medium-term

**Likelihood**

Likely

**Magnitude of impact**

Medium-high

**Are you able to provide a potential financial impact figure?**

No, we do not have this figure

**Potential financial impact figure (currency)**

**Potential financial impact figure – minimum (currency)**

**Potential financial impact figure – maximum (currency)**

**Explanation of financial impact figure**

**Cost of response to risk**

0

**Description of response and explanation of cost calculation**

The process of evaluation and granting of credit for this segment includes a specialized socio-environmental analysis, which serves to determine the potential impact on the source of payment of the credit, possible social and environmental risks. Also, we reduce the exposure limit and the average reserves generated as a prospective strategy to reduce the risk of up, mid and downstream clients.

**Comment**

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**Identifier**

Risk 6

**Where in the value chain does the risk driver occur?**

Direct operations

**Risk type & Primary climate-related risk driver**

Emerging regulation

Regulation and supervision of climate-related risk in the financial sector

**Primary potential financial impact**

Increased insurance claims liability

**Climate risk type mapped to traditional financial services industry risk classification**

Capital adequacy and risk-weighted assets

**Company-specific description**

Climate risk materializes in an increased hurricane (hydrometeorological) phenomena. In that sense, normally all insured properties localized in costal areas will receive most of the impact. Nevertheless, other areas might also be affected given the size that some cyclones might have.

Therefore, almost all the country is affected by climate change.

Given the above, the regulation has classified hydrometeorological as a risk that might derive into a catastrophic risk. Therefore, a Probable Maximum Loss regulatory framework is in place; under such framework a catastrophic reserve must be constituted as well as a reinsurance program that reduce the companies' exposure.

**Time horizon**

Medium-term

**Likelihood**

Very likely

**Magnitude of impact**

Medium

**Are you able to provide a potential financial impact figure?**

No, we do not have this figure

**Potential financial impact figure (currency)**

**Potential financial impact figure – minimum (currency)**

**Potential financial impact figure – maximum (currency)**

**Explanation of financial impact figure**

Given our business (insuring risk), every year we deal with claims' payments derived from natural catastrophes, many of them surely derived from climate change, but such risks are part of our business portfolio. We still don't have a valuation regarding what percentage of those materialized perils derive from the climate change phenomenon and what percentage falls in the "normal year" weather conditions.

Nevertheless what we have estimated under our annual own risk and solvency assessment (ORSA) is what will happen if the claims derived from hydrometeorological risks increase by 400% (from the "normal" best estimation) for a single year. Under such scenario, our solvency condition would be reduced between 1.2% and 1.8%. Such relatively minor impact derives basically from two reasons, the first is that our reinsurance schemes are based on excess loss reinsurance programs, so the risks derived from climate change are already transferred; and second, as we have established above, is that we are a Life / Non Life insurance company, so our risk portfolio is naturally diversified.

**Cost of response to risk**

**Description of response and explanation of cost calculation**

**Comment**

Our reinsurance scheme base on excess-loss programs.

## C2.4

**(C2.4) Have you identified any climate-related opportunities with the potential to have a substantive financial or strategic impact on your business?**

Yes

### C2.4a

**(C2.4a) Provide details of opportunities identified with the potential to have a substantive financial or strategic impact on your business.**

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**Identifier**

Opp1

**Where in the value chain does the opportunity occur?**

Direct operations

**Opportunity type**

Energy source

**Primary climate-related opportunity driver**

Use of lower-emission sources of energy

**Primary potential financial impact**

Reduced direct costs

**Company-specific description**

Replacing the supply of conventional energy to renewable gives us economic and environmental benefits due renewables are not subject to a price of fuel, which allows it to be a fixed price (there is also variable costs for transmission, inflation and dollar price) and does not generate

GHG emissions, which allows us to reduce the cost of energy consumption and our environmental impact to achieve the goals set for our stakeholders.

**Time horizon**

Short-term

**Likelihood**

Likely

**Magnitude of impact**

Medium-low

**Are you able to provide a potential financial impact figure?**

Yes, an estimated range

**Potential financial impact figure (currency)**

**Potential financial impact figure – minimum (currency)**

72,000,000

**Potential financial impact figure – maximum (currency)**

90,000,000

**Explanation of financial impact figure**

The savings were estimated considering 613 facilities and the price of kWh and the billable demand of these sites during the reporting year comparing it against a fixed price of the renewable energy kWh (wind source) provided as part of the proposal of our possible supplier, in which we can appreciate a potential savings of 44% for the price of each kWh. The minimum potential financial impact figure considering a supply of 80% of the energy from the facilities included in the scope because it is subject to the availability of the resource for its generation and the maximum considering 100% of the supply.

**Cost to realize opportunity**

35,000,000

### **Strategy to realize opportunity and explanation of cost calculation**

The strategy to realize the opportunity includes the evaluation of energy generating suppliers from renewable sources and the respective adjustments to our buildings and branches. This improvements will be made to the facilities to be in compliance with the norms of physical ground, precision of the transformers, meters to the limit of property and any other applicable norm, in case they do not comply with something.

### **Comment**

The cost to realize the opportunity can be deducted from the potential savings, a pact can be sought with the provider to apply this modality.

---

### **Identifier**

Opp2

### **Where in the value chain does the opportunity occur?**

Downstream

### **Opportunity type**

Products and services

### **Primary climate-related opportunity driver**

Development and/or expansion of low emission goods and services

### **Primary potential financial impact**

Increased revenues resulting from increased demand for products and services

### **Company-specific description**

Mexico has great potential in terms of renewable energy resources whose development will allow the country to have a greater diversification of energy sources, expand the industrial base in an area that may have strategic value in the future, and mitigate the environmental impacts caused by the production, distribution and end use of conventional forms of energy. Also, as a commitment of Mexico in the Paris Agreement, the national contribution of clean energy should be 35% and 50% by 2024 and 2050, respectively. Clean energies are gaining more and more strength in Mexico and globally, and it is expected that the use of renewables will double by 2030, and it is estimated that 15 percent must be financed by the public sector.



We already participate in financing projects to generate electrical energy from renewable sources since 2012. We have financed 11 projects with a total capacity of 1,190 MW, which represented an investment of 1.09 billion dollars —479 million of it from Banorte representing 44% of the investments.

**Time horizon**

Short-term

**Likelihood**

Likely

**Magnitude of impact**

High

**Are you able to provide a potential financial impact figure?**

Yes, a single figure estimate

**Potential financial impact figure (currency)**

7,576,000,000

**Potential financial impact figure – minimum (currency)**

**Potential financial impact figure – maximum (currency)**

**Explanation of financial impact figure**

For the period 2018 to 2022 it is expected that through the electric auctions 48 new projects will be generated for the generation of electric energy from renewable/clean sources; wind, photovoltaic, geothermal, hydroelectric and combined cycle (according to the law, the latter is considered as clean energy). This will require an investment of 1.9 billion dollars for electric auctions, equivalent to an investment rate of about 400 million dollars per year (\$7,576 million pesos considering the exchange rate at the end of 2019).

**Cost to realize opportunity**

0

### **Strategy to realize opportunity and explanation of cost calculation**

Banorte is executing an active strategy for linking investors, the Federal Government and banking so that projects can be carried out. In this process, making the projects bankable is key to taking advantage of all the opportunities that the Energy Reform has generated in the electric power market. Likewise, it is important to develop “green” financial products that serve as incentives to capture projects of this type, such as preferential interest rates. These products can be developed by analyzing the financial behavior of previously financed projects.

### **Comment**

- (i) There is some uncertainty about the projections of possible renewable energy projects as it depends on the decisions of the current government.
- (ii) The analysis and evaluation for the development of financial products are done internally (does not imply cost). These products can be replicated for other projects that also have sustainable characteristics.

---

### **Identifier**

Opp3

### **Where in the value chain does the opportunity occur?**

Downstream

### **Opportunity type**

Products and services

### **Primary climate-related opportunity driver**

Development and/or expansion of low emission goods and services

### **Primary potential financial impact**

Increased revenues resulting from increased demand for products and services

### **Company-specific description**

From our list of 1,147 CAS (internal taxonomy), 91 were defined as Sustainable and 64 have the potential to be so. In order to reduce their credit risk and have a more resilient portfolio, we have identified the opportunity to develop financial products and services with benefits for

clients that are labeled as sustainable, with the intention of fostering adoption of the necessary practices to enter this segment. This also seeks the migration of customers labeled as conventional to be sustainable and the attraction of new sustainable customers.

**Time horizon**

Long-term

**Likelihood**

Likely

**Magnitude of impact**

Medium-high

**Are you able to provide a potential financial impact figure?**

Yes, a single figure estimate

**Potential financial impact figure (currency)**

32,540,000,000

**Potential financial impact figure – minimum (currency)**

**Potential financial impact figure – maximum (currency)**

**Explanation of financial impact figure**

The figure reported only includes only customers that were analyzed by SEMS but does not include customer acquisition. At the end of 2019, we found that 416 clients have the potential to be sustainable, representing a total of \$32,539 million pesos.

**Cost to realize opportunity**

0

**Strategy to realize opportunity and explanation of cost calculation**

The strategy to achieve this opportunity does not involve costs, everything is managed with staff, analysis and internal tools;

- (i) Perform internal analysis of the financial behavior of clients that are currently labeled with CAS Sustentables compared to conventional CAS.
- (ii) Verify the appetite of the institution in the different sectors for the generation of specific products and services for sustainable clients.
- (iii) Develop the sustainable product or service.

## Comment

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### Identifier

Opp4

### Where in the value chain does the opportunity occur?

Downstream

### Opportunity type

Markets

### Primary climate-related opportunity driver

Increased diversification of financial assets (e.g., green bonds and infrastructure)

### Primary potential financial impact

Increased diversification of financial assets

### Company-specific description

Banorte is a financial driver for companies and projects that are aligned with the goals of society expressed in the 17 Sustainable Development Objectives (SDG´s) of the United Nations 2030 Agenda, and in the targets accorded in the Paris Agreement. Therefore, we developed a Green Bond Framework (GBF), in which it is established that for green bonds issued, all the proceeds will be used to finance or refinance, in whole or in part, loans to eligible companies or projects that provide positive environmental impacts that falls into the Eligible Green Categories based on the ICMA Green Bond Principles (GBP). The Green Eligible Categories are; Renewable Energy, Energy Efficiency, Natural Resources and Biodiversity, Sustainable Mobility and Water Management. For this purposes, we use our internal taxonomy (Sustainable CAS), for the

identification and labeling of projects that generate a positive impact on the environment or society. The Sustainable CAS are the first filter to identify potentially eligible projects according to their compatibility with the Eligible Green Categories. For further information, go to our Green Bond Framework in the following link: [https://investors.banorte.com/~/\\_media/Files/B/Banorte-IR/sustainability/policies-and-procedures/en/GreenBondFramework\\_010520.pdf](https://investors.banorte.com/~/_media/Files/B/Banorte-IR/sustainability/policies-and-procedures/en/GreenBondFramework_010520.pdf)

**Time horizon**

Short-term

**Likelihood**

Virtually certain

**Magnitude of impact**

Medium-high

**Are you able to provide a potential financial impact figure?**

Yes, a single figure estimate

**Potential financial impact figure (currency)**

9,820,000,000

**Potential financial impact figure – minimum (currency)**

**Potential financial impact figure – maximum (currency)**

**Explanation of financial impact figure**

According to the Sustainable CAS, the value of our sustainable portfolio in corporate and commercial loans was estimated at \$9.82 billion pesos (4.24% of the corporate and business portfolio), which was invested in various projects; construction of wind and solar farms, cogeneration of energy from natural gas. capture, pumping, treatment and distribution of fresh water, sustainable agriculture and collection, recycling and disposal of metal waste. On the other hand, our climate portfolio, which by now, includes only renewable energy financing, totals \$6.21 billion pesos (2.72% of the corporate and business portfolio).

**Cost to realize opportunity**

500,000

**Strategy to realize opportunity and explanation of cost calculation**

A second-party opinion (SPO) of your green bond framework ensures that your bond is in line with market expectations and industry best practices. A second-party opinion gives investors confidence in your green bond issuance. Banorte hired Sustainalytics to review the Green Bond Framework and provide a SPO on the Framework's environmental credentials and its alignment with the Green Bond Principles 2018 ("GBP"). This Framework has been published in a separate document and it is available in the following link:

<https://www.sustainalytics.com/sustainable-finance/wp-content/uploads/2020/05/Banorte-Green-Bond-Framework-Second-Party-Opinion.pdf>

**Comment**

There are additional costs associated with issuance in the market that are not being considered within the cost to realize the opportunity since they will depend on how the management is carried out and the characteristics of the bond.

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**Identifier**

Opp5

**Where in the value chain does the opportunity occur?**

Direct operations

**Opportunity type**

Markets

**Primary climate-related opportunity driver**

Improved ratings by sustainability/ESG indexes

**Primary potential financial impact**

Increased access to capital

**Company-specific description**

Different global rating agencies such as MSCI, SAM, FTSE4Good, Sustainalytics, among others, evaluate our performance in ESG factors periodically through different public sources. We understand that highlighting with good results allows us to adhere to sustainability indices, which converge in attracting and retaining institutional investors interested in ESG issues.

The indices to which we currently belong are the following:

- Bloomberg Gender Equality Index (GEI)
- FTSE4Good Emerging Markets Latam
- FTSE4Good BIVA
- MSCI Mexico ESG Select Focus Index
- Dow Jones Sustainability Index MILA
- S&P/BMV Total Mexico ESG Index
- Banco Interamericano de Desarrollo (BID)
- Index Americas

However, there are other indices to which we could adhere if we improve our ESG performance; MSCI Emerging Markets ESG Index, DJSI Emerging Markets and VigeoEiris Emerging Markets Sustainability Index to mention a few of the ones we are looking to join.

Currently, the Principles for Responsible Investment (PRI) initiative has more than 2,500 signatories worldwide that together represent \$ 40.5 tn of USD in AUM, a figure that has tripled in the last 8 years. One of the commitments involved in being a PRI signatory is the integration of ESG criteria in investment processes. Likewise, we observed constant growth in the ESG Equity and Fixed Income indices, which was 13.85% in 2018.

**Time horizon**

Short-term

**Likelihood**

Very likely

**Magnitude of impact**

High

**Are you able to provide a potential financial impact figure?**

No, we do not have this figure

**Potential financial impact figure (currency)**

**Potential financial impact figure – minimum (currency)**

**Potential financial impact figure – maximum (currency)**

**Explanation of financial impact figure**

**Cost to realize opportunity**

0

**Strategy to realize opportunity and explanation of cost calculation**

The evaluations carried out by the ESG Rating Agencies represent a framework of best practices in the financial sector and support the definition of our continuous improvement plan. In this sense, our Sustainability Committee, through the Subcommittees and the Department of Sustainability and Responsible Investment, is in charge of adopting the criteria evaluated in the development of the sustainability strategy, ensuring the implementation of the best ESG practices and promote them throughout the Group.

**Comment**

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**Identifier**

Opp6

**Where in the value chain does the opportunity occur?**

Direct operations

**Opportunity type**



Products and services

**Primary climate-related opportunity driver**

Development of climate adaptation, resilience and insurance risk solutions

**Primary potential financial impact**

Increased revenues resulting from increased demand for products and services

**Company-specific description**

There is an opportunity for an increased demand for property insurance covering hydrometeorological risks given the estimated increment of storms as well as more economic value in the risk geographic areas.

As well, there is an opportunity in product design based on climate change awareness, which we are currently exploring.

**Time horizon**

Medium-term

**Likelihood**

Very likely

**Magnitude of impact**

Medium

**Are you able to provide a potential financial impact figure?**

No, we do not have this figure

**Potential financial impact figure (currency)**

**Potential financial impact figure – minimum (currency)**

**Potential financial impact figure – maximum (currency)**

**Explanation of financial impact figure**

**Cost to realize opportunity**

**Strategy to realize opportunity and explanation of cost calculation**

**Comment**

## **C3. Business Strategy**

### **C3.1**

**(C3.1) Have climate-related risks and opportunities influenced your organization's strategy and/or financial planning?**

Yes, and we have developed a low-carbon transition plan

### **C3.1a**

**(C3.1a) Does your organization use climate-related scenario analysis to inform its strategy?**

No, but we anticipate using qualitative and/or quantitative analysis in the next two years

### **C3.1c**

**(C3.1c) Why does your organization not use climate-related scenario analysis to inform its strategy?**

There are not climate-related scenarios developed by now. Nevertheless, we are currently working on the development of technical capacities and tools that allow us to carry out climate-related scenarios in our portfolios (lending and investing). In the short term, we plan to enter into a pilot for the



implementation of the TCFD recommendations by UNEP FI that is mainly focused on the development of climate-related scenarios and definition of goals.

On the other hand, in conjunction with the 2 Degrees Investing Initiative (2Dii), our Asset Manager participated in a pilot program with other Asset Managers to develop an analysis of climate-related scenarios following the Task Force on Climate-Related Financial Disclosure (TCFD) recommendations in order to determine the portfolio's exposure to transition risks compatible with limiting global warming to 2°C above pre-industrial levels, based on current and future estimated exposure to carbon-related activities focused on assets in sensitive sectors like fossil fuels, energy, automotive, aviation and mining. This pilot was an initial exercise that only used a small percentage of the portfolio and that will be used as a reference for the future implementation of climate-related scenarios.

Our Asset Owner is in the process of implementing a climate goal, maintaining a commitment to invest in a sustainable way and support the transition towards a low-carbon economy aligned with the Paris Agreement and that contribute to keeping global warming below 2 ° C.

### C3.1d

**(C3.1d) Describe where and how climate-related risks and opportunities have influenced your strategy.**

	Have climate-related risks and opportunities influenced your strategy in this area?	Description of influence
Products and services	Yes	<p>As founders and signing members of the Principles for Responsible Banking (PRB), we are committed to their implementation. Therefore, our commitment for Principle 3. Clients &amp; Customers, is to work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.</p> <p>We are a bank whose priority is satisfying its clients. For this reason, we have increased our engagement with them to communicate the importance of good sustainability practices as a competitive strategy. We are increasing the sustainability issues in the agendas of regional meetings, which are composed by clients, Directors and relevant managers of GFNorte with the objective of give opinions and advice on trends and opportunities in their region, as well as those issues that the Board of Directors submit to their consideration and, it will function as an organism to reach the business community in each region. We are also considering at the short-medium term to develop new products and services with incentives and</p>



		contractual conditions related to sustainability performance of the clients (as disclosed in C2.4a Opp 2 and 3).
Supply chain and/or value chain	Yes	<p>In the real estate and infrastructure sector, the most visible climate-related impacts are lag in their execution programs, budget variations and/or project modifications to mitigate future events. This could require additional terms or modifications to the loan repayment schedule to avoid default. For the agricultural sector, impacts could occur when climate change affect crop yields or the expected volumes or qualities are not achieved, causing them not to be able to pay for financing.</p> <p>However, these impacts have not affected directly our overdue portfolio yet (as disclosed in C2.4a Risk 4). Specialized areas of agriculture, real estate, tourism and infrastructure have been integrated to the Risks Subcommittee. Through this Subcommittee, we have developed tools to identify relevant risks for clients associated with ESG issues, as well as to explore their practices and trends in sustainability.</p>
Investment in R&D	Yes	<p>In 2018, 28 banks of the world took the initiative, together with the United Nations Environmental Program for Financial Initiatives (UNEP FI) to develop what are called the Principles for Responsible Banking. Banorte is the only Mexican bank, and one of only three Latin American banks, in this founding group.</p> <p>In 2019, we participated as part of the interviewed banks to develop the study "Climate and Environmental Risks and Opportunities in Mexico's Financial System" by UNEP FI and Banxico. This research represents an effort to incorporate environmental and social risks into mainstream risk strategies of Mexican financial institutions, and to capitalize on the opportunities that will result from the transition to a low-carbon economy. For more information, visit the following link: <a href="https://www.banxico.org.mx/sistema-financiero/d/%7B3A8C7F15-9FE1-9A2A-DCF7-6C6D11A0E1DB%7D.pdf">https://www.banxico.org.mx/sistema-financiero/d/%7B3A8C7F15-9FE1-9A2A-DCF7-6C6D11A0E1DB%7D.pdf</a></p> <p>In line with global trends, the Mexican Bankers' Association is promoting a project to create a Sustainable Taxonomy for all of the Mexican banking industry for short term, and invited members of the Sustainability Committee to participate in this effort. GFNorte has joined in the pilot testing and shared our experiences, hoping to obtain feedback for our practices and help increase this type of financing.</p>
Operations	Yes	<p>Since CFE is the one who supplies the energy to the national electricity grid, we are subject to the prices it establishes (as disclosed in C2.3a Risk 2).</p> <p>The cost of energy increased by 22.85% considering the average cost per kWh consumed, which represented an increase of \$68 million pesos (assuming the same energy consumption).</p>

		<p>As part of our commitments to society and the environment, in October of this year the Board of Directors approved the signing of a self-supply contract with Thermion, a 100% Mexican company dedicated to the generation and supply of renewable energy, to that 70% of the energy we consume comes from renewable sources. This energy will be generated in the Delaro wind farm, located in Tamaulipas and the supply will begin in the first quarter of 2021, feeding 613 sites throughout the republic. With this, we will avoid around 45,000 tons of CO2 equivalent, more than half of the greenhouse gases emitted by the group and a potential saving up to 40% in costs for each kWh of electrical energy consumed, with which we estimate a reduction of up to \$90 million pesos annually (as disclosed in C2.4a Opp 3).</p> <p>In addition, to mitigate damages caused by high impact external events, GFNorte has a Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) that set out guidelines for what to do in case of a sinister based on a same-time data replication system at an alternate computer site. All the above cover the backup and recovery of the Institution's critical applications in the event or any relevant operating contingency. This includes events related to natural disasters such as earthquakes, hurricanes, floods, among other physical events, for one particular site or a definite region that can affect our facilities and in our operations (as disclosed in C2.3a Risk 3).</p>
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### C3.1e

**(C3.1e) Describe where and how climate-related risks and opportunities have influenced your financial planning.**

	Financial planning elements that have been influenced	Description of influence
Row 1	Revenues Indirect costs Capital expenditures Capital allocation Access to capital Claims reserves	<p>Revenues and indirect costs: in 2019, intense rains in Sonora, and two tropical storms (Fernand in Monterrey and Lorena in Baja California Sur) caused the closure of 37 branches, affecting approximately \$23,000 pesos due to infrastructure damage and we estimate approximately \$3.64 million pesos of profit net for ceasing to offer services in an approximate time of 266 hours, considering the average net profit per traditional branch.</p> <p>Capital expenditures: this cost of renewable energy supply requires an initial investment of \$35 million pesos, after this, we estimate a cost of \$12 million pesos per year for the communication of our electricity consumption since the meters are independent of the national grid and must be segregated.</p>

		<p>Capital allocation: for the two main up, mid and downstream clients of the energy sector, the exposure limit was lowered by 30.05% on average as a prospective strategy to reduce the risk. Likewise, the average reserves generated for these clients under the up, mid and downstream modality at 0.60% average of the exposure.</p> <p>Capital allocation: according to the Sustainable CAS, the value of our sustainable portfolio in corporate and commercial loans was estimated at \$9.82 billion pesos (4.24% of the corporate and business portfolio), which was invested in various projects; construction of wind and solar farms, cogeneration of energy from natural gas. capture, pumping, treatment and distribution of fresh water, sustainable agriculture and collection, recycling and disposal of metal waste.</p> <p>Our climate portfolio, which by now, includes only renewable energy financing, totals \$6.21 billion pesos (2.72% of the corporate and business portfolio).</p> <p>Claim reserves: there is a reserve labeled as a contingency fund, whose resources are used in cases of damage to physical assets caused by natural disasters.</p> <p>Access to capital: we have identified that 36.2% of our investors already have a responsible investment strategy and policies, and for July 2020, 7.63% of GFNorte's shares are in 116 funds whose strategy includes ESG issues (+ 20.3% vs 4Q19 ). Within these funds, 3.72% are referenced to sustainability indices.</p>
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### C3.1f

**(C3.1f) Provide any additional information on how climate-related risks and opportunities have influenced your strategy and financial planning (optional).**

As founders and signing members of the Principles for Responsible Banking (PRB), we are committed to their implementation. Therefore, our commitment for Principle 1. Alignment, is to align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks. Our business strategy already incorporates a sustainability model, but we will be working to fortify it by incorporating the priority issues of the 2030 Agenda, the National Development Plan, internal economic projections and new materiality analyses.

### C-FS3.2

**(C-FS3.2) Are climate-related issues considered in the policy framework of your organization?**

No, but we plan to consider climate-related issues in our policy framework in the next two years



## C-FS3.2c

### (C-FS3.2c) Why are climate-related issues not considered in the policy framework of your organization?

At the moment, we have an Environmental Policy ([https://investors.banorte.com/~media/Files/B/Banorte-IR/sustainability/policies-and-procedures/en/PoliticaAmbiental\\_en.pdf](https://investors.banorte.com/~media/Files/B/Banorte-IR/sustainability/policies-and-procedures/en/PoliticaAmbiental_en.pdf)) that addresses the issue of climate change in general in section 4. Internal Initiatives and Commitments, number 5. In a transparent manner, to annually gather, evaluate and report through appropriate communication channels an analysis of physical or transitional risks and opportunities that the company identifies as possible or actual in relation to climate change issues.

It is important to mention that we are developing a Climate Change Policy whose objectives are:

- Develop climate risk management capacities;
- Reduce GHG emissions from institutional operations and portfolios;
- Allocate capital towards a low carbon economy; and
- Improve the transparency of our efforts to mitigate the impacts of climate change.

## C-FS3.3

### (C-FS3.3) Are climate-related issues factored into your external asset manager selection process?

Yes, for all assets managed externally

## C-FS3.3a

### (C-FS3.3a) How are climate-related issues factored into your external asset manager selection process?

	Process for factoring climate-related issues into external asset management selection	Comment
Row 1	Review asset manager's climate-related policies Assessment of asset manager's climate-related performance (e.g. active ownership, proxy voting records, under-weighting in high impact activities)	Our Asset Owner scheduled periodically meetings with their external managers and issuers in order to communicate the potential ESG risks and commitment.

Use of external data on asset managers regarding climate-related risk management

## C4. Targets and performance

### C4.1

**(C4.1) Did you have an emissions target that was active in the reporting year?**

Both absolute and intensity targets

#### C4.1a

**(C4.1a) Provide details of your absolute emissions target(s) and progress made against those targets.**

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**Target reference number**

Abs 1

**Year target was set**

2016

**Target coverage**

Company-wide

**Scope(s) (or Scope 3 category)**

Scope 1+2 (location-based)

**Base year**

2013



**Covered emissions in base year (metric tons CO2e)**

69,647

**Covered emissions in base year as % of total base year emissions in selected Scope(s) (or Scope 3 category)**

100

**Target year**

2020

**Targeted reduction from base year (%)**

14

**Covered emissions in target year (metric tons CO2e) [auto-calculated]**

59,896.42

**Covered emissions in reporting year (metric tons CO2e)**

72,066.3

**% of target achieved [auto-calculated]**

-24.8118573459

**Target status in reporting year**

Underway

**Is this a science-based target?**

Yes, we consider this a science-based target, but this target has not been approved as science-based by the Science-Based Targets initiative

**Please explain (including target coverage)**

Considering our commitment for setting science based targets, our Company presented to the SBTi team its proposed targets based in the methodology C-FACT, publicly disposed by Autodesk. According the scientific methodology in emerging countries a reduction of 50% in 2050 in absolute emissions must be achieved. Therefore our medium and long term targets are adjusted to 14% and 50% of reduction, respectively, accomplishing a 2.1 year-over-year absolute reduction. The base year 2013 was selected for its accuracy and certainty according its coverage (no exclusions) and its complete verification. Please bear in mind the emission figure provided for base year is the one published in the 2015



CDP report, which includes emission figures for 2013 with and adjustment on their electricity emission factor (the electricity emission factor is published by SEMARNAT –the Mexican Ministry of Environment and Natural Resources– with one year of lag). Both targets are completely focused to support and reach our emissions intensity target per employee (Int1) and our science based target for intensity per revenue (Int2). The proposed targets (absolute and intensity for S1 and S2) are not validated yet by Science Based Targets Initiative because our lending and investment activities represent more than 5% of our annual revenues (the SBTi threshold for financial institutions' Scope 3 significance) and the methodology for setting SBT's for Scope 3 for investments category has not been released yet. Thus, any targets of financial institutions cannot be officially reviewed by now.

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**Target reference number**

Abs 2

**Year target was set**

2016

**Target coverage**

Company-wide

**Scope(s) (or Scope 3 category)**

Scope 1+2 (location-based)

**Base year**

2013

**Covered emissions in base year (metric tons CO2e)**

69,647

**Covered emissions in base year as % of total base year emissions in selected Scope(s) (or Scope 3 category)**

100

**Target year**

2050

**Targeted reduction from base year (%)**

54

**Covered emissions in target year (metric tons CO2e) [auto-calculated]**

32,037.62

**Covered emissions in reporting year (metric tons CO2e)**

72,066.3

**% of target achieved [auto-calculated]**

-6.4327037564

**Target status in reporting year**

Underway

**Is this a science-based target?**

Yes, we consider this a science-based target, but this target has not been approved as science-based by the Science-Based Targets initiative

**Please explain (including target coverage)**

Considering our commitment for setting science based targets, our Company presented to the SBTi team its proposed targets based in the methodology C-FACT, publicly disposed by Autodesk. According the scientific methodology in emerging countries a reduction of 50% in 2050 in absolute emissions must be achieved. Therefore our medium and long term targets are adjusted to 14% and 50% of reduction, respectively, accomplishing a 2.1 year-over-year absolute reduction. The base year 2013 was selected for its accuracy and certainty according its coverage (no exclusions) and its complete verification. Please bear in mind the emission figure provided for base year is the one published in the 2015 CDP report, which includes emission figures for 2013 with and adjustment on their electricity emission factor (the electricity emission factor is published by SEMARNAT –the Mexican Ministry of Environment and Natural Resources– with one year of lag). Both targets are completely focused to support and reach our emissions intensity target per employee (Int1) and our science based target for intensity per revenue (Int2). The proposed targets (absolute and intensity for S1 and S2) are not validated yet by Science Based Targets Initiative because our lending and investment activities represent more than 5% of our annual revenues (the SBTi threshold for financial institutions' Scope 3 significance) and the methodology for setting SBT's for Scope 3 for investments category has not been released yet. Thus, any targets of financial institutions cannot be officially reviewed by now.

## C4.1b

**(C4.1b) Provide details of your emissions intensity target(s) and progress made against those target(s).**

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**Target reference number**

Int 1

**Year target was set**

2014

**Target coverage**

Company-wide

**Scope(s) (or Scope 3 category)**

Scope 1+2 (location-based)

**Intensity metric**

Metric tons CO<sub>2</sub>e per unit FTE employee

**Base year**

2009

**Intensity figure in base year (metric tons CO<sub>2</sub>e per unit of activity)**

2.94

**% of total base year emissions in selected Scope(s) (or Scope 3 category) covered by this intensity figure**

100

**Target year**

2020

**Targeted reduction from base year (%)**

30

**Intensity figure in target year (metric tons CO<sub>2</sub>e per unit of activity) [auto-calculated]**

2.058

**% change anticipated in absolute Scope 1+2 emissions**

0

**% change anticipated in absolute Scope 3 emissions**

0

**Intensity figure in reporting year (metric tons CO<sub>2</sub>e per unit of activity)**

2.39

**% of target achieved [auto-calculated]**

62.358276644

**Target status in reporting year**

Underway

**Is this a science-based target?**

No, but we are reporting another target that is science-based

**Please explain (including target coverage)**

In 2014 we achieved a 20% of reduction in the emissions intensity per FTE employee. Since 2014, we decided to increase the coverage of this goal to 30% with 2020 as target year, using 2009 as the base year (56,821 tonCO<sub>2</sub>e and 19,327 FTE). For 2019, it is considered 72,066.29 tonCO<sub>2</sub>e and 30,167 FTE, obtaining an intensity indicator of 2.39 tonCO<sub>2</sub>/FTE.

---

**Target reference number**

Int 2

**Year target was set**

2016

**Target coverage**

Company-wide

**Scope(s) (or Scope 3 category)**

Scope 1+2 (location-based)

**Intensity metric**

Metric tons CO<sub>2</sub>e per unit revenue

**Base year**

2013

**Intensity figure in base year (metric tons CO<sub>2</sub>e per unit of activity)**

5.16

**% of total base year emissions in selected Scope(s) (or Scope 3 category) covered by this intensity figure**

100

**Target year**

2020

**Targeted reduction from base year (%)**

50

**Intensity figure in target year (metric tons CO<sub>2</sub>e per unit of activity) [auto-calculated]**

2.58

**% change anticipated in absolute Scope 1+2 emissions**

0

**% change anticipated in absolute Scope 3 emissions**

0

**Intensity figure in reporting year (metric tons CO2e per unit of activity)**

1.97

**% of target achieved [auto-calculated]**

123.6434108527

**Target status in reporting year**

Achieved

**Is this a science-based target?**

Yes, we consider this a science-based target, but this target has not been approved as science-based by the Science Based Targets initiative

**Please explain (including target coverage)**

Considering our commitment for setting science based targets, our Company presented to the SBTi team its proposed targets based in the methodology C-FACT, publicly disposed by Autodesk. According the scientific methodology in emerging countries a reduction of 50% in 2050 in absolute emissions must be achieved. Therefore our intensity target per revenue (millions of MXN) was adjusted and comprises a 50% reduction for 2025 (2.58 tonCO2/million pesos of revenue at mid-term) and 80% reduction for 2050 (1.03 tonCO2/million pesos of revenue at long term) against intensity of 2013. The base year 2013 was selected for its accuracy and certainty according its coverage (no exclusions) and its complete verification. Please bear in mind the emission figure provided for base year is the one published in the 2015 CDP report, which includes emission figures for 2013 with and adjustment on their electricity emission factor (the electricity emission factor is published by SEMARNAT –the Mexican Ministry of Environment and Natural Resources– with one year of lag). Figures used in the base year were 69,647.51 tonCO2e and \$13,508 million pesos of revenues. The proposed targets (absolute and intensity for S1 and S2) are not validated yet by Science Based Targets Initiative because our lending and investment activities represent more than 5% of our annual revenues (the SBTi threshold for financial institutions' Scope 3 significance) and the methodology for setting SBT's for Scope 3 for investments category has not been released yet. Thus, any targets of financial institutions cannot be officially reviewed by now.

Due to our net income growth of 270% over the past 6 years, we already achieved our medium-term goal.



## C4.2

**(C4.2) Did you have any other climate-related targets that were active in the reporting year?**

No other climate-related targets

## C4.3

**(C4.3) Did you have emissions reduction initiatives that were active within the reporting year? Note that this can include those in the planning and/or implementation phases.**

Yes

### C4.3a

**(C4.3a) Identify the total number of initiatives at each stage of development, and for those in the implementation stages, the estimated CO2e savings.**

	Number of initiatives	Total estimated annual CO2e savings in metric tonnes CO2e (only for rows marked *)
Under investigation	0	0
To be implemented*	1	43,430
Implementation commenced*	1	37
Implemented*	1	367
Not to be implemented	0	0

### C4.3b

**(C4.3b) Provide details on the initiatives implemented in the reporting year in the table below.**



**Initiative category & Initiative type**

Low-carbon energy consumption

Wind

**Estimated annual CO2e savings (metric tonnes CO2e)**

43,430

**Scope(s)**

Scope 2 (market-based)

**Voluntary/Mandatory**

Voluntary

**Annual monetary savings (unit currency – as specified in C0.4)**

96,000,000

**Investment required (unit currency – as specified in C0.4)**

47,000,000

**Payback period**

4-10 years

**Estimated lifetime of the initiative**

11-15 years

**Comment**

We signed a contract with the company Thermion, which will allow that, by the first quarter of 2021, 70% of the energy consumed by the financial group comes from a renewable source. Clean energy, generated in the Delaro wind farm in Tamaulipas, will reduce more than half of the greenhouse gases emitted. The agreement guarantees the supply of energy to 613 properties of the Group, between branches and administrative buildings of all the territories of the country in which it operates.

**Initiative category & Initiative type**

Energy efficiency in buildings  
Building Energy Management Systems (BEMS)

**Estimated annual CO2e savings (metric tonnes CO2e)**

37

**Scope(s)**

Scope 2 (location-based)

**Voluntary/Mandatory**

Voluntary

**Annual monetary savings (unit currency – as specified in C0.4)**

256,531

**Investment required (unit currency – as specified in C0.4)**

230,742

**Payback period**

<1 year

**Estimated lifetime of the initiative**

3-5 years

**Comment**

---

**Initiative category & Initiative type**

Energy efficiency in buildings  
Other, please specify



Automatic equipment shut down

**Estimated annual CO2e savings (metric tonnes CO2e)**

367

**Scope(s)**

Scope 2 (location-based)

**Voluntary/Mandatory**

Voluntary

**Annual monetary savings (unit currency – as specified in C0.4)**

1,728,476

**Investment required (unit currency – as specified in C0.4)**

0

**Payback period**

<1 year

**Estimated lifetime of the initiative**

Ongoing

**Comment**

**C4.3c**

**(C4.3c) What methods do you use to drive investment in emissions reduction activities?**

Method	Comment
Dedicated budget for energy efficiency	



Financial optimization calculations	
Employee engagement	
Internal incentives/recognition programs	

## C4.5

**(C4.5) Do you classify any of your existing goods and/or services as low-carbon products or do they enable a third party to avoid GHG emissions?**

Yes

### C4.5a

**(C4.5a) Provide details of your products and/or services that you classify as low-carbon products or that enable a third party to avoid GHG emissions.**

**Level of aggregation**

Group of products

**Description of product/Group of products**

Online banking, mobile banking and digital account statements. These services help customers to avoid certain activities and therefore the GHG emissions associated with travelling by vehicle to our branches in order to perform their financial transactions, consumption of paper receipts, bank slips and printed account statement, and encourage the use of a cellular token instead of a physical one, reducing manufacturing and waste treatment procedures.

**Are these low-carbon product(s) or do they enable avoided emissions?**

Avoided emissions

**Taxonomy, project or methodology used to classify product(s) as low-carbon or to calculate avoided emissions**

Evaluating the carbon-reducing impacts of ICT

**% revenue from low carbon product(s) in the reporting year**

0

**% of total portfolio value**

0

**Asset classes/ product types**

Bank lending

Other, please specify

Online banking, mobile banking and digital account statement.

**Comment**

- (i) Methods: The avoided emissions were estimated by our 2015's study -with triennial renewal- where we obtained the kg of CO<sub>2</sub>e avoided by our customers who use Bxl and Banorte Móvil and travel by car.
- (ii) Input: frequency of use, distance to preferred branch, means of transportation.
- (iii) Conversion factor: DEFRA gasoline/petrol 2014.
- (iv) Results: For our customers that travel by car to our branches: we estimate an average of 1.195 kg of CO<sub>2</sub>e avoided per transaction done in Bxl, and an average of 1.109 kg of CO<sub>2</sub>e avoided per transaction done using our Mobile banking app. In 2019, 1,192 and 753 millions of transactions were performed through Bxl and Mobile Banking, respectively.

---

**Level of aggregation**

Product

**Description of product/Group of products**

Considering the capacity installed of the renewable projects financed by Banorte (881 MW of wind energy and 433 MW of solar energy), the emission factor as "0" tCO<sub>2</sub>e, the national electric emission factor of 0.505 tonCO<sub>2</sub>e/MWh and the factor for wind and solar farms are 0.41 and 0.25 respectively, which are the Mexican average figures, we estimate that the financed renewable projects are avoiding approximately 1,949,834.1 tCO<sub>2</sub>e per year.



**Are these low-carbon product(s) or do they enable avoided emissions?**

Low-carbon product

**Taxonomy, project or methodology used to classify product(s) as low-carbon or to calculate avoided emissions**

The EU Taxonomy for environmentally sustainable economic activities

**% revenue from low carbon product(s) in the reporting year**

**% of total portfolio value**

0.81

**Asset classes/ product types**

Bank lending

Project Finance

**Comment**

The figure of "% of total portfolio value" is calculated with the amount corresponding to renewable projects financed (\$6,210 million pesos), divided by our performing loan portfolio (\$762,642 million pesos).

---

**Level of aggregation**

Product

**Description of product/Group of products**

We are committed to sustainable investment and to supporting the transition toward a low-carbon economy. With this approach in mind it has been an active investor in the relatively young market for local green, social and sustainable bonds.

**Are these low-carbon product(s) or do they enable avoided emissions?**

Low-carbon product and avoided emissions

**Taxonomy, project or methodology used to classify product(s) as low-carbon or to calculate avoided emissions**

Green Bond Principles (ICMA)

**% revenue from low carbon product(s) in the reporting year**

**% of total portfolio value**

0.61

**Asset classes/ product types**

Investing

Fixed Income

**Comment**

Afore XXI Banorte and Banorte's Asset Manager have invested a total amount of \$2.39 million pesos in AUM in green, social and sustainable bonds, more than double of the amount invested the year before in this type of asset (+111.21%). The green, social and sustainable bond market is still very recent in Mexico as there are only 20 bonds issued that represents about 2% of the total fixed income assets in circulation. This percentage can be compared a bit with the percentage it represents in our portfolio.

## C5. Emissions methodology

### C5.1

**(C5.1) Provide your base year and base year emissions (Scopes 1 and 2).**

**Scope 1**

---

**Base year start**

January 1, 2013

**Base year end**

December 31, 2013



**Base year emissions (metric tons CO2e)**

4,021.11

**Comment**

**Scope 2 (location-based)**

---

**Base year start**

January 1, 2013

**Base year end**

December 31, 2013

**Base year emissions (metric tons CO2e)**

65,626.41

**Comment**

**Scope 2 (market-based)**

---

**Base year start**

**Base year end**

**Base year emissions (metric tons CO2e)**

0

**Comment**

We did not had scope 2 market-based emissions in the base year.





## C5.2

**(C5.2) Select the name of the standard, protocol, or methodology you have used to collect activity data and calculate emissions.**

ISO 14064-1

Programa GEI Mexico

The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition)

## C6. Emissions data

### C6.1

**(C6.1) What were your organization's gross global Scope 1 emissions in metric tons CO2e?**

**Reporting year**

---

**Gross global Scope 1 emissions (metric tons CO2e)**

4,210.23

**Comment**

Our data base includes the following : diesel for utility vehicles, diesel for emergency plants, LP gas for utility vehicles, LP gas for forklifts, LP gas for kitchen, gasoline for utility vehicles and natural gas for heating.

### C6.2

**(C6.2) Describe your organization's approach to reporting Scope 2 emissions.**

**Row 1**

---



**Scope 2, location-based**

We are reporting a Scope 2, location-based figure

**Scope 2, market-based**

We have no operations where we are able to access electricity supplier emission factors or residual emissions factors and are unable to report a Scope 2, market-based figure

**Comment**

**C6.3**

**(C6.3) What were your organization's gross global Scope 2 emissions in metric tons CO2e?**

Reporting year

---

**Scope 2, location-based**

67,855.07

**Comment**

**C6.4**

**(C6.4) Are there any sources (e.g. facilities, specific GHGs, activities, geographies, etc.) of Scope 1 and Scope 2 emissions that are within your selected reporting boundary which are not included in your disclosure?**

No

**C6.5**

**(C6.5) Account for your organization's gross global Scope 3 emissions, disclosing and explaining any exclusions.**

## Purchased goods and services

---

### Evaluation status

Relevant, calculated

### Metric tonnes CO<sub>2</sub>e

254.3

### Emissions calculation methodology

The calculation of the emissions derived from purchased good and services includes printing and publishing purchases. The figure was calculated from expenditure data an converted using DEFRA's 2009 tonCO<sub>2</sub>e/\$GBP spend factors, considering UK's yearly inflation from 2009 to 2019 and using the yearly average exchange rate from GBP to MXN in 2019.

### Percentage of emissions calculated using data obtained from suppliers or value chain partners

0

### Please explain

## Capital goods

---

### Evaluation status

Relevant, calculated

### Metric tonnes CO<sub>2</sub>e

3,080.4

### Emissions calculation methodology

For this calculation we included office machinery and computer purchased. The figure was calculated from expenditure data an converted using DEFRA's 2009 tonCO<sub>2</sub>e/\$GBP spend factors, considering UK's yearly inflation from 2009 to 2019 and using the yearly average exchange rate from GBP to MXN in 2019.

**Percentage of emissions calculated using data obtained from suppliers or value chain partners**

0

**Please explain**

**Fuel-and-energy-related activities (not included in Scope 1 or 2)**

---

**Evaluation status**

Relevant, calculated

**Metric tonnes CO<sub>2</sub>e**

10,582.63

**Emissions calculation methodology**

Includes the following aspects: electricity transmission and distribution (T&D), well to tank (WTT) of fuels, electricity consumption and electricity T&D by using the DEFRA's tool of "Conversion Factors 2019 Full set for advanced users". Factors used as tonCO<sub>2</sub>e/kWh or tonCO<sub>2</sub>e/volume according to our different sources of fuel (gasoline, diesel, LP gas and natural gas), and electricity consumption and the location (Mexico).

**Percentage of emissions calculated using data obtained from suppliers or value chain partners**

99.5

**Please explain**

**Upstream transportation and distribution**

---

**Evaluation status**

Relevant, calculated

**Metric tonnes CO<sub>2</sub>e**

3,930.13



**Emissions calculation methodology**

To obtain the emissions derived from upstream transportation and distribution , we considered post office and correspondence, luggage transfer and others. The figure was calculated from expenditure data an converted using DEFRA's 2009 tonCO2e/\$GBP spend factors, considering UK's yearly inflation from 2009 to 2019 and using the yearly average exchange rate from GBP to MXN in 2019.

**Percentage of emissions calculated using data obtained from suppliers or value chain partners**

0

**Please explain**

**Waste generated in operations**

---

**Evaluation status**

Not relevant, calculated

**Metric tonnes CO2e**

188.81

**Emissions calculation methodology**

For waste generated in operations we identified the following types of waste considered in order to proceed with the calculation: Aluminum, PET, mixed paper for office, food waste, and mixed municipal solid waste. By identifying the amount of waste generated by each category, we multiplied each by its particular emission factors, obtained from the United States Environmental Protection Agency "GHG Emission Factor Hub".

**Percentage of emissions calculated using data obtained from suppliers or value chain partners**

0

**Please explain**

**Business travel**

---

**Evaluation status**

Relevant, calculated

**Metric tonnes CO2e**

1,995.12

**Emissions calculation methodology**

The calculation is made by selecting the appropriate factor for the trip, which in this case a generic one is used, and multiplied by the kilometers traveled by the employee. These data are obtained in the institutional portal, in the travel expense settlement section, when the travel destination is loaded, the distances are predetermined and they are recorded, it is downloaded into a database (Excel). The scope of the calculation is at the Group level, it includes all subsidiaries. To calculate the figure, we use the methodology of GHG Protocol, specifically by the "Transport Tool Version 2.6", by defining mode of transport as aircraft scope 3 and type of activity as passenger distance (air domestic, short/long haul).

**Percentage of emissions calculated using data obtained from suppliers or value chain partners**

37

**Please explain**

**Employee commuting**

---

**Evaluation status**

Relevant, not yet calculated

**Please explain**

As part of our sustainable mobility strategy, we are about to launch a survey to find out the particular displacement of employees in order to identify the distances between their home and their workplace. The scope of this survey will include all administrative buildings, which represent 43.7% of the Group's FTE Employee.

**Upstream leased assets**

---

**Evaluation status**

Not relevant, explanation provided

**Please explain**

Though GFNorte leases a high percentage of the buildings and facilities where it operates (i.e., it acts as a lessee) , due to an improvement in our accounting methodology, we have reclassified all the emissions generated therein are now already fully reported as emissions disclosed in their corresponding Scope 1 and Scope 2 from the Company's own operations, according to each emissions source's nature. For this reason, there are no Scope 3 emissions to report in this specific category

**Downstream transportation and distribution**

---

**Evaluation status**

Relevant, calculated

**Metric tonnes CO2e**

2,833.35

**Emissions calculation methodology**

For the emissions associated with downstream transportation and distribution, we identified the following: shipping abroad, shipping of credit card plastics and credit card account statements. This figures was calculated from DEFRA's 2009 tonCO2e/\$GBP spend factors, considering UK's yearly inflation from 2009 up to 2019 and using the yearly average exchange rate from GBP to MXN in 2019.

**Percentage of emissions calculated using data obtained from suppliers or value chain partners**

0

**Please explain**

**Processing of sold products**

---

**Evaluation status**

Not relevant, explanation provided

**Please explain**

GFNorte, as financial institution, does not sell products that are raw materials or intermediate products for other company's processes or operations.

**Use of sold products**

---

**Evaluation status**

Not relevant, explanation provided

**Please explain**

GFNorte's products do not fall into this category. No direct use-phase emissions are generated because they do not consume energy nor emit GHGs during / while in use, as opposed to fuels, feedstock and other industries.

**End of life treatment of sold products**

---

**Evaluation status**

Not relevant, explanation provided

**Please explain**

GFNorte manages the treatment of its products by reclaiming physical tokens and cards at the end of their useful life, but also promoting the digitalization of these products. This was stated in "Waste generation in operations" above; we consider that this is not a relevant category to the Company, because it refers to the end-of-life treatment /disposal methods used by the customers, rather than the Company's.

**Downstream leased assets**

---

**Evaluation status**

Not relevant, explanation provided

**Please explain**

GFNorte does not lease owned buildings or facilities, i.e., it does not act as a lessor in any situation.



## Franchises

---

### Evaluation status

Not relevant, explanation provided

### Please explain

This is not part of its business model. GFNorte does not grant this kind of licenses.

## Other (upstream)

---

### Evaluation status

### Please explain

## Other (downstream)

---

### Evaluation status

Not evaluated

### Please explain

## C6.10

**(C6.10) Describe your gross global combined Scope 1 and 2 emissions for the reporting year in metric tons CO<sub>2</sub>e per unit currency total revenue and provide any additional intensity metrics that are appropriate to your business operations.**

---

### Intensity figure

1.97



**Metric numerator (Gross global combined Scope 1 and 2 emissions, metric tons CO2e)**

72,066.3

**Metric denominator**

unit total revenue

**Metric denominator: Unit total**

36,528

**Scope 2 figure used**

Location-based

**% change from previous year**

13.2

**Direction of change**

Decreased

**Reason for change**

Even though the emissions (numerator) remained almost the same as 2018 with a decreased of 0.73%, the Group's total revenue (denominator) increased by 14.3% compared to the same period. This is reflected in a decrease of 13.2% of the indicator.

---

**Intensity figure**

2.39

**Metric numerator (Gross global combined Scope 1 and 2 emissions, metric tons CO2e)**

72,066.3

**Metric denominator**

full time equivalent (FTE) employee

**Metric denominator: Unit total**

30,167

**Scope 2 figure used**

Location-based

**% change from previous year**

0

**Direction of change**

No change

**Reason for change**

Emissions (numerator) and the Group's FTE employees (denominator) remained almost the same compared with 2018 as both decreased 0.73% and 1.2% respectively. This is reflected in an increase of 0.52% of the indicator.

## C7. Emissions breakdowns

### C7.9

**(C7.9) How do your gross global emissions (Scope 1 and 2 combined) for the reporting year compare to those of the previous reporting year?**

Decreased

### C7.9a

**(C7.9a) Identify the reasons for any change in your gross global emissions (Scope 1 and 2 combined), and for each of them specify how your emissions compare to the previous year.**

	Change in emissions (metric tons CO2e)	Direction of change	Emissions value (percentage)	Please explain calculation
Change in renewable energy consumption	0	No change	0	Two of our branches have solar panels, which generated 9,000 kWh in the year, by our estimates, avoiding the emission of 4.6 TonCO2e. This is negligible as it represents less than 0% of our entire energy consumption.
Other emissions reduction activities	404	Decreased	0.6	The implementation of two different energy efficiency projects have decreased the energy consumption; (i) Identification and optimization of the branches with the highest energetic consumption from ranged from metering and monitoring indicators in real time to adjusting equipment set-points, which allow us to reduce 37 TonCO2e. (ii) Automatically turn off the computers and equipment after working hours, which allow us to reduce 367 TonCO2e.
Divestment	0	No change	0	There were no divestment during 2019.
Acquisitions	2,315.78	Increased	3.21	During 2019, various branch openings, reallocations, expansions and conversions were carried out in order to seek greater efficiencies in the network. Considering the acquisition of 36 branches and 496 ATMs, we estimated that the energy consumption increased 4,585.7 MWh compared to 2018, which also represent an increased of 2,315.78 tCO2e.
Mergers	0	No change	0	There were no mergers during 2019.
Change in output	0	No change	0	There were no changes in output during 2019.
Change in methodology	3,003.84	Decreased	4.16	To calculate our Scope 2 emissions derived from electricity consumption, we updated the National Electrical System Emission factor (location-based Mexico) according to the estimated by the Energy Regulatory Commission (CRE), based on methodologies issued under Article 12 of the

				regulation in the Law of Energy Transition. In 2019, the electric emission factor decreased 4.17%, (0.527 tCO2e/MWh to 0.505 tCO2e/MWh). If the emission factor will remained the same, emissions would have increased by 3,003.84 tCO2e.
Change in boundary	0	No change	0	There were no changes in boundary during 2019.
Change in physical operating conditions	0	No change	0	There were no change in physical operating conditions during 2019.
Unidentified	0	No change	0	There were no unidentified reasons for emission changes during 2019.
Other	0	No change	0	There were no other reasons for emission changes during 2019.

### C7.9b

**(C7.9b) Are your emissions performance calculations in C7.9 and C7.9a based on a location-based Scope 2 emissions figure or a market-based Scope 2 emissions figure?**

Location-based

## C8. Energy

### C8.1

**(C8.1) What percentage of your total operational spend in the reporting year was on energy?**

More than 0% but less than or equal to 5%

### C8.2

**(C8.2) Select which energy-related activities your organization has undertaken.**

	Indicate whether your organization undertook this energy-related activity in the reporting year
Consumption of fuel (excluding feedstocks)	Yes
Consumption of purchased or acquired electricity	Yes
Consumption of purchased or acquired heat	No
Consumption of purchased or acquired steam	No
Consumption of purchased or acquired cooling	No
Generation of electricity, heat, steam, or cooling	Yes

## C8.2a

**(C8.2a) Report your organization’s energy consumption totals (excluding feedstocks) in MWh.**

	Heating value	MWh from renewable sources	MWh from non-renewable sources	Total (renewable and non-renewable) MWh
Consumption of fuel (excluding feedstock)	LHV (lower heating value)	0	15,253.55	15,253.55
Consumption of purchased or acquired electricity		0	134,457.14	134,457.14
Consumption of self-generated non-fuel renewable energy		9		9
Total energy consumption		9	149,710.69	149,719.69

## C9. Additional metrics

### C9.1

**(C9.1) Provide any additional climate-related metrics relevant to your business.**

---

**Description**

Waste

**Metric value**

0.02

**Metric numerator**

Ton waste

**Metric denominator (intensity metric only)**

FTE Employee

**% change from previous year**

0

**Direction of change**

No change

**Please explain**

Based on the results of the waste separation program introduced at our Santa Fe Corporate Offices, we estimated waste based on the kilograms/employee indicator, which represent a scope of 43.2% of the total employees, which we extrapolated to the rest of our administrative buildings. This gave us a total generation of 245.44 metric tons of waste. The program began in April and the calculation encompasses various types of waste, both recyclable and non-recyclable.



## C10. Verification

### C10.1

**(C10.1) Indicate the verification/assurance status that applies to your reported emissions.**

	Verification/assurance status
Scope 1	Third-party verification or assurance process in place
Scope 2 (location-based or market-based)	Third-party verification or assurance process in place
Scope 3	Third-party verification or assurance process in place

### C10.1a

**(C10.1a) Provide further details of the verification/assurance undertaken for your Scope 1 emissions, and attach the relevant statements.**

**Verification or assurance cycle in place**

Annual process

**Status in the current reporting year**

Complete

**Type of verification or assurance**

Limited assurance

**Attach the statement**

 ARBANORTE2019\_c.pdf



**Page/ section reference**

Independent Assurance Report by Deloitte, pages 98 and 99 (305-1: Direct emissions of GHG, Scope 1).

**Relevant standard**

ISAE3000

**Proportion of reported emissions verified (%)**

100

---

**Verification or assurance cycle in place**

Annual process


**Status in the current reporting year**

Complete

**Type of verification or assurance**

Reasonable assurance

**Attach the statement**

 Declaración de verificación CDP Inglés\_Banorte.pdf

**Page/ section reference**

All.

**Relevant standard**

NMX-SAA-14064-3-IMNC: Instituto Mexicano de Normalización y Certificación A.C

**Proportion of reported emissions verified (%)**

100

## C10.1b

**(C10.1b) Provide further details of the verification/assurance undertaken for your Scope 2 emissions and attach the relevant statements.**

---

**Scope 2 approach**

Scope 2 location-based

**Verification or assurance cycle in place**

Annual process

**Status in the current reporting year**

Complete

**Type of verification or assurance**

Limited assurance

**Attach the statement**

 ARBANORTE2019\_c.pdf

**Page/ section reference**

Independent Assurance Report by Deloitte, pages 98 and 99 (305-2: Indirect emissions of GHG when generating energy, Scope 2).

**Relevant standard**

ISAE3000

**Proportion of reported emissions verified (%)**

100

---

**Scope 2 approach**

Scope 2 location-based

**Verification or assurance cycle in place**

Annual process


**Status in the current reporting year**

Complete

**Type of verification or assurance**

Reasonable assurance

**Attach the statement**

 Declaración de verificación CDP Inglés\_Banorte.pdf

**Page/ section reference**

All.

**Relevant standard**

NMX-SAA-14064-3-IMNC: Instituto Mexicano de Normalización y Certificación A.C

**Proportion of reported emissions verified (%)**

100

**C10.1c**

**(C10.1c) Provide further details of the verification/assurance undertaken for your Scope 3 emissions and attach the relevant statements.**

---

**Scope 3 category**

Scope 3: Business travel

**Verification or assurance cycle in place**

Annual process

**Status in the current reporting year**

Complete

**Type of verification or assurance**

Limited assurance

**Attach the statement**

 ARBANORTE2019\_c.pdf

**Page/section reference**

Independent Assurance Report by Deloitte, pages 98 and 99 (305-3: Other indirect emissions of GHG, Scope 3).

**Relevant standard**

ISAE3000

**Proportion of reported emissions verified (%)**

100

---

**Scope 3 category**

Scope 3: Investments

**Verification or assurance cycle in place**

Annual process

**Status in the current reporting year**

Complete

**Type of verification or assurance**

Limited assurance

**Attach the statement**

 ARBANORTE2019\_c.pdf

**Page/section reference**

Independent Assurance Report by Deloitte, pages 98 and 99 (305-3: Other indirect emissions of GHG, Scope 3).

**Relevant standard**

ISAE3000

**Proportion of reported emissions verified (%)**

100





## C10.2

**(C10.2) Do you verify any climate-related information reported in your CDP disclosure other than the emissions figures reported in C6.1, C6.3, and C6.5?**


Yes

## C10.2a

**(C10.2a) Which data points within your CDP disclosure have been verified, and which verification standards were used?**

Disclosure module verification relates to	Data verified	Verification standard	Please explain
C8. Energy	Energy consumption	ISAE 3000	Integrated Annual Report 2019, page 86. GRI Standard 302-1: Energy Consumption within the organization.  1
C9. Additional metrics	Year on year change in emissions (Scope 1 and 2)	ISAE 3000	Integrated Annual Report 2019, page 87. GRI Standard 305-5: Reduction of GHG emissions.  1
C9. Additional metrics	Year on year emissions intensity figure	ISAE 3000	Integrated Annual Report 2019, page 88. GRI Standard 305-4: GHG emissions intensity.  1
C7. Emissions breakdown	Other, please specify Pollutant Management System	NMX-SAA-14064-1- IMNC-2007/ISO 14064- 1:2006	The Pollutant Management System was developed for the calculation and management of the inventory of GHG emissions of the Group. It is aligned and certified with the NMX-SAA-14064-1-IMNC-2007/ISO 14064-1:2006.  2

 1 ARBANORTE2019\_c.pdf

 2 Declaración de verificación 14064-1\_Banorte.pdf

## C11. Carbon pricing

### C11.2

**(C11.2) Has your organization originated or purchased any project-based carbon credits within the reporting period?**

No

## C11.3

### (C11.3) Does your organization use an internal price on carbon?

No, but we anticipate doing so in the next two years

## C12. Engagement

### C12.1

#### (C12.1) Do you engage with your value chain on climate-related issues?

Yes, our customers

Yes, our investee companies

### C12.1b

#### (C12.1b) Give details of your climate-related engagement strategy with your customers.

---

##### Type of engagement

Information collection (understanding customer behavior)

##### Details of engagement

Collect climate change and carbon information from new customers as part of initial due diligence

##### % of customers by number

17.07

##### % of customer - related Scope 3 emissions as reported in C6.5

0



**Portfolio coverage (total or outstanding)**

Minority of the portfolio

**Please explain the rationale for selecting this group of customers and scope of engagement**

The clients included in this scope represent the most significant environmental and social impacts. In 2019, we made 26 due diligence, equivalent to 8.9% and 13.9% of the corporate and business banking portfolios, respectively and they are classified as high (4), medium (19) and low (3) risk. Additionally, we analyzed 415 lesser-impact projects that were managed through recommendations of the IFC Industry-Specific Environmental, Health and Safety Guidelines.

As an additional comment, the figure presented in "% of customers by number" is calculated with the clients with due diligence plus the recommendations, divided by the customers analyzed by SEMS.

**Impact of engagement, including measures of success**

Annually, the evaluated projects are monitored to verify their compliance with the law and international guidelines. In addition, advice services are provided to both credit executives and clients, and site visits are made to projects classified as high (A) and medium (B) risk that were evaluated under the Equator Principles (EP). During 2019, seven projects were carried out in the manufacturing, infrastructure, tourism and agriculture industries.

## C-FS12.1c

**(C-FS12.1c) Give details of your climate-related engagement strategy with your investee companies.**

---

**Type of engagement**

Engagement & incentivization (changing investee behavior)

**Details of engagement**

Encourage better climate-related disclosure practices among investees

**% of investees by number**

89





**% Scope 3 emissions as reported in C-FS14.1a/C-FS14.1b**

0

**Portfolio coverage**

Majority of the portfolio

**Rationale for the coverage of your engagement**

The scope of implementation of the ESG analyzes encompasses different asset classes, such as fixed-income, listed equity, structured and FIBRAs, from 182 domestic issuers that represent 89% of the AUM.

**Impact of engagement, including measures of success**

As part of the increased engagement with issuers, our Asset Owner has held a number of meetings to establish commitments and specific actions to incorporate sustainability guidelines into their processes and established channels of communication with around 31% of issuers and managers.

---

**Type of engagement**

Information collection (Understanding investee behavior)

**Details of engagement**

Collect climate change and carbon information at least annually from long-term investees

**% of investees by number**

94.7

**% Scope 3 emissions as reported in C-FS14.1a/C-FS14.1b**

100

**Portfolio coverage**

Majority of the portfolio

**Rationale for the coverage of your engagement**



Given the current outlook for the Mexican market, Banorte's Asset Manager has developed an internal methodology based on a transparency analysis of each issuer's ESG factors as well as the disputes they are exposed to, which enables us to rate their level of reputational risk. During the year, the 30 most representative issuers in our portfolio (94.7% of the AUM in our equity portfolio) were assessed by both of these methodologies.

**Impact of engagement, including measures of success**

The Responsible Investment Policy of Banorte's Asset Manager prioritize engagement efforts with issuers with limited public disclosure of ESG factors or that represent a reputational risk by proposing actions to improve them.

**C12.3**

**(C12.3) Do you engage in activities that could either directly or indirectly influence public policy on climate-related issues through any of the following?**

Trade associations

**C12.3b**

**(C12.3b) Are you on the board of any trade associations or do you provide funding beyond membership?**

Yes

**C12.3c**

**(C12.3c) Enter the details of those trade associations that are likely to take a position on climate change legislation.**

---

**Trade association**

Mexican Banking Association (ABM)

**Is your position on climate change consistent with theirs?**

Consistent

### **Please explain the trade association's position**

The ABM's posture includes the following point:

- Represent and defend the general interests of its associates in any common management before the public administration and before private organizations.
- Facilitate communication between partner institutions to build consensus on issues that require the establishment of standards that increase the efficiency of the sector.
- Promote the development of banking activities through forums in which national and international experiences are shared that result in best practices and innovation.
- Carry out studies and research oriented to the development and proper functioning of the banking and financial system in general, as well as those related to the improvement of its methods and operating practices.
- Present to the various authorities proposals for updating laws, regulations, circulars, rules and regulations to adapt them to the changing reality of the financial system, the economy and international practices, to increase the competitiveness of the institutions operating in Mexico.
- Disseminate information on products, services, agreements and topics of the national agenda in which there is a trade interest.

These points include, but are not limited to, to integrate climate change into the operations and businesses of the financial institutions and are managed within the Sustainability Committee of this same association.

### **How have you influenced, or are you attempting to influence their position?**

GFNorte is member with voting rights in 38 of its Committees in order to propose and promote the updating of laws, regulations, circulars, rules and provisions to adapt them to the changing reality of the financial system, the economy and international practices. Specifically for the Sustainability Committee, we actively participate to seek alignment with the Paris Agreement and the SDGs by sharing our experience in the adoption of global initiatives and good practices for financial institutions. In addition, we encourage adherence to all the frameworks in which we participate, mainly to PBR, PRI and EP.

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### **Trade association**

Green Finance Advisory Council (CCFV)

### **Is your position on climate change consistent with theirs?**

Consistent

**Please explain the trade association's position**

We participate in the CCFV's chairmanship which promotes the development of ESG publicly available information to align ESG factors, this strategy also aligns with our fiduciary duty and our goal to maintain the added value of our long-term portfolios.

**How have you influenced, or are you attempting to influence their position?**

Through the CCFV, at the end of 2018 we signed an "Investor's Statement on the Disclosure of ESG Information in Mexico" recognizing that this is an important source for investment analysis and efficient resource allocation together with 51 institutional investors representing a total of \$4.52 billion pesos in AUMs managed. In addition, in 2017 we signed the "Investors Statement in Favor of Financing Green Bonds in Mexico" along with other 55 institutional investors recognizing that green bonds are a key instrument for financing climate solutions. In addition, among the courses given during the year we participate giving one module of the course "Incorporating ESG factors into investment decisions" organized by CCFV, this course had a diverse audience including Asset Owners and Investment Managers among others.

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**Trade association**

Mexican Alliance for Business and Biodiversity (AMEBIN)

**Is your position on climate change consistent with theirs?**

Consistent

**Please explain the trade association's position**

AMEBIN is an initiative created in 2016 within the framework of COP 13 on Biodiversity, in which large companies, financial institutions, civil society organizations and international cooperation agencies promote action towards conservation, sustainable use and restoration of biodiversity.

**How have you influenced, or are you attempting to influence their position?**

We participate as a private sector company that has biodiversity among its priority sustainability issues, forming part of the Alliance's working groups and periodically assisting to the events that have arisen from it. We also seek to be a reference for the financial sector in the consideration of natural capital in business, being one of the two banks participating in this initiative.

## C12.3f

**(C12.3f) What processes do you have in place to ensure that all of your direct and indirect activities that influence policy are consistent with your overall climate change strategy?**

We participate actively in various committees, boards and associations in the national and international financial industry, leading important sustainability initiatives for banking. In this area, we will work to strengthen our relationship with NGOs and government agencies in order to promote sustainable incentives.

## C12.4

**(C12.4) Have you published information about your organization's response to climate change and GHG emissions performance for this reporting year in places other than in your CDP response? If so, please attach the publication(s).**

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### Publication

In voluntary sustainability report

### Status

Complete

### Attach the document

 ARBANORTE2019\_c.pdf

### Page/Section reference

Sustainability Capital pages 70 to 83 and Environmental Capital pages 84 to 89.

### Content elements

Governance

Strategy

Risks & opportunities  
Emissions figures  
Emission targets  
Other metrics

### **Comment**

This report is shared with our investors, shareholders and other stakeholders and contains our financial, technological, labor, social, environmental and corporate governance results for the FY 2019.

The information presented is limited to the operations of Grupo Financiero Banorte, and thus does not include information on other entities.

For the eleventh year in a row, we have prepared this annual report in accordance with the following reporting standards:

- Global Reporting Initiative (GRI) Standards
- International Integrated Report Council (IIRC)
- Global Compact
- Sustainable Development Goals (SDG)

61 indicators were verified by Deloitte with a reasonable assurance scope in accordance with the International Auditing Standard ISAE 3000 Revised Assurance Engagements other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Boards (IAASB) of International Federation of Accountants (IFAC).

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### **Publication**

In voluntary sustainability report

### **Status**

Complete

### **Attach the document**

 Equator Principles Annual Report 2019.pdf

### **Page/Section reference**



All.

**Content elements**

- Governance
- Strategy
- Risks & opportunities

**Comment**

**C-FS12.5**

**(C-FS12.5) Are you a signatory of any climate-related collaborative industry frameworks, initiatives and/or commitments?**

	<b>Industry collaboration</b>	<b>Comment</b>
Reporting framework	Equator Principles Principles for Responsible Investment (PRI) UNEP FI Principles for Responsible Banking Other, please specify GRI	
Industry initiative	Principles for Responsible Investment (PRI) UNEP FI Principles for Responsible Banking	UNEP FI & PRB: In 2018, 28 banks of the world took the initiative, together with the United Nations Environmental Program for Financial Initiatives (UNEP FI) to develop what are called the Principles for Responsible Banking. Banorte is the only Mexican bank, and one of only three Latin American banks, in this founding group. Natural Capital Finance Alliance: In 2019, we participated in the implementation pilot of the Natural Capital Protocol that was carried out for the first time in Mexico, as part of the Biodiversity and Business Alliance (AMEBIN) activities, to which Banorte belongs. With the support of GIZ, Reforestamos México and PwC in the application of



	Natural Capital Finance Alliance UNEP FI	<p>the methodology, we focused the study on the climate risks quantification in the tourism sector, with the collaboration of one of our best clients. The results were presented this year to the Credit, Business and Risks team that promoted this project in the bank, reaffirming the relevance that environmental aspects have in the financial sector decision-making.</p> <p>PRI: We joined the PRI Advisory Committee for Latin America, whose goal is to support events and workshops in the region to educate and provide tools for strengthening responsible investment practices, representing PRI in local events, and learning about the strategy and work program.</p>
Commitment	We Are Still In	

## C14. Portfolio Impact

### C-FS14.1

**(C-FS14.1) Do you conduct analysis to understand how your portfolio impacts the climate? (Scope 3 portfolio impact)**

	We conduct analysis on our portfolio's impact on the climate	Disclosure metric	Comment
Bank lending (Bank)	No, but we plan to do so in the next two years		In the short term, we plan to enter into a pilot for the implementation of the TCFD recommendations by UNEP FI that is mainly focused on the development of climate-related scenarios and definition of goals.
Investing (Asset manager)	Yes	Category 15 "Investment" total absolute emissions	
Investing (Asset owner)	No, but we plan to do so in the next two years		Through Climate Action 100+ we can monitor the emissions of the companies. Until now, we have only approached 2 local companies to provide timely monitoring of their GHG emission targets.





Insurance underwriting (Insurance company)	No		
Other products and services, please specify	Not applicable		

### C-FS14.1a

**(C-FS14.1a) What are your organization’s Scope 3 portfolio emissions? (Category 15 “Investments” total emissions)**

**Category 15 (Investments)**

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**Evaluation status**

Relevant, calculated

**Scope 3 portfolio emissions (metric tons CO2e)**

89,473.1

**Portfolio coverage**

More than 0% but less than or equal to 10%

**Percentage calculated using data obtained from client/investees**

100

**Emissions calculation methodology**

GHG Protocol methodology for calculating scope 3 emissions, category 15. Investments, Equity Investments.

**Please explain**



The emissions reported as scope 3 portfolio emissions were calculated according to the shareholding ownership percentage of the issuers evaluated under responsible investment methodology multiplied by their scope 1 and 2 emissions publicly disclosed (only available for fiscal year 2018). The scope of this emissions correspond to 84.9% of the listed equity AUM.

## C-FS14.1c

### (C-FS14.1c) Why do you not conduct analysis to understand how your portfolio impacts the climate? (Scope 3 Category 15 “Investments” emissions or alternative carbon footprinting and/or exposure metrics)

For issues related to financing (including project finance), reliable data is not available to perform the calculation because it is not an obligation to disclose this information publicly. Although the due diligence carried out by SEMS contemplates the emissions of the projects, our clients are not yet obliged because it is not part of the contractual terms established by the bank, with the exception of clients that are evaluated under the Equator Principles (EP).

## C-FS14.2

### (C-FS14.2) Are you able to provide a breakdown of your organization's Scope 3 portfolio impact?

	Scope 3 breakdown	Comment
Row 1	Yes, by asset class Yes, by country/region	

## C-FS14.2a

### (C-FS14.2a) Break down your organization’s Scope 3 portfolio impact by asset class.

Asset class	Metric type	Metric unit	Scope 3 portfolio emissions or alternative metric	Please explain
Listed equity	Total carbon absolute emissions (CO2e)	Metric tons CO2e	89,473.1	The scope includes 84.9% of the listed equity AUM of Banorte’s Asset Manager. So far only listed equity assets have been quantified.



## C-FS14.2c

**(C-FS14.2c) Break down your organization’s Scope 3 portfolio impact by country/region.**

Country/Region	Metric type	Metric unit	Scope 3 portfolio emissions or alternative metric	Please explain
Mexico	Total carbon absolute emissions (CO2e)	Metric tons CO2e	89,473.1	The scope includes 84.9% of the listed equity AUM of Banorte’s Asset Manager. All the issuers included in the scope are Mexican.

## C-FS14.3

**(C-FS14.3) Are you taking actions to align your portfolio to a well below 2-degree world?**

	We are taking actions to align our portfolio to a well below 2-degree world	Please explain
Bank lending (Bank)	No, but we plan to do so in the next two years	<p>As founders and signing members of the PRB, we are committed to their implementation. Therefore, our commitment for Principle 1. Alignment, is to align our business strategy to be consistent with and contribute to individuals’ needs and society’s goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.</p> <p>There are not climate-related scenarios developed by now. Nevertheless, we are currently working on the development of technical capacities and tools that allow us to carry out climate-related scenarios in our portfolios (lending and investing). In the short term, we plan to enter into a pilot for the implementation of the TCFD recommendations by UNEP FI that is mainly focused on the development of climate-related scenarios and definition of goals.</p> <p>We have already committed to the SBT initiative through our Scope 1 and 2 emission reduction targets. However, the method for assessing financial institutions’ lending and investment portfolios impacts (scope 3) against a well below-1.5°C emissions trajectory is still being developed. Therefore, the SBT</p>



		team cannot yet review or approve any targets submitted by financial institutions. It is expected that the methodologies will be completed in September 2020.
Investing (Asset manager)	No, but we plan to do so in the next two years	<p>There are not climate-related scenarios developed by now. Nevertheless, we are currently working on the development of technical capacities and tools that allow us to carry out climate-related scenarios in our portfolios (lending and investing). In the short term, we plan to enter into a pilot for the implementation of the TCFD recommendations by UNEP FI that is mainly focused on the development of climate-related scenarios and definition of goals.</p> <p>We are considering to join the Climate Action 100+ initiative that focuses on the largest GHG emitters. In Mexico there are two issuers that falls under this criteria, thus we might be focusing on them.</p> <p>We have already committed to the SBT initiative through our Scope 1 and 2 emission reduction targets. However, the method for assessing financial institutions' lending and investment portfolios impacts (scope 3) against a well below-1.5°C emissions trajectory is still being developed. Therefore, the SBT team cannot yet review or approve any targets submitted by financial institutions. It is expected that the methodologies will be completed in September 2020.</p>
Investing (Asset owner)	No, but we plan to do so in the next two years	<p>We are in the process of implementing a climate goal, maintaining a commitment to invest in a sustainable way and support the transition towards a low-carbon economy aligned with the Paris Agreement and that contribute to keeping global warming below- 2 ° C. In this way, we recently joined the initiatives Climate Action 100+ and Task Force on Climate-related Financial Disclosures (TCFD), through which we will ask companies to:</p> <ul style="list-style-type: none"> <li>(i) Implement a solid governance framework</li> <li>(ii) Take measures to reduce greenhouse gas emissions along the value chain</li> <li>(iii) Provide enhanced corporate disclosure</li> <li>(iv) That they invest informed and responsibly.</li> <li>(v) Make decisions related to the climate.</li> <li>(vi) Mitigate climate risk.</li> <li>(vii) Promote an economy of net zero emissions.</li> </ul>
Insurance underwriting	No	



(Insurance company)		
Other products and services, please specify	Not applicable	

## C15. Signoff

### C-FI

**(C-FI) Use this field to provide any additional information or context that you feel is relevant to your organization's response. Please note that this field is optional and is not scored.**

### C15.1

**(C15.1) Provide details for the person that has signed off (approved) your CDP climate change response.**

	Job title	Corresponding job category
Row 1	Managing Director, Finance and Operations.	Chief Financial Officer (CFO)

## Submit your response

**In which language are you submitting your response?**

English

**Please confirm how your response should be handled by CDP**

	I am submitting to	Public or Non-Public Submission
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I am submitting my response	Investors	Public
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**Please confirm below**

I have read and accept the applicable Terms