

1. Background.

Founded in 1899 as Banco Mercantil de Monterrey, Banorte, the banking subsidiary of Grupo Financiero Banorte and its most significant, is the second largest financial services holding company in Mexico in terms of total assets as of December 31, 2019, according to the CNBV.

Banorte recognizes the role financial institutions must play in the transition toward a sustainable global economy. Therefore, sustainability is integrated into its business strategy as the guiding principle for achieving goals, while protecting the natural and social capital.

It also is aligned with different national and international initiatives that represent a framework of the best global sustainability practices. Of the most representative initiatives in the financial sector, Banorte is signatory of the Equator Principles since 2012, the Principles for Responsible Investment since 2016, and recently (2019), the Principles of Responsible Banking, in which Banorte was the only Mexican bank of the 28 members in the founding group.

Banorte's good performance in sustainability issues has prompted it to adhere to global sustainability indexes, as well as the IPC Sustentable, Dow Jones Sustainability Index of the Integrated Market of Latin America (DJSI MILA), FTSE4Good, IndexAmericas and Bloomberg Gender Equality Index (GEI).

The sustainability strategy of Banorte is sustained by three basic pillars: economic (Responsible Business), environmental (Our Planet), and social (Our People). In the pillar of "Responsible business", Banorte incorporates Environmental, Social, and Governance (ESG) factors into the credit and investment portfolios that enables to manage the risks and impacts of its operations and identify potential business opportunities, including the development of new products and services.

In line with all the above, Banorte has defined a Green Bond Framework (GBF) which will allow to identify assets that have a positive impact in the environment and society of its credit portfolio and make it able to issue as green bonds as part of its commitment with sustainable development and as a business opportunity.

2. Use of proceeds.

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.

For the GBF purposes, 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). These categories are described in the following table (table 1).

Table 1. Eligible Green Categories.

Category	Description	SDG Alignment
Renewable Energy	<ul style="list-style-type: none"> • Generation of energy from; <ul style="list-style-type: none"> ○ Natural resources, such as wind and solar ○ Biogas produced by anaerobic digestion ○ Biomass from biodegradable municipal waste, and agriculture and forestry residues (must come from sustainable agriculture/forestry activities), that generates up to 100 gramsCO2 per kWh of life-cycle emissions, excluding projects where biomass sources deplete existing carbon pools, and excluding projects using peat and palm oil as feedstock • Renewable energy transmission and distribution projects. The percentage of the renewable energy in the transmission and/or distribution projects will be proportional to the amount of proceeds applicable • Manufacture of devices or components of renewable energy technologies 	7. Affordable and Clean Energy 13. Climate Action
Energy Efficiency	<ul style="list-style-type: none"> • Energy recovery and storage • Implementation of energy reduction projects, including equipment replacement for electric-powered systems and adaptations to new or existing buildings 	7. Affordable and Clean Energy 11. Sustainable Cities and Communities

	<ul style="list-style-type: none"> Buildings with the following green building certifications; LEED (minimum Gold), EDGE (Advanced or Zero Carbon), BREEAM (minimum Very Good), or other equivalent green building certification programs 	
Natural Resources and Biodiversity	<ul style="list-style-type: none"> Sustainable agriculture activities certified with Rainforest Alliance, UTZ, SAGARPA Organic, or other equivalent certification programs for sustainable agriculture activities, excluding meat production projects Forestry activities that are certified with PEFC, FSC, or other equivalent certification programs for forestry activities Fishery activities that are certified with MSC, ASG, or other equivalent certification programs for fishery activities Conservation of terrestrial and aquatic biodiversity (including the protection of coastal, marine and watershed environments) 	<p>12. Responsible Consumption and Production</p> <p>14. Life Below Water</p> <p>15. Life on Land</p>
Sustainable Mobility	<ul style="list-style-type: none"> Transportation infrastructure for low carbon trajectories; for passenger vehicles that produce up to 75 gramsCO₂ per passenger – kilometer and/or freight vehicles that produce up to 25 gramsCO₂ per ton – kilometer. Development and upgrade of public mass transportation systems that support the use of transports that produce up to 75 gramsCO₂ per passenger – kilometer. Clean transport finance: hybrid, electric and other low carbon emissions vehicles that generates up to 75 gramsCO₂ per passenger – kilometer. 	<p>9. Industry, Innovation and Infrastructure</p> <p>11. Sustainable Cities and Communities</p>
Water Management	<ul style="list-style-type: none"> Sustainable management of water, including sustainable infrastructure for clean and potable water, sustainable urban drainage systems and river 	<p>6. Clean Water and Sanitation</p>

	<p>training and other forms of flood mitigation</p> <ul style="list-style-type: none"> • Wastewater treatment (excluding fossil fuels operations), and water recycle or reuse 	
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Net proceeds will be allocated to financing new or future projects within 24 months of issuance of the green bond or to refinancing ongoing or existing projects with a look-back period of 24 months or less since the green bond was issued. Renewable energy projects, specifically wind and solar projects, can have longer look-back periods.

2.1. Banorte exclusión list.

Banorte has an exclusion list for the activities that are considered prohibited to be financed. This list includes the following activities;

- a) Production or activities that involve forced labor or child labor exploitation.
- b) Production or commerce of any product or activity considered as illegal, all in the current legal framework.

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d) Wildlife crime regulated by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

e) Production or trade of radioactive material (including warehousing and treatment of radioactive wastes.) asbestos, polychlorinated biphenyl (PCB) and others chemical products that have been prohibited internationally.

f) Production and trade of pharmaceutical or pesticide and herbicides that has been prohibited internationally.

g) Production or trade of harmful substances that destroy ozone, which have been prohibited internationally.

h) Sea fishing using nets more than 2.5 km long.

i) Commercial forestry at commercial level in primary tropical rainforest.

j) Any other activity that is in violation of environmental, health or industrial safety laws.

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For the full exclusion list, please visit Banorte's the latest Equator Principles report on the following link: <https://investors.banorte.com/en/financial-information/annual-reports/>

3. Project selection and evaluation process

Project evaluation and selection are important processes to ensure that the projects financed by any green bond issued by Banorte meet the criteria established in the GBF. For this, the following responsibilities have been assigned;

- Green Bond Working Group: formed with members of the Department of Sustainability and Responsible Investment, and of the Department of Treasury, is responsible for supervising the correct implementation of the GBF and managing authorizations for the issuance of green bonds with government institutions. It is also responsible for deciding the timing and the amounts of any green bond that will issue and monitor the use of proceeds. Also, it approves the projects proposed by the ESG Risk Group that will be included in the green bond.
- ESG Risk Group: headed by the Department of Sustainability and Responsible Investment and with the participation of members of the Risks, Credit and Specialized Areas Departments, is responsible for identifying and proposing potentially prospect projects according to the Eligible Green Categories specified in the GBF.

Since 2018, the ESG Risk Group has developed 91 Sustainable Sector Activity Codes (Sustainable CAS), which are an in-house taxonomy 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.¹

- Sustainability team: team made up of members of the Sustainability and Responsible Investment Department, responsible of the information management, including the proceeds allocation and the KPI's measurement (also defined by this team), and the development of the annual reports.

¹ In 2019 we participated with the Mexican Banks Association (ABM for its initials in Spanish), in a pilot project that aims to develop the Mexican Green Taxonomy, focusing on initially characterizing the energy, water, transport, waste and agriculture sector. According to this initiative, we align our catalog to some criteria.

4. Management of proceeds

The proceeds will be tracked according to what is indicated in the GBF and will be used to comply what is established in the “Use of proceeds” section.

For any project that are no longer eligible, Banorte is responsible for the substitution with another compliant option as soon as possible according to identification, classification and management processes of sustainable projects in charge of ESG Risk Group.

The payment of principal and interest on the green bond issued by Banorte under the GBF will be made from its general funds and will not be linked to the performance of any Eligible Green Projects.

The full amount of net proceeds obtained from the green bonds issued shall be allocated in Eligible Green Projects. In case that this is not possible, proceeds shall be temporarily invested in accordance to preapproved investment policies adopted by internal committees.

5. Reports

On an annual basis, once the green bond was issued and until its maturity date, Banorte will publish on its website (<https://investors.banorte.com/en/deuda/certificados-bursatiles>) a report that will include the allocation of the bond proceeds and an impact report with relevant Key Performance Indicators (KPI's) per project.

5.1. Use of proceeds

To update investors on how the bond proceeds are allocated, Banorte will provide in their Green Bond Annual Report the following information:

- Net proceeds raised from each green bond;
- Allocation of proceeds in each of the Eligible Green Categories;
- Proceeds used to finance or refinance purposes; and
- Remaining balance of unallocated proceeds.

5.2. Impact report

Banorte will report the environmental impacts of the allocated proceeds on several KPI's, and it will disclose measurement methodology for quantitative indicators. In the table 2 are enlisted, but not limited to, some examples of KPI's;

Table 2. Examples of Key Performance Indicators for the Eligible Green Categories.

Category	Key Performance Indicators (KPI's)
Renewable Energy	<ul style="list-style-type: none"> • Capacity installed (MW) • Expected energy generation (MWh) • Estimated GHG emissions avoided (tonCO2e) • Transmission lines installed (km)
Energy Efficiency and "Green" Buildings	<ul style="list-style-type: none"> • Energy reduced (MWh) • Estimated GHG emissions avoided (tonCO2e) • "Green" spaces certified (m2)
Natural Resources and Biodiversity	<ul style="list-style-type: none"> • Water saved (m3) • Surface with biodiversity management (ha)
Sustainable Mobility	<ul style="list-style-type: none"> • Transportation infrastructure built (km) • Number of passengers • Electric / hybrid / low carbon emissions vehicles • Estimated GHG emissions avoided (tonCO2e)
Water Management	<ul style="list-style-type: none"> • Potable/clean water production capacity (m3) • Benefited population with water • Water saved, recycled or reused (m3)

6. External review

6.1. Bonds and GBF verification

The tracking of the green bonds issued, as well as the compliance with the GBF, will be verified with an external auditor on an annual basis and the verification opinion will be published on Banorte's website (<https://investors.banorte.com/en/sustainability/sustainability-model/responsible-business>).

Appendix 1. Glossary

Term	Definition
Sustainability	Efficient and rational administration of environmental goods and services, so that the well-being of the current population is possible, guaranteeing access to them by the most vulnerable sectors, and avoiding compromising the satisfaction of the basic needs and quality of life of the future generations.
Equator Principles	They constitute a voluntary framework for the identification, evaluation and management of social and environmental risks in financing operations. They represent the most important standard in the field within the financial sector, promoting the granting of financing only in cases where the client can demonstrate that their projects are managed with social and environmental responsibility.
Principles for Responsible Investment	PRI is an initiative of international investors in collaboration with UNEP FI and the Global Compact; whose approach to investing recognizes the relevance of environmental, social and corporate governance (ASG) factors to better manage risk and generate long-term returns. It is based on active management and the belief that these aspects can have a positive impact on the financial performance of investments.
Principles of Responsible Banking	The Principles for Responsible Banking help any bank – whatever its starting point – to align its business strategy with society's goals. They are accelerating the banking industry's contribution to achieving society's goals as expressed in the Sustainable Development Goals and the Paris Climate Agreement.
Sustainability Indexes	Sustainability indexes are designed and built with the goal of providing information to institutional and retail investors that value the importance of the companies' environmental and social responsibility and corporate governance in their everyday management, in addition to economic results, in their decisions to purchase shares.
Environmental, Social and Governance (ESG) Factors	<p>Material issues for companies:</p> <ul style="list-style-type: none"> - Environmental factors: animal welfare, biodiversity, land use, carbon emissions, climate change, energy use, regulation, value chain management, waste management, recycling, water management, weather patterns, among others. - Social factors: community relations, controversial business, customer relations, products, diversity issues, employee relations, human capital management, human rights, labor standards, responsible marketing, union relations, among others.

	<ul style="list-style-type: none"> - Corporate governance factors: transparency, anti-corruption measures, structure and size of the Board of Directors, duality of the CEO, compensation schemes, ownership structure, shareholder rights, voting procedures, among others. Material financial impact: Financial impact derived from an ASG risk.
Green Bonds	Fixed income financial instruments (bonds) linked to solutions on climate change. Its main objective is to obtain resources to finance new projects and / or refinance existing ones, with environmental benefits.
Sustainable Development Goals (SDGs)	The SDGs, also known as World Goals, are a universal call to take measures to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. There are 17 Objectives based on the achievements of the Millennium Development Goals, which include new areas such as climate change, economic inequality, innovation, sustainable consumption and peace and justice, among other priorities.
Paris Agreement	Agreement within the framework of the United Nations Framework Convention on Climate Change whose objective is to strengthen the global response to this threat, establishing measures for the reduction of greenhouse gas (GHG) emissions and for mitigation, adaptation and Ecosystem resilience for global warming.
ICMA Green Bond Principles	ICMA Green Bonds (International Capital Market Association) enable capital-raising and investment for new and existing projects with environmental benefits. The Green Bond Principles (GBP), updated as of June 2018, are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond. The GBP are intended for broad use by the market: they provide issuers guidance on the key components involved in launching a credible Green Bond; they aid investors by ensuring availability of information necessary to evaluate the environmental impact of their Green Bond investments; and they assist underwriters by moving the market towards standard disclosures which will facilitate transactions.
LEED Certification	LEED (Leadership in Energy and Environmental Design) is an internationally recognized green building certification system, providing third-party verification that a building or community was designed and built using strategies aimed at improving performance across all the metrics that matter most: energy savings, water efficiency, CO2 emissions reduction, improved indoor environmental quality, and stewardship of resources and sensitivity to their impacts

BREEAM Certification	BREEAM (Building Research Establishment Environmental Assessment Method). This certification system helps professional to improve their environmental impact. A BREEAM certification is a proof of their implication in a sustainable environmental approach. This approach also permits to get a better productivity, comfort and wellbeing of building occupants.
Greenhouse Gases	A gas that contributes to the greenhouse effect by absorbing infrared radiation, e.g., carbon dioxide and chlorofluorocarbons.
Renewable Energy	Renewable energy is energy that is collected from renewable resources, which are naturally replenished on a human timescale, such as sunlight, wind, rain, tides, waves, and geothermal heat.
Energy Efficiency	The use of less energy to perform the same task.
EDGE Certification	EDGE enables developers and builders to quickly identify the most cost-effective ways to reduce energy use, water use and embodied energy in materials. The strategies integrated into the project design are verified by an EDGE Auditor and certified by GBCI.
Programme for the Endorsement of Forest Certification (PEFC)	PEFC is an international, non-profit, non-governmental organization which promotes sustainable forest management through independent third party certification.
Forest Stewardship Council (FSC) Certification	FSC certification ensures that products come from responsibly managed forests that provide environmental, social and economic benefits.
Rainforest Alliance Certification	The Rainforest Alliance Certified seal assures consumers that the product they are buying has been grown and harvested using environmentally and socially responsible practices.
UTZ Certification	UTZ is a certification program for sustainable farming of coffee, tea, cocoa and hazelnuts.
SAGARPA Organic Standard LPO	Certification under the Mexican Organic Standard LPO is mandatory to market organic products in the national territory. It is mandatory for organic products generated and marketed in Mexico, as well as for imported products that wish to be marketed in the country as organic.
Marine Stewardship Council (MSC)	The certification allows to value the sustainable fishing practices that respect the wild aquatic fauna.
Aquaculture Stewardship Council (ASC)	The certification allows the promotion of responsible aquaculture that integrates environmental and social criteria