

# Banco Mercantil del Norte S.A.

**Type of Engagement:** Sustainability Bond Pre-Issuance Review

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**Engagement Leader:** Hamoda Youssef, [hamoda.youssef@sustainalytics.com](mailto:hamoda.youssef@sustainalytics.com), (+1) 416 861 0403

**Engagement Support:** Graeme Sutherland, [Graeme.sutherland@morningstar.com](mailto:Graeme.sutherland@morningstar.com);

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## Introduction

In 2024, Banco Mercantil del Norte S.A. (“Banorte” or the “Bank”), a subsidiary of Grupo Financiero Banorte S.A.B. de C.V. (“GFNorte” or the “Group”), developed the Banorte Sustainability Finance Framework<sup>1</sup> (the “Framework”) under which it intends to issue sustainability bonds, and use the proceeds to finance or refinance, in whole or in part, a loans portfolio of existing and future projects intended to contribute to decarbonization and socio-economic advancement in Mexico (the “2024 Issuance”).<sup>2</sup> Sustainalytics provided a Second Party Opinion of the Framework in January 2024.

In January 2024, Banorte engaged Sustainalytics to review the projects (the “Nominated Projects”) that will be funded through the 2024 Issuance<sup>3</sup> to provide an assessment as to whether the projects comply with the use of proceeds, project selection, and management of proceeds sections of the Framework.

## Evaluation Criteria

Sustainalytics evaluated the Nominated Projects as to whether:

1. They are aligned with the use of proceeds eligibility criteria in the Framework.
2. The commitments to select projects and manage proceeds are aligned with the ones described in the Framework.

Appendix 2 provides a summary of the Nominated Projects.

## Issuing Entity’s Responsibility

Banorte is responsible for providing accurate information and documentation relating to the Nominated Projects, including a description of the projects. This information was provided to Sustainalytics to support its review. Banorte is also responsible for confirming to Sustainalytics that the processes for project selection and management of proceeds will remain aligned with the commitments in the Framework.

## Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of the sustainability bonds. The work undertaken as part of this engagement included verification of the Nominated Projects and confirmation from representatives of Banorte that the use of proceeds, processes for project selection and management of proceeds for the sustainability will remain aligned with the commitments described in the Framework.

Sustainalytics has relied on the information and the facts presented by Banorte with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein due to incorrect or incomplete data provided by Banorte.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment.

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<sup>1</sup> The Banorte Sustainability Finance Framework is available on Banorte’s website at:

<https://investors.banorte.com/en/sustainability/resources/policies-and-procedures>

<sup>2</sup> Banorte has informed Sustainalytics that the issuances planned for 2024 are BANORTE 24X, 24-2X and 23UX.

<sup>3</sup> Banorte has confirmed to Sustainalytics that the Bank commits to ensuring no double-counting of Nominated Projects under the issuance.

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### **Conclusion**

Based on the limited assurance procedures conducted,<sup>4</sup> nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the 2024 Issuance is not aligned with the Framework.

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<sup>4</sup> Sustainalytics limited assurance process includes reviewing the documentation relating to the details of projects and assets, including description, estimated and realized costs, and impact, as provided by the issuing entity, which is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

## Appendix 1: Use of Proceeds Eligibility Criteria

In January 2024, Banorte developed the Framework under which the Bank intend to issue green, social and sustainability bonds, and use the proceeds to finance or refinance, in whole or in part, a portfolio loan funding existing or future projects that meet the eligibility criteria listed below:

Use of Proceeds Category	Eligibility Criteria
Renewable Energy	<ol style="list-style-type: none"> <li>1. Construction, expansion, renovation, and operation of power plants that generate energy from:               <ol style="list-style-type: none"> <li>a) Wind including onshore and offshore plants.</li> <li>b) Solar including photovoltaic plants, rooftop photovoltaic and Concentrated Solar Power (CSP)<sup>5</sup>.</li> <li>c) Hydro power plants with the following power density:                   <ul style="list-style-type: none"> <li>• For facilities that became or will become operational after 2019, 10 Watts per square meter (W/m<sup>2</sup>).</li> <li>• For facilities that became operational before the end of 2019 and are being refinanced, 5 Watts per square meter (W/m<sup>2</sup>).</li> </ul> </li> <li>d) Geothermal, that generates up to 100 grams of CO<sub>2</sub> per kWh (gCO<sub>2</sub>e/kWh), of life-cycle emissions.</li> <li>e) Biomass from biodegradable municipal waste that generates up to 100 grams of CO<sub>2</sub> per kWh (gCO<sub>2</sub>e/kWh), of life-cycle emissions, excluding projects where biomass sources deplete existing carbon pools and projects using peat and palm oil as feedstock.</li> <li>f) Efficient cogeneration that generates up to 100 grams of CO<sub>2</sub> per kWh (gCO<sub>2</sub>e/kWh), of life-cycle emissions that are not fossil fuel based.</li> </ol> </li> <li>2. Manufacture of components for renewable energy generation systems, including:               <ol style="list-style-type: none"> <li>g) Photovoltaic cells.</li> <li>h) Concentrated Solar Power (CSP) systems.</li> <li>i) Wind turbines.</li> <li>j) Hydro turbines.</li> <li>k) Other components for renewable energy generation systems.</li> </ol> </li> <li>3. Renewable energy transmission and distribution projects that meet at least one of the following criteria:               <ol style="list-style-type: none"> <li>a) Connection of renewable power generation plants to the main grid.</li> <li>b) If more than 67% of the newly connected generation capacity in the system is below 100 grams of CO<sub>2</sub> per kWh (gCO<sub>2</sub>e/kWh), or if the average emissions factor of the grid is below 100 gCO<sub>2</sub>e/kWh (both over a five-year period).</li> </ol> </li> </ol>
Energy Efficiency	Energy reduction projects that require acquisition or replacement for high energy efficiency electric-powered systems, such as HVAC systems, electric boilers, refrigeration, and lighting, excluding home appliances.
Green Buildings	<ol style="list-style-type: none"> <li>1. Housing developments and Home Mortgages with the following green building certifications:               <ol style="list-style-type: none"> <li>a) LEED, minimum Gold</li> <li>b) EDGE, minimum advanced or Zero Carbon</li> <li>c) BREEAM, minimum Very Good</li> <li>d) Living Building Challenge</li> </ol> </li> </ol>

<sup>5</sup> At least 85% of the electricity generated from the CSP plants should be from solar energy.

	<p>2. Construction, renovation and acquisition of industrial warehouses and plants, as well as commercial and service buildings (except supervision), with any of the following certifications:</p> <ul style="list-style-type: none"> <li>a) LEED, minimum Gold</li> <li>b) EarthCheck, minimum Gold</li> <li>c) EDGE, minimum advanced or Zero Carbon</li> <li>d) Living Building Challenge</li> <li>e) NZEB (Net Zero Energy Building)</li> <li>f) BREEAM, minimum Excellent level</li> <li>g) BOMA Best, minimum Gold</li> </ul>
<p>Clean Transportation</p>	<p>1. Construction, expansion, renovation, and operation of transportation systems that meet any of the following criteria:</p> <ul style="list-style-type: none"> <li>a) Infrastructure for transport with zero direct emissions, for example, electric charging points, hydrogen fueling stations or electric highways, excluding standalone parking facilities.</li> <li>b) Infrastructure and equipment (including fleets) for active mobility, for example, sidewalks, bicycles, e-bikes, and e-scooters.</li> </ul> <p>2. Clean transport acquisition and renovation, including:</p> <ul style="list-style-type: none"> <li>a) Electric, plug-in hybrid and low carbon emission vehicles that emits less than 75 grams of CO<sub>2</sub>e per passenger – kilometer (gCO<sub>2</sub>e/p-km).</li> <li>b) Rail passenger transport powered by an electric or hydrogen system or that emits less than 50 grams of CO<sub>2</sub>e per passenger – kilometer (gCO<sub>2</sub>e/p-km).</li> <li>c) Rail or road transport of goods (excluding fossil fuels transportation), powered by an electrical system, hydrogen or that emits less than 25 grams of CO<sub>2</sub>e per ton – kilometer (gCO<sub>2</sub>e/ton-km).</li> <li>d) New fleet for urban, suburban, foreign and tourist collective passengers transport whose emissions are less than 20 grams of CO<sub>2</sub>e per passenger – kilometer (gCO<sub>2</sub>e/p-km).</li> <li>e) Fleet renewal for urban, suburban, foreign and tourist collective passengers transport whose emissions are less than 30 grams of CO<sub>2</sub>e per passenger – kilometer (gCO<sub>2</sub>e/p-km).</li> <li>f) Urban and suburban collective passenger transport in trolleybuses, light trains, and metro whose emissions are less than 50 grams of CO<sub>2</sub>e per passenger kilometer (gCO<sub>2</sub>e/p-km).</li> </ul> <p>3. Manufacture, retrofitting, repurposing and upgrade of clean transport that have zero direct tailpipe CO<sub>2</sub> emissions, such as electric or hydrogen powered vehicles.</p>
<p>Sustainable Water and Wastewater management</p>	<p>1. Construction, expansion and operation of water collection, purification and distribution systems that meet the following criteria:</p> <ul style="list-style-type: none"> <li>a) Average net energy consumption for extraction and purification equal or less than 0.5 kWh per cubic meter (kWh/m<sup>3</sup>) of water supplied.</li> <li>b) Structural leaks equal or less than 1.5 of water supplied according to the Structural Leakage Index (ILI).</li> <li>c) If a desalination plant is used, global emissions equal or less than 100 grams of CO<sub>2</sub>e per kWh (gCO<sub>2</sub>e/kWh) and an adequate program for brine treatment or disposal in place.</li> </ul> <p>2. Renewal of water collection, purification and distribution systems that meet the following criteria:</p> <ul style="list-style-type: none"> <li>a) Improves energy efficiency by 20% compared to its average reference performance of the last three years.</li> </ul>

<p>Pollution prevention and control</p>	<ol style="list-style-type: none"> <li>1. Collection and transportation of non-hazardous waste<sup>6</sup>, such as municipal solid waste and special handling waste, including recyclable materials, which are separated at least into organic and inorganic waste from their source of origin.</li> <li>2. Non-hazardous waste treatment through anaerobic digestion that meets the following criteria: <ol style="list-style-type: none"> <li>a) Residual biomass from food, agricultural, forestry and livestock sources<sup>7</sup>, according to the National Biomass Atlas (ANBIO).</li> <li>b) Biowaste must constitute at least 70% of the input raw material of the organic fraction of urban solid waste (FORSU), measured by weight, as an annual average, considering a co-substrate that could increase the generation of biogas.</li> <li>c) Co-digestion is only admissible with a minor part (up to 30% of sludge from wastewater treatment plants) and the rest with FORSU, or other waste streams that meet the similar characteristics of FORSU. Other favourable substrates for anaerobic digestion can be excreta, sargassum, bagasse, etc.</li> <li>d) If digestate is produced, it must be used as fertilizer/soil improver or as raw material within another production chain.</li> <li>e) If biogas is produced, it must be used for energy generation (thermal and/or electrical), that generates up to 100 gCO<sub>2</sub>e per kWh of life-cycle emissions or which life-cycle emissions are at least 65% lower than fossil fuel baseline.</li> </ol> </li> <li>3. Treatment of non-hazardous waste through composting for fertilizer or soil improver. Materials recovery facilities from waste such as used PET bottles, used aluminum cans, used cardboard, used paper, used glass, old iron, used textiles, electronic scrap and other recyclable materials.</li> </ol>
<p>Socioeconomic advancement and empowerment</p>	<ol style="list-style-type: none"> <li>1. Loans to MSME's that meets the following criteria: <ol style="list-style-type: none"> <li>a) Lead by a woman in case of individuals with business activities (PFAE by its acronym in Spanish).</li> <li>b) Legal entities that meet at least one of the following criteria: <ul style="list-style-type: none"> <li>• 51% of the shares owned by women.</li> <li>• The chairman of the Board of Directors is held by a woman.</li> <li>• 51% of the Board of Directors are women.</li> <li>• The sole administrator is a woman at the time of the credit application.</li> </ul> </li> </ol> </li> </ol>

<sup>6</sup> Waste collection vehicles must also meet the green transport eligibility criteria.

<sup>7</sup> Animal fats, oils, and other animal processing products coming from industrial livestock or meat processing facilities, as well as wastewater from fossil fuels operations and other hard-to-abate industries are excluded.

## Appendix 2: Summary of the Nominated Projects

Use of Proceeds Category	Project Title	Project Description (include finance vs refinance) <sup>8</sup>
Renewable Energy	Wind Farm	Financing of 15 wind turbines in Guemez, Tamaulipas
	Wind Farm	Financing of 15 wind turbines in Reynosa, Tamaulipas
	Wind Farm	Financing of 30 wind turbines in Reynosa, Tamaulipas
	Wind Farm	Financing of 33 wind turbines in Guemez, Tamaulipas
	Solar Park	Refinancing of syndicated loan for wind and solar parks with photovoltaic system located in San Luis Potosi, Zacatecas, Jalisco, Tamaulipas, Coahuila, and Guanajuato.
	Photovoltaic Cell Manufacture	Financing of loan for the purchasing of equipment to manufacture photovoltaic cell components.
Energy Efficiency	Green Certified Hotels	Financing of loan for the acquisition of high energy efficiency electric-powered systems for two hotels in Cancún and Los Cabos.
Green Buildings	Industrial warehouses and plants with green certifications	Financing and refinancing of credit to acquire and construct 6 industrial warehouses and plants in Nuevo León, Puebla, Querétaro, Tijuana, and Coahuila with LEED Gold certification.
	Housing projects	Financing of mortgage loans for certified houses, including LEED Gold or EDGE Advanced under the Banks' mortgage programmes.
Clean Transportation	Electric Vehicle Manufacture	Financing of current account credit for working capital to import and manufacture electric vehicles for passengers and delivery fleet.
	Plug-in Hybrid Vehicle Leasing	Financing of credit portfolio of plug-in hybrids generating less than 75 gCO <sub>2</sub> e/pkm.
	Autoestrene Verde Product	Financing of auto loans for electric and hybrid vehicles generating less than 75 gCO <sub>2</sub> e/pkm.
Sustainable Water and Wastewater Management	Seawater Desalination Plant	Financing credit for construction and operation of a sea water desalination plant in Los Cabos, Baja California Sur.
Socioeconomic Advancement and Empowerment	Mujer PYME Product	Financing of loans for businesswomen up to MXN 5 million (USD 300,000).

<sup>8</sup> Banorte has communicated to Sustainalytics that the lookback period for refinancing these projects is 24 months except for capital expenditures related to renewable energy.

## Appendix 3: Sustainalytics' Findings

<b>Eligibility Criteria</b>	<b>Procedure Performed</b>	<b>Factual Findings</b>	<b>Error or Exceptions Identified</b>
<b>Use of Proceeds Criteria</b>	Verification of the Nominated Projects to determine if they are aligned with the use of proceeds eligibility criteria outlined in the Framework.	All projects reviewed (Appendix 2) complied with the use of proceeds eligibility criteria.	None
<b>Project Selection and Management of Proceeds Criteria</b>	Verification of the Nominated Projects to determine if the processes for project selection and management of proceeds were consistent with the Framework.	Banco Mercantil del Norte S.A. has confirmed to Sustainalytics that the processes for project selection and management of proceeds are consistent with the commitments described in the Framework.	None

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