

Second-Party Opinion

Banorte Sustainable Bonds Framework



Evaluation Summary

Sustainalytics is of the opinion that the Banorte Sustainable Bonds Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Renewable Energy, Energy Efficiency, Natural Resources and Biodiversity, Sustainable Mobility, Water Management, Affordable Basic Infrastructure and Access to Essential Services, Affordable Housing and Food Safety – are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 2, 3, 4, 6, 7, 8, 9, 11, 14, and 15.



PROJECT EVALUATION / SELECTION Banorte’s ESG Risk Group will identify and propose projects that fall within the eligible green and social categories. The Sustainability Bond Working Group, comprised of members of the Department of Sustainability and Responsible Investment and the Department of Treasury, will have final approval. Banorte has a dedicated Social and Environmental Risk Management System applicable to all allocation decisions made under the Framework. Sustainalytics considers this process to be strong and to be aligned with market best practice.



MANAGEMENT OF PROCEEDS Banorte’s Treasury team and Sustainable Bonds Working Group will be responsible for tracking and allocating the proceeds through an internal tracking system. The Bank intends to allocate proceeds within 24 months post-issuance for new projects and a lookback period of 24 months or less for existing projects. Pending allocation, net proceeds will be temporarily invested as per preapproved Treasury investment policies. Banorte’s processes for the management of proceeds is in line with market practice.



REPORTING Banorte intends to report on the allocation of proceeds and impact of proceeds on its website annually and until the bond’s maturity date. Allocation reporting will include net proceeds raised, amount of proceeds allocated per category, the amount used for financing or refinancing, and the total amount of unallocated proceeds. In addition, Banorte is committed to reporting on relevant impact key performance indicators. The allocation reporting will be audited yearly by a third party to ensure compliance with the Framework’s eligible categories. Sustainalytics views Banorte’s allocation and impact reporting process as aligned with best market practice.

Evaluation date March 10, 2022¹

Issuer Location Monterey, Mexico

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¹ This Second-Party Opinion is an updated version of the previous Banorte Sustainable Bonds Framework Second-Party Opinion dated May 1, 2020. The scope of Sustainalytics’ updated includes the reassessment of the green eligibility criteria, the assessment of the social eligibility criteria, confirming that the updated Framework is compliant with the intentions of the original Framework and sustainable finance market practice.

Introduction

Banco Mercantil del Norte S.A. (“Banorte”, or the “Bank”), a subsidiary of Grupo Financiero Banorte S.A.B. de C.V. (“GFNorte” or “Group”), provides retail banking products and services, such as chequing and savings accounts, credit cards, investment funds, insurance, and retirement services. The Bank was established in 1899 in Monterrey, Mexico, and today is one of the largest financial institutions in the country.

Banorte has developed the Banorte Sustainable Bonds Framework (the “Framework”) under which it intends to issue green, social or sustainability bonds and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that contribute to the decarbonization and socioeconomic advancement in Mexico.

The Framework defines green eligibility criteria in the following five areas:

1. Renewable Energy
2. Energy Efficiency
3. Natural Resources and Biodiversity
4. Sustainable Mobility
5. Water Management

The Framework defines social eligibility criteria in the following three areas:

1. Affordable Basic Infrastructure and Access to Essential Services
2. Affordable Housing
3. Food Safety

Banorte engaged Sustainalytics to review the Banorte Sustainable Bonds Framework, dated February 2022, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), and Social Bond Principles 2021 (SBP).² This Framework has been published in a separate document.³

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁴ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.11, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Banorte’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Banorte representatives have confirmed (1) they understand it is the sole responsibility of Banorte to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

² The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

³ The Banorte Sustainable Bonds Framework is available on Banco Mercantil del Norte S.A. ’s website at: <https://investors.banorte.com/en/sustainability/sustainability-strategy/sustainable-finances>

⁴ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Banorte.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written for a period of twenty-four (24) months from the evaluation date stated herein.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Banorte has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Banorte Sustainable Bonds Framework

Sustainalytics is of the opinion that the Banorte Sustainable Bonds Framework is credible, impactful and aligns with the four core components of the GBP and SBP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
 - The eligible categories for the use of proceeds – Renewable Energy, Energy Efficiency, Natural Resources and Biodiversity, Sustainable Mobility, Water Management, Affordable Basic Infrastructure and Access to Essential Services, Affordable Housing, and Food Safety – are aligned with those recognized by the GBP and SBP.
 - Within the Renewable Energy category, Banorte intends to invest bond proceeds in (i) projects generating energy from onshore and offshore wind plants, solar power, and biomass from waste sources, and (ii) renewable energy transmission and distributions projects.
 - For solar energy projects, the Framework specifies investments in photovoltaic plants, rooftop photovoltaic and concentrated solar power (CSP). Banorte has confirmed that CSP plants will generate at least 85% of electricity from solar sources.
 - For biomass projects, the Bank's eligibility criteria stipulate that the feedstock for biomass power generation will be procured from biodegradable municipal waste, excluding peat and palm oil as feedstock, that generates less than 100g CO₂/kWh of lifecycle emissions.
 - Regarding energy transmission and distribution projects, Sustainalytics notes that if the transmission lines or distribution projects are not used exclusively to connect renewable energy, the financing will be proportional to the amount of renewable energy being transmitted.
 - Sustainalytics considers the eligibility criteria to be in line with market practice
 - For the Energy Efficiency category, Banorte intends to finance energy reduction projects and green buildings.
 - Energy reduction projects include financing the acquisition or replacement of equipment with energy-efficient electric-powered systems such as boilers, refrigeration, lighting and air conditioners. The Framework notes the exclusion of home appliances as an eligible expense within this category. Sustainalytics considers the eligibility criteria to be aligned with market practice.

- For its green building eligibility criteria, the Bank will use credible third-party certification systems, including LEED (Gold and above), EDGE (Advanced or Zero Carbon) and BREEAM (Very Good and above).⁵ Sustainalytics views the use of third-party certification and the levels selected as aligned with market practice. For Sustainalytics' overview of these certification schemes, please refer to Appendix 1.
- For the Natural Resources and Biodiversity category, the Bank intends to finance sustainable agricultural activities (excluding meat production) that are certified under a recognized third-party certification scheme, including UTZ, Rainforest Alliance, and Organic SAGARPA Mexico; forestry activities that are FSC or PEFC certified; and fishery activities that are MSC or ASC certified. Sustainalytics has conducted an evaluation of the eligible certifications and considers these to be aligned with market practice. For Sustainalytics' assessment of these certification schemes, please refer to Appendix 2, 3, and 4.
- Within the Sustainable Mobility category, the Bank intends to finance the development and upgrade of mass public transportation systems and clean transport vehicles. Sustainalytics notes the inclusion of quantitative thresholds for public mass transportation systems of 50 grams CO₂ per passenger-kilometer (gCO₂/p-km). In addition, the Framework defines eligible passenger vehicles as hybrid or other low carbon emissions vehicles operating below 75 gCO₂/km threshold. Sustainalytics considers the inclusion of these emission intensity thresholds to be aligned with market practice.
- For the Water Management category, the Bank intends to finance infrastructure for the sustainable management of water, including clean and potable water, urban drainage systems, river training, flood mitigation and wastewater treatment, recycle or reuse.
 - Banorte has communicated to Sustainalytics that flood mitigation projects will be selected based on environmental and climate change vulnerability assessments and have adaptation plans in place.
 - Sustainalytics notes water treatment from fossil fuel operations is excluded. This is in line with market practice.
- The Bank has identified target populations that, while not exclusively, are intended to benefit from the social projects. Banorte's target populations include low-income⁶ and those who live below the poverty line, excluded or marginalized groups, vulnerable groups, people with disabilities, immigrants and displaced persons, undereducated, underserved, and the unemployed. Sustainalytics views this targeting as being aligned with market practice.
- Within the Affordable Basic Infrastructure and Access to Essential Services category, Banorte intends to finance the following:
 - Building or upgrading public education and healthcare facilities.
 - Increase financing for MSMEs.
 - Expanding and upgrading sustainable energy infrastructure in areas with limited access to energy and frequent power cuts.
 - Improving access to potable and affordable drinking water, sanitation and hygiene projects, including residual water treatment plants and water treatment plants.
 - Sustainable transport systems including road construction (excluding highways) for communities with inadequate road access or lacking road infrastructure.
 - Public transport systems in areas with limited access, including subway systems, cable cars, buses or railway systems that meet the emission threshold set under the Sustainable Mobility criteria.
 - Sustainalytics considers investments within this category to be aligned with market practice.
- For the Affordable Housing category, the Bank intends to provide loans to real estate developers to develop affordable housing projects for low-income or marginalized communities that are

⁵ Sustainalytics considers BREEAM Excellent to be aligned with market practice and encourages Banorte to select BREEAM-certified buildings that score high enough in the Energy category (which Sustainalytics regards as the most important one) to fulfill the requirements for BREEAM Excellent in that category.

⁶ The Framework defines low-income populations as (i) people whose total average quarterly current income per household places them in decile IV or less, according to the most recent [National Survey of Household Income and Expenditure](#) by INEGI; (ii) people in moderate poverty, whose income is below the [Income Poverty Line](#) (total value of the food basket and the non-food basket per person per month); and (iii) people in extreme poverty, whose income is below the [Extreme Poverty Line](#) for Income (value of the food basket per person per month).

- qualified under Mexico's Infonavit⁷ or FOVISSTE⁸ social housing programmes that target low- and middle-income populations.^{9,10} Sustainalytics views the definition of low-income or marginalized communities in accordance with the national social housing programme to be aligned with the market practice.
- Within the Food Safety category, Banorte intends to provide loans to small-scale agriculture producers.¹¹
 - The Framework notes investments within this category to finance capital and input expenditure, including seeds, fertilizer (excluding synthetic fertilizers), and equipment including greenhouses, irrigation systems, plot drainage, warehouses, sorting machinery and process equipment, deep wells, fumigators, and silos. Sustainalytics considers that investments within this category to be aligned with market practice.
 - The Framework specifies exclusionary criteria for certain activities which may pose added social or environmental risk, such as fossil fuel activities, commercial forestry in primary tropical rainforest, gambling, and military equipment. Sustainalytics views the inclusion of exclusionary criteria as described above, to strengthen the Framework.
 - Project Evaluation and Selection:
 - Banorte's ESG Risk Group, headed by the Department of Sustainability and Responsible Investment with participation of members from the Business, Governments, Risks, Credit, Infrastructure and Specialized Areas Departments, will be in charge of identifying projects using an in-house taxonomy. Banorte's Sustainable Sector Activity Codes (CAS for its Spanish acronym)¹² will be used as a first filter to identify potentially eligible projects that fall within the Eligible Green Categories.
 - The Sustainability Bond Working Group, comprised by members of the Department of Sustainability and Responsible Investment and the Department of Treasury will approve projects proposed by the ESG Risk Group and will oversee compliance with the Framework.
 - Banorte has in place a dedicated Social and Environmental Risk Management System (SEMS) through which it evaluates and tracks the socio-environmental risks. This is applicable to all allocation decisions made under the Framework. Based on a dedicated process and a comprehensive series of relevant policies, Sustainalytics considers this risk assessment and mitigation process to be strong and to be aligned with market best practice. For additional details, see Section 2.
 - Management of Proceeds:
 - Banorte's Treasury Team in coordination with the Sustainable Bonds Working Group will track and allocate the net proceeds on a portfolio basis using an internal tracking system.
 - Pending allocation, net proceeds will be temporarily invested in accordance with Treasury's preapproved investment policies adopted by internal committees. Sustainalytics considers this process to be in line with market practice.
 - Banorte will allocate net bond proceeds within 24 months after each issuance.
 - The Bank has established a lookback period of 24 months or less for refinancing existing projects while exempting renewable energy projects, specifically wind and solar projects. Sustainalytics notes the asset lifecycle of wind and solar projects to be approximately 25 years and therefore considers the refinancing of these physical assets to be in line with market expectations.

⁷ Government of Mexico, Infonavit, available: <https://www.gob.mx/epr/prensa/infonavit-is-the-main-mexican-state-institution-for-ensuring-that-families-can-exercise-their-constitutional-right-to-decent-housing-epr>

⁸ Government of Mexico, FOVISSTE, available: <https://www.gob.mx/fovissste#1975>

⁹ The minimum monthly salary required to be eligible for the INFONAVIT program is \$ 2725 Pesos. Available information can be found: INFONAVIT My Credit, How Much Will INFONAVIT Lend Me in 2021, at: <https://micreditoinfonavit.com/cuanto-me-presta-infonavit/>

¹⁰ According to the Organization for Economic Co-operation and Development, a person with \$ 20,000 Pesos per month with a household of four people belongs to middle-income class; a person with \$ 7,500 Pesos with a household of two people belongs to the lowest income category. Both low- and middle-income category are eligible for the INFONAVIT program. For more information, please refer to: Mexico Daily Post, Mexican middle class, how much do they earn per month, and what's its size in Mexico? according to Inegi, June 2021, at: <https://mexicodailypost.com/2021/06/16/mexican-middle-class-how-much-do-they-earn-per-month-and-whats-its-size-in-mexico-according-to-inegi/>

¹¹ The Bank defines small-scale agriculture producers as producers of up to 0.2 hectares of irrigation and up to 5 rain-fed hectares, and receive a credit amount of up to 160,000 investments units (UDIS), approximately MXN 1,142,000 as of February 7th, 2022..

¹² Sustainable CAS comprises 91 Sustainable Sector Activity Codes that have been identified by the Bank to have positive environmental and social impacts.

- Based on the disclosures related to Banorte’s internal tracking system and the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - Banorte intends to report on the allocation and impact of proceeds on its website on an annual basis until bond maturity. The allocation reporting will include net proceeds raised, amount of proceeds allocated per category, the amount used for financing or refinancing, and the total amount of unallocated proceeds.
 - Impact reporting may include key performance indicators such as renewable energy capacity installed and generated, GHG emissions avoided tonCO₂e, transmission lines installed, “green” spaces certified, water saved, transportation infrastructure built, water saved, recycled or reused, number of loans granted to MSMEs, and number of small-scale agriculture producer benefitted.
 - Banorte’s allocation reporting will be audited on a yearly basis by a third party to ensure compliance with the Framework’s eligible categories.
 - Based on Banorte’s commitment to both impact and allocation reporting, and to have an external verification on a yearly basis, Sustainalytics considers this process to be in line with market best practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Banorte Sustainable Bonds Framework aligns with the four core components of the GBP and SBP. For detailed information please refer to Appendix 5: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of Banorte

Contribution of framework to Banorte’s sustainability strategy

As a subsidiary of GFNorte, Banorte follows the sustainability and corporate governance principles of the Group. GFNorte’s sustainability strategy, as outlined in its latest 2020 Annual Report, is organized around the three pillars of environmental, social and corporate governance, which converge into a central pillar called sustainable finance.^{13 14}

- Environmental – GFNorte has incorporated initiatives intended to mitigate the environmental impact of its operations through resource use efficiency and a “culture of environmental care”.¹⁵ The Group considers its operational impact on energy, sustainable mobility, GHG emissions, waste, water, and climate change to minimize its environmental footprint. For example, GFNorte has developed medium and long-term goals for scope 1 and 2 emissions that align with Mexico’s commitments made in the Paris Agreement – including reducing absolute CO₂ emissions of the Group by 50% by 2030 and 100% by 2050, compared to 2020 emissions.
- Social – GFNorte intends to promote social programs that will improve the living conditions of communities and employees.¹⁶ Such programs focus on human rights, diversity and inclusion, education and financial inclusion, human capital and corporate citizenship.
- Corporate governance – GFNorte employs principles and standards to ensure the proper functioning of its governance body, including stakeholder relationships, ethics and accountability, risk management and information security.¹⁷
- Sustainable finance – GFNorte integrates environmental, social and corporate governance factors into its approach to sustainable finance, which focuses on socio-environmental risk management, responsible investment, sustainable insurance and sustainable financial products.¹⁸

GFNorte’s sustainability strategy is implemented by its Specialized Department of Sustainability and Responsible Investment, which has aligned the Bank’s sustainability agenda with the SDGs and the Paris Climate Change Agreement. In addition, the Sustainability Committee oversees the implementation of the sustainability agenda across the different areas of the Group and reports progress directly to the CEO. The

¹³ GFNorte, “2020 Annual Report”, at: <https://investors.banorte.com/~media/Files/B/Banorte-IR/financial-information/annual-reports/en/2020/annual-report-banorte-2020.pdf>.

¹⁴ GFNorte, “Sustainability Strategy”, at: <https://investors.banorte.com/en/sustainability/sustainability-strategy/sustainability-strategy>.

¹⁵ GFNorte, “Environmental”, at: <https://investors.banorte.com/en/sustainability/sustainability-strategy/ambiental>.

¹⁶ GFNorte, “Social”, at: <https://investors.banorte.com/en/sustainability/sustainability-strategy/social>.

¹⁷ GFNorte, “Governance”, at: <https://investors.banorte.com/en/sustainability/sustainability-strategy/governance>.

¹⁸ GFNorte, “Sustainable Finance”, at: <https://investors.banorte.com/en/sustainability/sustainability-strategy/riesgos-naturaleza>.

Committee is subdivided into three sub-committees comprised of (i) the Risk Subgroup, (ii) the Environmental Subgroup, and (iii) the Human Capital Subgroup. The Group's sustainability agenda is guided by a framework which includes an Environmental Policy¹⁹ (aligned to ISO 14000 "Environmental Management" standard), and a Social Policy²⁰ (aligned with the UN's Universal Declaration of Human Rights).

In addition, GFNorte is a member of various local and international sustainability initiatives such as the Global Reporting Initiative, the United Nations Global Compact, CDP and the Sustainability Accounting Standards Board.²¹ In 2017, GFNorte became the first financial group in Mexico to join the UNEP-Finance Initiative's Principles for Responsible Investing (PRI) and has subsequently joined the Principles for Responsible Banking (PRB), which mandates signatories to align their objectives with those of the SDGs and climate accords.²²

Based on the above, Sustainalytics considers Banorte to be well positioned to issue sustainable bonds given the extensive policies, programs and commitments it adheres to as part of GFNorte. Furthermore, the issuance of sustainable bonds aligns with the Group's sustainability strategy and will contribute to the realization of its sustainability goals.

Approach to managing environmental and social risks associated with the projects

While the net proceeds from the bonds issued under the Framework will be directed towards eligible projects recognized by the GBP 2021 and SBP 2021 to have overall positive environmental and social outcomes, Sustainalytics recognizes that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects financed by Banorte could include negative environmental and social impacts from large infrastructure and construction projects, and community relations issues. As a result of its lending activities, the Bank might also be exposed to projects or companies undertaking controversial activities.

In adherence to GFNorte's Social and Environmental Risk Management System ("SEMS"), Banorte is able to mitigate potential environmental and social risks. Through the SEMS, GFNorte identifies, categorizes, evaluates and tracks the socio-environmental risks of projects it is considering financing. Projects are classified as either high, medium or low risk according to the magnitude of the associated impacts and the potential for mitigation.²³ Furthermore, the Group incorporates ESG issues into its practices through a series of policies, including policies on responsible investment, fiduciary duty, voting, adherence to the global code of conduct and position on climate change. For example, the Group's Code of Conduct addresses topics such as interest of conflict, confidentiality of information, conduct with clients, relations with competitors, as well as interpersonal and community relations.²⁴ This policy applies to all directors, officers and employees that provide services, directly or indirectly, to any company that is part of GFNorte, and are required to take a code of conduct training course every two years.

In addition, GFNorte screens suppliers to detect risks associated with failing to comply with applicable laws, as well as asking suppliers to disclose their corporate sustainability strategies and socially responsible initiatives. The Group's Socio-Environmental Risk Policy²⁵ is aligned with the Equator Principles (of which GFNorte has been a signatory since 2012), which serves as a risk management framework "for determining, assessing and managing environmental and social risk in projects."²⁶ Projects are also evaluated for compliance with the International Finance Corporation ("IFC") Performance Standards providing another layer of environmental and social risk due diligence, and the Bank regularly follows up on projects to provide advice to clients. GFNorte's exclusionary criteria further address social and environmental risks related to labour protections and environmental standards, for example, through specifying that production or activities that involve unfair labour practices be excluded.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Banorte has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

¹⁹ GFNorte, "Environmental Policy", at: https://investors.banorte.com/~media/Files/B/Banorte-IR/sustainability/policies-and-procedures/en/PoliticaAmbiental_en.pdf.

²⁰ GFNorte, "Social Policy", at: https://www.banorte.com/cms/gfb/responsabilidadsocial/Social_Policy.pdf.

²¹ GFNorte, "2020 Annual Report", at: <https://investors.banorte.com/~media/Files/B/Banorte-IR/financial-information/annual-reports/en/2020/annual-report-banorte-2020.pdf>.

²² GFNorte, "Global Initiatives", at: <https://investors.banorte.com/en/site-services/signpost-boxes/global-initiatives>.

²³ GFNorte, "Sustainable Finance: Social and environmental Risk Management", at: <https://investors.banorte.com/en/sustainability/sustainability-strategy/riesgos-naturaleza>.

²⁴ GFNorte, "Code of Conduct", at: <https://investors.banorte.com/~media/Files/B/Banorte-IR/sustainability/policies-and-procedures/en/Code%20of%20Conduct%20ingles.pdf>.

²⁵ GFNorte, "Socio-environmental Risk Policy", at: <https://investors.banorte.com/~media/Files/B/Banorte-IR/sustainability/policies-and-procedures/en/Socio-environmental%20Risk%20Policy.pdf>.

²⁶ Equator Principles, "The Equator Principles", at: <https://equator-principles.com/about/>.

Section 3: Impact of Use of Proceeds

All eight use of proceeds categories are aligned with those recognized by GBP or SBP. Sustainalytics has focused on three below where the impact is specifically relevant in the local context.

Importance of Renewable Energy Investments in Mexico

In 2020, only 27.8% of Mexico's energy was produced from clean energy sources.²⁷ Although there has been an increase in renewable energy generation capacity over the last decade, the corresponding carbon intensity has remained almost unchanged.²⁸ This can be attributed to the rise in fossil-based sources used to meet growing energy demands.²⁹ Currently, fossil fuels make up over 87% of Mexico's energy mix, which is above the G20 average.³⁰ As a result, total CO₂ emissions of the energy sector have risen by over 74% since 1990.³¹

In 2015, the Mexican government established the Energy Transition Law to advance renewable energy projects that support the country's achievement of its Nationally Determined Contributions ("NDC") under the Paris Agreement.^{32, 33} The law aims to increase the share of clean energy in Mexico to 35% by 2024 and 43% by 2030.³⁴ Furthermore, the International Renewable Energy Agency estimates that renewable energy has the potential to reduce Mexico's total coal demand by 62%, natural gas by 21% and oil by 6%, respectively, compared to business as usual to 2030.³⁵ Therefore, transitioning to renewable energy can significantly contribute towards Mexico's NDC of reducing GHG emissions by 22% and black carbon emissions by 51% by 2030.³⁶

Sustainalytics considers that Banorte's investments in renewables has the potential to contribute to expanding renewable energy capacity in Mexico and the advancement towards the achievement of the country's long-term climate targets.

The importance of green buildings in reducing environmental impacts in Mexico

According to the World Green Building Council ("WGBC"), the building sector is a significant contributor to global energy use and total CO₂ emissions. Building and construction sector accounted for 36% of global final energy use and contributed nearly 40% of energy-related CO₂ emissions globally in 2020.^{37,38} In Mexico, residential and commercial buildings account for 3.9% of the country's total GHG emissions.³⁹ It is forecasted that by 2025 only 9% of new construction will apply to green buildings, and the country is moving too slowly on adopting and implementing national building energy codes.⁴⁰ Considering the long lifespan of buildings, the Intergovernmental Panel on Climate Change has noted that there is a risk of locking in carbon-intensive options for several decades without ambitious policies to improve efficiency in the built environment.⁴¹

The Climate Bonds Initiative estimates that as of September 2020, only 10.6% of green bond proceeds raised by Mexican issuers go to low-carbon buildings.⁴² In this context, Sustainalytics considers that Banorte's investment in green buildings can provide substantial environmental benefits and contribute to reaching national environmental targets.

²⁷ International Trade Association, "Mexico- Renewable Energy", (2021), at: <https://www.trade.gov/country-commercial-guides/mexico-renewable-energy>

²⁸ Climate Transparency, "Mexico", (2020), at: <https://www.climate-transparency.org/countries/americas/mexico>

²⁹ *Ibid.*

³⁰ *Ibid.*

³¹ International Energy Agency, "Mexico", at: <https://www.iea.org/countries/mexico>

³² The Law Reviews, "The Renewable Energy Law Review: Mexico", (2020) at: <https://thelawreviews.co.uk/title/the-renewable-energy-law-review/mexico>

³³ Gobierno Federal, "Intended Nationally Determined Contribution", at: https://www.gob.mx/cms/uploads/attachment/file/162973/2015_indc_ing.pdf

³⁴ *Ibid.*

³⁵ IRENA, "A Renewable Energy Roadmap 2030", at: https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2015/IRENA_REmap_Mexico_report_2015.pdf

³⁶ Forbes, "Mexico Climate Policy Can Boost Its Economy, Save \$5 Billion, Prevent 26,000 Deaths By 2030", (2019) at: <https://www.forbes.com/sites/energyinnovation/2019/05/20/mexico-climate-policy-can-boost-its-economy-save-5-billion-prevent-26000-deaths-by-2030/?sh=43c917291615>

³⁷ World Green Building Council, "Advancing Net Zero Status Report 2021", (2021), at:

https://www.worldgbc.org/sites/default/files/WorldGBC%20ANZ%20Status%20Report%202021_FINAL.pdf

³⁸ World Green Building Council, "Annual Report 2021", (2021), at: <https://worldgbc.org/sites/default/files/WorldGBC%202021%20Annual%20Report.pdf>

³⁹ CBI, "Financing low-carbon buildings in Mexico", (2020), at: https://www.climatebonds.net/files/reports/cbi_mexicoconstruction_english.pdf

⁴⁰ WRI, "Will Mexico Rise to the Zero Carbon Buildings Challenge", (2020), at: <https://www.wri.org/insights/will-mexico-rise-zero-carbon-buildings-challenge>

⁴¹ IPCC, "Mitigation of Climate Change", (2018), at: https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc_wg3_ar5_chapter9.pdf

⁴² CBI, "Financing low-carbon buildings in Mexico", (2020), at: https://www.climatebonds.net/files/reports/cbi_mexicoconstruction_english.pdf

Importance of Providing Support to MSMEs in Mexico

MSMEs account for about 95% of companies in Mexico, highlighting their important contribution to the country's economic growth.⁴³ According to the Organization for Economic Co-operation and Development (OECD), over 4 million MSMEs in Mexico contribute to 12.4% of total gross production and employ 47.2% of the workforce.⁴⁴ However, MSMEs face significant barriers in accessing financing at affordable rates, paying an average of 17.7% of interest rate in comparison to 11.8% paid by larger companies.⁴⁵ In addition, the World Bank reports that only 11% of MSMEs use bank credit due to affordability and accessibility issues.⁴⁶ This has been further exacerbated by the COVID-19 pandemic, which resulted in the closure of more than 1 million MSMEs across Mexico and a corresponding loss of 3 million jobs.⁴⁷

In response to the financial challenges faced by MSMEs, the Government of Mexico introduced the "Crédito a la Palabra" programme in 2020, directing MXN 25 billion (USD 1 billion) to support family SMEs.⁴⁸ The programme provides loans of MXN 25,000 (USD 1,032) to be paid within 3 years with an annual interest rate of 6.5%.⁴⁹ In 2021, the Mexican government announced the program's extension, allocating an additional MXN 1.5 billion (USD 74 million) for the fiscal year.⁵⁰ Additionally, the federal government has provided loans to almost 700,000 MSMEs and intends to extend credit to about 642,000 small businesses.⁵¹

Sustainalytics notes that Banorte's financing for MSMEs to support their economic activities will help generate more employment opportunities in Mexico, develop the nation's economy and help promote resilience in the wake of the pandemic.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bond(s) issued under the Banorte Sustainable Bonds Framework advances the following SDGs and targets:

| Use of Proceeds Category | SDG | SDG target |
|------------------------------|--------------------------------|---|
| Renewable Energy | 7. Affordable and Clean Energy | 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix |
| Energy Efficiency | 7. Affordable and Clean Energy | 7.3 By 2030, double the global rate of improvement in energy efficiency |
| Natural Resources & Land Use | 2. Zero Hunger | 2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality |
| | 15. Life on Land | 15.a Mobilize and significantly increase financial resources from all sources to conserve and sustainable use biodiversity and ecosystems |
| | 14. Life Below Water | 14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid |

⁴³ Entrepreneur, "Why SMEs in Mexico Fail: The Reasons Nobody Talks about", (2021), at: <https://www.entrepreneur.com/article/371859>

⁴⁴ OECD, "Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard", (2020), at: <https://www.oecd-ilibrary.org/sites/c2314a63-en/index.html?itemId=/content/component/c2314a63-en>

⁴⁵ OECD, "Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard", (2020), at: <https://www.oecd-ilibrary.org/sites/c2314a63-en/index.html?itemId=/content/component/c2314a63-en>

⁴⁶ The World Bank, "Expanding Financial Access for Mexico's Poor and Supporting Economic Sustainability", (2021), at: <https://www.worldbank.org/en/results/2021/04/09/expanding-financial-access-for-mexico-s-poor-and-supporting-economic-sustainability>

⁴⁷ Mexico News Daily, "Coronavirus has shuttered 1 million small businesses", (2020), at: <https://mexiconewsdaily.com/news/coronavirus-has-shuttered-1-million-small-businesses/>

⁴⁸ Global Trade Alert, "Mexico: Government launches USD 1 billion credit programme to family SMEs (COVID-19)", (2020), at: <https://www.globaltradealert.org/intervention/79315/state-loan/mexico-government-launches-usd-1-billion-credit-programme-to-family-smes-covid-19>

⁴⁹ *Ibid.*

⁵⁰ *Ibid.*

⁵¹ Mexico News Daily, "IMSS has approved 700,000 loans worth 25,000 pesos to small businesses", (2020), at: <https://mexiconewsdaily.com/news/coronavirus/imss-has-approved-700000-loans-to-small-businesses/>

| | | |
|------------------------------|---|---|
| | | significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans |
| Sustainable Mobility | 11. Sustainable Cities and Communities | 11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children |
| Water Management | 6. Clean Water and Sanitation | 6.a By 2030, expand international cooperation and capacity-building support to developing countries in water- and sanitation related activities and programmes, including water harvesting, desalination, water efficiency, wastewater treatment, recycling and reuse technologies |
| Access to Essential Services | 3. Good Health and Well-being 4. Quality Education 8. Decent Work and Economic Growth 11. Sustainable Cities and Communities 9. Industry, innovation and infrastructure | 3.8 Achieve universal health coverage, including financial risk protection, access to quality essential healthcare services and access to safe, effective, quality and affordable essential medicines and vaccines for all. 4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship. 8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all 11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons 9.c Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020 |
| Affordable Housing | 11. Sustainable Cities and Communities | 11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums. |
| Food Safety | 2. Zero Hunger | 2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment |

Conclusion

Banorte has developed the Banorte Sustainable Bonds Framework under which it intends to issue green, social or sustainability bonds and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that contribute to the decarbonization and socioeconomic advancement in Mexico. Sustainalytics considers that the projects funded by the sustainability bond proceeds are expected to provide positive environmental and social impacts.

The Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Framework is aligned with the overall sustainability strategy of the Company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 2, 3, 4, 6, 7, 8, 9, 11, 14, and 15. Additionally, Sustainalytics is of the opinion that Banorte has adequate systems and processes to assess and mitigate the environmental and social risks associated with the use of proceeds.

Based on the above, Sustainalytics is of the opinion that Banorte is adequately positioned to issue sustainability bonds and that the Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2021 and the Social Bond Principles 2021.

Appendices




Appendix 1: Comparison of Green Building Certification Schemes

| | LEED⁵² | BREEAM⁵³ | EDGE⁵⁴ |
|----------------------|--|---|--|
| Background | Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings. | BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK, BREEAM can be used for new, refurbished and extension of existing buildings. | EDGE (or “Excellence in Design for Greater Efficiencies”) is a green building standard and certification system developed by the International Finance Corporation and applicable in 140 countries. |
| Certification levels | <ul style="list-style-type: none"> • Certified • Silver • Gold • Platinum | <ul style="list-style-type: none"> • Pass • Good • Very Good • Excellent • Outstanding | <ul style="list-style-type: none"> • EDGE Certified • EDGE Advanced • EDGE Zero Carbon |
| Areas of assessment | <ul style="list-style-type: none"> • Energy and atmosphere • Sustainable Sites • Location and Transportation • Materials and resources • Water efficiency • Indoor environmental quality • Innovation Design • Regional Priority | <ul style="list-style-type: none"> • Energy • Land Use and Ecology • Pollution • Transport • Materials • Water • Waste • Health and Wellbeing • Innovation | <p>1. Climatic Conditions of the Location Monthly average wet and dry bulb temperature; Monthly average outdoor wind velocity; Monthly average outdoor humidity, Solar radiation intensity; Annual average rainfall; Carbon dioxide intensity of the electricity grid; Average cost of energy (by fuel type) and water.</p> <p>2. Building Type and Occupant Use Homes: for both apartments and houses (assumptions for area and occupancy are based on income categories); Hotels: for both hotels and resorts (assumptions for area, occupancy and the type of support services are based on the star rating of the property); Offices: assumptions are based on occupancy density and hours of use; Hospitals: assumptions are based on the type of hospital (e.g., nursing home, private or public hospital, clinic or diagnostic center); Retail: assumptions are based on the type of retail building (e.g., department store, mall, supermarket, light industry or warehouse); Education: assumptions are based on the type of educational facility (e.g., pre-school, university or sports facility), as well as occupancy density and hours of use.</p> <p>3. Design and Specifications</p> |

⁵² USGBC, “LEED rating system”, at: www.usgbc.org/LEED.




⁵³ BREEAM, “Rating Benchmark”, at: https://www.breeam.com/BREEAMIntNDR2016SchemeDocument/content/03_scoringrating_all/rat_benmks_all.htm.

⁵⁴ EDGE, “Certify”, at: <https://www.edgebuildings.com/certify/>.

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|----------------------------|--|--|---|
| | | | <p>Thermal properties of the building envelope; Window to Wall Ratio; Building Orientation</p> <p>4. Calculation of the End Use Demand Overall energy demand in buildings; heating ventilation and air conditioning demand; virtual energy for comfort, energy demand for hot water requirements; lighting energy demand; water demand in buildings; estimations on rainwater harvesting or recycled water onsite; embodied energy in building materials.</p> |
| Requirements | <p>Prerequisites (independent of level of certification) + Credits with associated points.</p> <p>These points are then added together to obtain the LEED level of certification.</p> <p>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operations and Maintenance).</p> | <p>Prerequisites depending on the levels of certification, and credits with associated points.</p> <p>This number of points is then weighted by item and gives a BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score.</p> | <p>Prerequisites depending on the level of certification.</p> <p>To achieve the minimum level, EDGE Certified, a building must demonstrate a minimum 20% reduction in operational energy consumption, water use and embodied energy in materials as compared to typical local practices.</p> |
| Qualitative Considerations | <p>Widely recognized internationally, and strong assurance of overall quality.</p> | <p>Widely accepted within the industry. Sustainalytics considers BREEAM Very Good (provided a minimum score of 70% is achieved in the energy category), Excellent and Outstanding to be representative of best practice.</p> | <p>Strong assurance of overall quality due to the EDGE's development under the IFC umbrella.</p> |
| Performance display |  |  |  |

Appendix 2: Certifications Schemes for Agriculture

| | Rainforest Alliance | UTZ | Organic SAGARPA Mexico |
|---|---|---|---|
| Background | The Rainforest Alliance Seal is a global certification system for Agriculture, Forestry and Tourism. The Rainforest Alliance certification indicates compliance with the organization's standards for environmental, social and economic sustainability. Rainforest Alliance merged with UTZ in January 2018. | The UTZ Label is a global certification system for coffee, cocoa, tea and hazelnuts. The UTZ certification incorporates environmental, social, farm management and farming practices considerations. UTZ merged with Rainforest Alliance in January 2018. | The Organic SAGARPA Mexico label is a Mexican certification system overseen, administered and enforced by the Mexican Secretariat of Agriculture (SAGARPA) through the National Service of Health, Food Safety and Quality (SENASICA). The organic label was enacted by the Organic Products Law (LPO) in 2006, Regulations for Organic Products and Guidelines for Organic Production and the General Rules for the Use of the National Seal which were published in 2013 and the program became fully operational in April 2017. |
| Clear positive impact | Promoting sustainable practices in agriculture, forestry and tourism. | Promoting sustainable practices in Coffee, Cocoa Tea and Hazelnut farming and trading. | Promoting sustainable and organic farming practices that improve water quality, conserve energy, increase and protect biodiversity and contribute to soil health. |
| Minimum standards | Rainforest alliance establishes a minimum threshold for impact through critical criteria and requires farmers to go beyond by demonstrating improved sustainability on 14 continuous improvement criteria. | UTZ establishes a minimum threshold for impact through mandatory points and additional points, and requires farmers to go beyond by demonstrating compliance with an increasingly large proportion of both mandatory and additional points. | The Organic SAGARPA Mexico label sets production and labeling requirements, including that certified products are: <ul style="list-style-type: none"> Produced without genetic engineering and without sewage sludge; Produced using allowed substances only and managed in such a way that applications to the soil or to the plant, including mineral fertilizers of natural origin composed by plant and/or animal material, animal waste and other organic materials, are free from prohibited materials according to the National List of Permitted Substances for the Agricultural and Livestock Organic Operation. |
| Scope of certification or programme | Rainforest alliance addresses key risks such as human rights, child labour, pesticide use and biodiversity use through its criteria. | UTZ addresses key risks such as human rights, child labour, pesticide use and biodiversity use through its criteria. | The Organic SAGARPA Mexico label addresses key risks through the regulated use of external inputs, restricting and banning the use of synthetic chemical products to preserve soil quality, raising practices, pest and weed control. |
| Verification of standards and risk mitigation | Certified entities undergo third party verification to ensure compliance with criteria and continuous improvement. | Certified entities undergo third party verification to ensure compliance with criteria and continuous improvement. | 1. Organic Practices: Methods should be reviewed and implemented in accordance with the LPO and additional regulations. Depending on the production activity there is a land conversion period of 1 to 3 years. |

| | | | |
|---|--|--|---|
| | | | <p>2. Organic plan: Each producer/ operator who wishes to produce, certify and trade products using the label must establish an Organic Masterplan describing and accounting for all activities carried out in the production.</p> <p>3. Contact an Organic Certification Body (OCO) approved by SENASICA: Producers wishing to produce, certify and commercialize their products as Organic should approach an OCO approved by SENASICA, who will guide them through the certification process.</p> <p>4. Certification of organic products: Once the previous steps have been covered, OCO's will carry out at least one organic inspection in which the compliance with regulations will be verified. After reviewing the outcomes of the inspection, OCO's can issue the corresponding certificate.</p> |
| Third party expertise and multi-stakeholder process | Standard setting is aligned with the ISEAL Standard Setting Code. | Standard setting is aligned with the ISEAL Standard Setting Code. | The National Service of Health, Food Safety and Quality (SENASICA) which develops the rules and regulation receives input from the National Council for Organic Production (CNPO). |
| Performance Display |  |  |  |
| Third-party verified | <ul style="list-style-type: none"> • Africert • Conservacion y Desarrollo Certified S.A. • Imafloa • IMO India • CERES • IBD • Indocert • NaturaCert • Productos y Procesos Sostenables, A.C. • NEPCon | 60 UTZ approved certification bodies split by country and by relevant commodity (coffee, cocoa, tea, hazelnut, herbals. Rooibos) | As of March 2020, there are 18 approved organizations accredited by SENASICA |

Appendix 3: Overview and Analysis of FSC and PEFC Certifications

| | Forest Stewardship Council (FSC)⁵⁵ | Programme for the Endorsement of Forest Certification (PEFC)⁵⁶ |
|--------------------------------------|--|---|
| Background | The Forest Stewardship (FSC) is a non-profit organization established in 1993 that aims to promote sustainable forest management practice by evaluating forest management planning and practices independently against FSC's standards. | Founded in 1999, the Programme for the Endorsement of Forest Certification (PEFC) is a non-profit organization that promotes sustainable forest management through independent third-party certification, this includes assessments, endorsements and recognition of national forest certification systems. PEFC was created in response to the specific requirements of small- and family forest owners as an international umbrella organization. |
| Basic Principles | <ul style="list-style-type: none"> • Compliance with laws and FSC principles • Tenure and use rights and responsibilities • Indigenous peoples' rights • Community relations and workers' rights • Benefits from the forests • Environmental impact • Management plans • Monitoring and assessment • Special sites – high conservation value forests (HCVF) • Plantations | <ul style="list-style-type: none"> • Maintenance and appropriate enhancement of forest resources and their contribution to the global carbon cycle • Maintenance and enhancement of forest ecosystem health and vitality • Maintenance and encouragement of productive functions of forests (wood and no-wood) • Maintenance, conservation and appropriate enhancement of biological diversity in forest ecosystems • Maintenance and appropriate enhancement of protective functions in forest management (notably soil and water) • Maintenance of socioeconomic functions and conditions • Compliance with legal requirements |
| Types of standards/benchmarks | <ul style="list-style-type: none"> • Forest Management certification (for single/multiple applicant(s) – industrial or private forest owners, forest license holders, community forests, and government-managed forests) • Small and Low Intensity Management Forests (SLIMFs) programme (for small forests and forests that are managed at low intensity would be eligible) • Chain of Custody (CoC) certification (for supply chain companies' planning, practices and products – all operations that want to produce or make claims related to FSC-certified products must possess this certificate) • Controlled Wood verification (for assurance that 100% virgin fiber mixed with FSC-certified and recycled fiber originates from a verified and approved source) | <ul style="list-style-type: none"> • Sustainable Forest Management benchmark – international requirements for sustainable forest management. National forest management standards must meet these requirements in order to obtain PEFC endorsement • Group Forest Management Certification – outlines the requirements for national forest certification systems who have group forest management certification • Standard Setting – covers the processes that must be adhered to during the development, review and revision of national forest management standards • Chain of Custody – outlines the conditions for obtaining CoC certification for forest-based products • PEFC logo Usage Rules – outlines the requirements entities must abide by when using the PEFC logo • Endorsement of National Systems – outlines the process that national systems must go through to achieve PEFC endorsement |

⁵⁵ Forest Stewardship Council, FSC Principles and Criteria for Forest Stewardship: <https://ca.fsc.org/preview.principles-criteria-v5.a-1112.pdf>

⁵⁶ PEFC, Standards and Implementation: <https://www.pefc.org/standards-implementation>

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|--|--|---|
| <p>Governance</p> | <p>The General Assembly is comprised of all FSC members and constitutes the highest decision-making body. Members can apply to join one of three chambers – environmental, social, or economic – that are further divided into northern and southern sub-chambers. Each chamber maintains 33.3% of the weight in votes, and votes are weighted so that the North and South hold an equal portion of authority in each chamber, to ensure influence is shared equitably between interest groups and countries with different levels of economic development.</p> | <p>PEFC’s governance structure is formed by the General Assembly (GA) which is the highest authority and decision-making body. It is made up of all PEFC members, including national and international stakeholders. In general, PEFC’s governance structure is more representative of industry and government stakeholders than of social or environmental groups. Members vote on key decisions including endorsements, international standards, new members, statutes and budgets. All national members have between one and seven votes, depending on membership fees, while international stakeholder members have one vote each.</p> |
| <p>Scope</p> | <p>FSC is a global, multi-stakeholder owned system. All FSC standards and policies are set by a consultative process. There is an FSC Global standard and for certain countries FSC National standards. Economic, social, and environmental interests have equal weight in the standard setting process. FSC follows the ISEAL Code of Good Practice for Setting Social and Environmental Standards.</p> | <p>Multi-stakeholder participation is required in the governance of national schemes as well as in the standard-setting process. Standards and normative documents are reviewed periodically at intervals that do not exceed five years. The PEFC Standard Setting standard is based on ISO/IEC Code for good practice for standardization (Guide 59)³ and the ISEAL Code of Good Practice for Setting Social and Environmental Standards.</p> |
| <p>Chain-of-Custody</p> | <ul style="list-style-type: none"> • The Chain-of-Custody (CoC) standard is evaluated by a third-party body that is accredited by FSC and compliant with international standards • CoC standard includes procedures for tracking wood origin • CoC standard includes specifications for the physical separation of certified and non-certified wood, and for the percentage of mixed content (certified and non-certified) of products • CoC certificates state the geographical location of the producer and the standards against which the process was evaluated. Certificates also state the starting and finishing point of the CoC | <ul style="list-style-type: none"> • Quality or environmental management systems (ISO 9001:2008 or ISO 14001:2004 respectively) may be used to implement the minimum requirements for chain-of-custody management systems required by PEFC • Only accredited certification bodies can undertake certification • CoC requirements include specifications for physical separation of wood and percentage-based methods for products with mixed content. • The CoC standard includes specifications for tracking and collecting and maintaining documentation about the origin of the materials • The CoC standard includes specifications for the physical separation of certified and non-certified wood • The CoC standard includes specifications about procedures for dealing with complaints related to participant’s chain of custody |
| <p>Non-certified wood sources</p> | <p>FSC’s Controlled Wood Standard establishes requirements to participants to establish supply-chain control systems, and documentation to avoid sourcing materials from controversial sources, including:</p> <ol style="list-style-type: none"> a) Illegally harvested wood, including wood that is harvested without legal authorization, from protected areas, without payment of appropriate taxes and fees, using fraudulent papers and mechanisms, in violation of CITES requirements, and others, b) Wood harvested in violation of traditional and civil rights, c) Wood harvested in forests where high conservation values are | <p>The PEFC’s Due Diligence System requires participants to establish systems to minimize the risk of sourcing raw materials from:</p> <ol style="list-style-type: none"> a) forest management activities that do not comply with local, national or international laws related to: <ul style="list-style-type: none"> ○ operations and harvesting, including land use conversion, ○ management of areas with designated high environmental and cultural values, ○ protected and endangered species, including CITES species, ○ health and labor issues, ○ indigenous peoples’ property, tenure and use rights, ○ payment of royalties and taxes. b) genetically modified organisms, |

| | | |
|-----------------------------------|---|--|
| | <p>threatened by management activities,</p> <p>d) Wood harvested in forests being converted from forests and other wooded ecosystems to plantations or non-forest uses,</p> <p>e) Wood from management units in which genetically modified trees are planted.</p> | <p>c) forest conversion, including conversion of primary forests to forest plantations.</p> |
| Accreditation/verification | <p>FSC-accredited Certification Bodies (CB) conduct an initial assessment, upon successful completion companies are granted a 5-year certificate. Companies must undergo an annual audit and a reassessment audit every 5 years. Certification Bodies undergo annual audits from Accreditation Services International (ASI) to ensure conformance with ISO standard requirements.</p> | <p>Accreditation is carried out by an accreditation body (AB). In the same way that a certification body checks that a company meets the PEFC standard, the accreditation body checks that a certification body meets specific PEFC and ISO requirements. Through the accreditation process, PEFC has assurance that certification bodies are independent and impartial, that they follow PEFC certification procedures.</p> <p>PEFC does not have their own accreditation body. Like with the majority of ISO based certifications, PEFC relies on national ABs under the umbrella of the International Accreditation Forum (IAF). National ABs need to be a member of the IAF, which means they must follow IAF's rules and regulations.</p> |
| Qualitative considerations | <p>Sustainalytics views both FSC and PEFC as being robust, credible standards that are based on comprehensive principles and criteria that are aligned with ISO. Both schemes have received praise for their contribution to sustainable forest management practices⁴ and both have also faced criticism from civil society actors.^{5,6} In certain instances, these standards go above and beyond national regulation and are capable of providing a high level of assurance that sustainable forest management practices are in place. However, in other cases, the standards are similar or equal to national legislation and provide little additional assurance. Ultimately, the level of assurance that can be provided by either scheme is contingent upon several factors including the certification bodies conducting audits, national regulations and local context.</p> | |

Appendix 4: Certifications for Aquaculture

| | Marine Stewardship Council ⁵⁷ | Aquaculture Stewardship Council ⁵⁸ |
|-----------------------|---|---|
| Background | <p>Marine Stewardship Council (MSC) is a non-profit organization founded in 1996, that issues eco-label certifications for fisheries which are sustainable and well-managed.</p> | <p>The Aquaculture Stewardship Council (ASC) is an independent, international NGO that manages the ASC certification and labelling program for responsible aquaculture.</p> |
| Clear positive impact | <p>Promoting sustainable fisheries practices.</p> | <p>Promoting sustainable aquaculture practices.</p> |
| Minimum standards | <p>A minimum score must be met across each of the performance indicators.</p> <p>As a condition to certification, low-scoring indicators must be accompanied by action plans for improvement.</p> | <p>Quantitative and qualitative thresholds which are designed to be measurable, metric- and performance-based.</p> <p>Certification may be granted with a “variance” to certain requirements of the standard. This variance is designed to allow the standard to adapt to local conditions, but has been criticized for weakening the standard and overriding the consultations involved in the standard-setting process.</p> |

⁵⁷ MSC, The MSC Fisheries Standard: <https://www.msc.org/standards-and-certification/fisheries-standard>

⁵⁸ ASC, Farm standards: <https://www.asc-aqua.org/what-we-do/our-standards/farm-standards/>

| | | |
|--|--|--|
| <p>Scope of certification or programme</p> | <p>The MSC standard consists of a fisheries standard and a chain of custody standard.</p> <p>The Fishery Standard assesses three core principles: sustainable fish stocks, minimising environmental impact, and effective fisheries management; collectively these account for the major environmental and social impacts.</p> <p>The Chain of Custody standard addresses certified spearfishing, product identification, separation, traceability and records, and good management.</p> | <p>ASC encompasses nine farm standards, covering 15 fish species as well as the harvest of seaweed. These farm standards lay out minimum requirements regarding both environmental and social performance.</p> <p>Additionally, a Chain of Custody Standard is mandatory for all supply chain actors in order to ensure traceability.</p> |
| <p>Verification of standards and risk mitigation</p> | <p>Third-party conformity assessment bodies (CABs), certified by Accreditation Service International (ASI) carry out assessments in line with the MSC standard and ISO 17065.</p> <p>Certification is valid for up to five years.</p> | <p>Third-party conformity assessment bodies (CABs), certified by Accreditation Service International (ASI) carry out assessments in line with the ASC standard and ISO 17065.</p> <p>Major non-compliances must be remedied within three months.</p> |
| <p>Third party expertise and multi-stakeholder process</p> | <p>Aligned with the UN Code of Conduct for Responsible Fishing, and further informed by the Global Sustainable Seafood Initiative (GSSI), World Trade Organization (WTO), and International Social and Environmental Accreditation and Labelling (ISEAL)</p> | <p>Developed in line with United Nation's Food and Agriculture Organization (UN FAO) and International Labour Organisation (ILO) principles.</p> <p>Managed in accordance with the International Social and Environmental Accreditation and Labelling (ISEAL) Codes of Good Practice.</p> |
| <p>Performance display</p> |  |  |
| <p>Qualitative considerations</p> | <p>The MSC label is the most widely recognized sustainable fisheries label worldwide, and is generally accepted to have positive impacts on marine environments.</p> <p>Proponents of the label cite the transparent science-based process for approval and its successful engagement with industry groups. Criticism from various observers include lack of focus on preventing by-catch, protecting marine mammals and endangered species, follow-up on conditions, crew safety, and live tracking of supply chains.</p> | <p>Widely recognized, and modeled on the successful MSC certification.</p> <p>Some criticism has been focused on the ability to certify with a "variance", in which certain aspects of the standard can be interpreted or waived during the audit procedure.</p> <p>While a reputable certification overall, the standard does not fully mitigate all the risks associated with aquaculture.</p> |

Appendix 5: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

| | |
|--|-------------------------------------|
| Issuer name: | Banco Mercantil del Norte S.A. |
| Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable: | Banorte Sustainable Bonds Framework |
| Review provider's name: | Sustainalytics |
| Completion date of this form: | March 10, 2022 |
| Publication date of review publication: | |
| Original publication date [please fill this out for updates]: | |

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (if applicable):

The eligible categories for the use of proceeds – Renewable Energy, Energy Efficiency, Natural Resources and Biodiversity, Sustainable Mobility, Water Management, Affordable Basic Infrastructure and Access to Essential Services, Affordable Housing and Food Safety – are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 2, 3, 4, 6, 7, 8, 9, 11, 14, and 15.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input checked="" type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify): |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input checked="" type="checkbox"/> Affordable housing | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input checked="" type="checkbox"/> Food security | <input type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify): |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Banorte's ESG Risk Group will identify and propose projects that fall within the eligible green and social categories. The Sustainability Bond Working Group, comprised by members of the Department of Sustainability and Responsible Investment, and of the Department of Treasury will have final approval. Banorte has a dedicated Social and Environmental Risk Management System, which is applicable to all allocation decisions made under the Framework. Sustainalytics considers this process to be strong and to be aligned with market best practice.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

Banorte's Treasury team and Sustainable Bonds Working Group will be responsible for tracking and allocating the proceeds through an internal tracking system. The Bank intends to allocate proceeds within 24 months post issuance for new projects, and a lookback period of 24 months or less for existing projects. Pending allocation, net proceeds will be temporarily invested as per preapproved Treasury investment policies. Banorte's processes for management of proceeds is in line with market practice.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify): |

Additional disclosure:

- | | |
|---|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
|---|---|

- | | |
|---|--|
| <input type="checkbox"/> Allocation to individual disbursements | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify): |

4. REPORTING

Overall comment on section (if applicable):

Banorte intends to report on the allocation of proceeds and impact of proceeds on its website annually and until the bond's maturity date. Allocation reporting will include net proceeds raised, amount of proceeds allocated per category, amount used for financing or refinancing, and total amount of unallocated proceeds. In addition, Banorte is committed to reporting on relevant impact key performance indicators, and the allocation reporting will be audited on a yearly basis by a third party to ensure compliance with the Framework's eligible categories. Sustainalytics views Banorte's allocation and impact reporting process as aligned with best market practice.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input checked="" type="checkbox"/> Sustainability Bond financed share of total investment |
| <input type="checkbox"/> Other (please specify): | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Impact reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported (expected or ex-post):

- | | |
|---|--|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings |
| <input checked="" type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Number of beneficiaries |
| <input type="checkbox"/> Target populations | <input checked="" type="checkbox"/> Other ESG indicators (please specify): Capacity installed (MW), Expected energy generation (MWh), Estimated GHG emissions avoided (tonCO _{2e}), Transmission lines installed (km), "Green" spaces certified (m ²), Water saved (m ³), Hectares with certified |

forest management (ha), Certified production volume (tonnes), Transportation infrastructure built (km), Number of passengers (#), Electric / hybrid / low carbon emissions vehicles (#), Potable/clean water production capacity (m³), Benefited population with water, Water saved, recycled or reused (m³), People benefited from basic infrastructure or essential services (#), Benefits from basic infrastructure; energy supply (MWh), clean water (L), treatment and disposal of sewage sludge (m³), waste management (tons), roads (km), Benefits from essential services; telecommunications (# internet users), education (# people), and banking, insurance and financial services (\$), Loans granted to MSME (\$), Houses targeting low-income individuals or families that have individual (m²), People benefited from affordable housing projects (#), Small-scale agriculture producers benefited (#), and Food produced (Tonnes)

Frequency:

- Annual Semi-annual
- Other (please specify):

Means of Disclosure

- Information published in financial report Information published in sustainability report
- Information published in ad hoc documents Other (please specify):
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Consultancy (incl. 2nd opinion) Certification
- Verification / Audit Rating
- Other (please specify):

Review provider(s):**Date of publication:****ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP**

- i. **Second-Party Opinion:** An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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