

Name of process.

Socio-environmental risk policy

1. Objective of the process.

To establish the reference framework and commitments that Grupo Financiero Banorte has with stakeholders on socio-environmental risk matters.

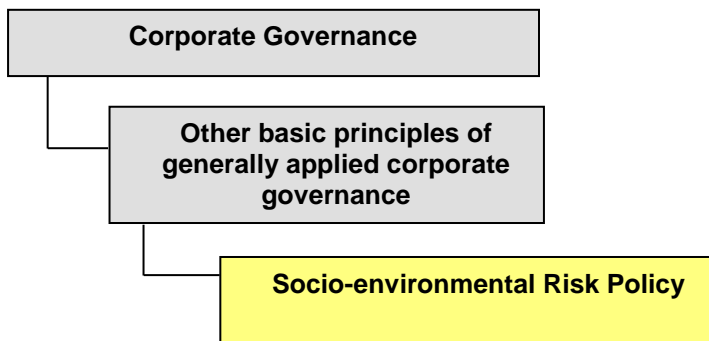
2. Scope.

Areas	This policy is applied to all companies and stakeholders pertaining to Grupo Financiero Banorte.
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3. Route.

Corporate Governance / Other Generally Applied Corporate Governance Principles/ Socio-environmental Risk Policy

4. Hierarchical diagram.



5. General policies associated with the process.

- Socio-environmental Risk Policy

1. Policy name

Socio-environmental Risk Policy

2. Scope

This policy is applied in general to all companies and stakeholders pertaining to Grupo Financiero Banorte.

3. Policy content:

1. Objective:

To establish the reference framework and commitments that Grupo Financiero Banorte has with stakeholders on socio-environmental risk matters.

2. Introduction:

- A. GFNorte acknowledge the importance of environmental and social aspects for the global financial sector in terms of risk, understands that economic growth depends on available natural and social capital and that the risks they generate must be avoided, mitigated and/ or restored

- B. For GFNorte, the assessment of non-financial risks is essential for future resistance to climate change, the scarcity of natural resources, and social inequality. This is why it has integrated environmental and social risk and impact management as a fundamental part of its operations, paying special attention to sensitive sectors and vulnerable regions.

- C. Management of environmental and social aspects will reduce the risk of credit portfolios, improve the transparency of transactions, add value for clients and investors, and generate new business opportunities. In this way, GFNorte meets the expectations of its stakeholders, strengthens its competitiveness, and contributes to the consolidation of an efficient and sustainable financial system

3. Regulatory Framework:

- A. The socio-environmental risk policy is based on the international agreements and initiatives of which Mexico and GFNorte are part of environmental and social matters, in the national legal framework, as well as in the regulations that frame the processes of the companies belonging to GFNorte. Below is an enunciative, non-limiting list of the main regulatory instruments

1. **International Agreements and Initiatives**

- a. Basel Accord
- b. Paragraph 510 of Basel II and Basel III, Pillar 1 on the adequate treatment and analysis of systemic environmental risks.
- c. The Equator Principles

- d. Principles of Responsible Investment
- e. Principles for Responsible Banking

2. National Regulatory Framework

- a. Ley General de Equilibrio Ecológico y la Protección al Ambiente
- b. Reglamento en Materia de Impacto Ambiental y Riesgo
- c. Reglamento en Materia de Evaluación de Impacto Ambiental
- d. Reglamento Interior de la Secretaría de Energía
- e. Social Impact Assessment

3. GFNorte Regulations

- a. Sustainability committee
- b. Credit Manual
- c. Risk Manual
- d. Environmental Policy
- e. Social Policy
- f. Responsible Investment Policy
- g. Natural Capital Policy

4. External Initiatives and Commitments:

A. Considering the importance that environmental and social risks and impacts have assumed in recent years among clients, investors and the community in general, GFNorte has joined important international initiatives to incorporate the management of non-financial risks and impacts as part of business processes and decision-making:

1. Equator Principles (EP)

a. EPS provide a voluntary framework for the identification, assessment and management of social and environmental risks in financing operations. They represent the most important standard in this area within the financial sector, promoting the granting of financing only in cases where the client can demonstrate that its projects are managed with social and environmental responsibility.

2. Principles of Responsible Investment (PRI)

a. PRI is an initiative of international investors in collaboration with UNEP FI (United Nations Environmental Programme Finance Initiative) and the Global Compact; whose approach to

investing recognizes the relevance of environmental, social, and corporate governance (ESG) factors to better manage risk and generate long-term returns. They are based on active management and the belief that these aspects can have a positive impact on the financial performance of investments.

3. Principles for Responsible Banking (PRB)

a. The PRBs represent an initiative of 28 leading banks worldwide and the United Nations Environment Program Finance Initiative (UNEP FI) whose purpose is to align banking with the Sustainable Development Goals and the Paris Agreement in the face of the challenges posed by climate change and sustainable development. The PBRs integrate the pillars of commitment, impact, clients, stakeholders, governance, target setting, transparency and accountability. Banorte is one of the founding banks of these Principles.

B. In line with the above principles and as part of the solution to global issues while generating value to the business, the GFNorte Sustainability and Responsible Investment Specialist Directorate will be responsible for coordinating the following actions with the relevant General Directorates:

1. Identify, evaluate, and monitor the impacts and risks resulting from its operations. In the case of positive impacts, their continuous improvement will be sought; on the contrary, if any negative situation is detected, strategies will be established to manage the corresponding action plans:
2. Verify that all operations, products, and services are in full compliance with applicable national legislation on environmental and social issues and integrate the best international practices
3. Raise awareness, inform and train employees on sustainability and risk issues to ensure the consideration of environmental and social aspects in business processes.
4. Consider natural capital, human rights including indigenous peoples and climate change as primary issues in risk management of all operations and services. ([See Natural Capital Policy](#))
5. Promote risk management among stakeholders, particularly employees, customers, and investors, as a means of fostering sustainable financing and investment
6. Prioritize risk management in sensitive areas to prevent resource depletion, biodiversity loss, pollution, displacement of populations and impacts on indigenous peoples and cultural heritage.

7. Prioritize risk management of sensitive sectors such as mining, oil and gas, agriculture, power generation, chemicals and forestry; due to their high potential to cause negative impacts on areas of significant natural, social and cultural value, as well as on vulnerable communities.

5. Credit and Responsible Investment activities:

A. Environmental and social risks can translate into financial risks that can impact project profitability and company competitiveness. In this regard, GFNorte's General Management, through the Sustainability and Responsible Investment Specialist and the Director General of Risk and Credit Management, manages the risks of the activities it finances through its Social and Environmental Risk Management System (SEMS), which is documented in detail in section **2.2.3 Social and Environmental Risk Analysis in the Credit Manual**

B. GFNorte understands responsible investing as an opportunity to generate long-term value, improve decision-making, prevent risk and protect the interests of clients, investors and beneficiaries by incorporating ESG aspects into its investment processes:

1. Responsible investment in GFNorte is based on the implementation of the Principles for Responsible Investment within the operations of Afore XXI Banorte and Operadora de Fondos, defining policies and strategies in accordance with the particularities of each subsidiary.

2. The overall strategy represents a mixed methodology that includes the analysis of ESG factors and engagement with issuers, aimed at promoting transparency on ESG issues and improving active management of material risks and opportunities

3. In this way, the process of responsible investment will gradually permeate good practices within investment portfolios, contributing to the creation of markets that positively impact society, business and the environment. **(See Responsible Investment Policy)**.

6. Communication:

A. GFNorte recognizes that disseminating the relevance of environmental and social risks and impacts in our operations is essential for the active and responsible participation of staff, customers, investors and other stakeholders in management processes.

B. In this regard, the Direction of Sustainability and Responsible Investment will be responsible for:

1. Keep the regulations related to socio-environmental risk updated and manage their publication on the institution's website.

2. To train annually the areas involved through ARSA, in addition to attending the comments and questions of employees through the mail sems@banorte.com.

7. The obligation to inform:

A. In line with the principle of transparency embodied in our sustainability model, the Sustainability and Responsible Investment Specialist Director will report annually to the organizations to which GFNorte is attached (see section 4), as well as to their stakeholders, on the results of the implementation of the environmental principles that have been carried out during the year.

Glossary

Sec.	Concept	Description
1.	Sensitive area	<p>Geographical extension of regional, national or international importance, whose natural, social, economic and cultural components are of high value and vulnerability For example:</p> <ul style="list-style-type: none"> - Natural protected areas: mangroves, reefs, habitats of threatened, protected or endangered species. - Areas populated by indigenous people or ethnic minorities. - Areas with unique cultural, historical or archaeological value. <p>Vulnerability is a function of the characteristics of the environmental and social parameter at risk, its probability and magnitude of being affected by a project's activities.</p>
2.	ARSA:	<p>Social and Environmental Risk Area responsible for the operation and continuous improvement of the Social and Environmental Risk Management System. ARSA is also responsible for training Credit and Business staff in terms of social-environmental risk and sustainability.</p>
3.	Due Diligence	<p>Socio-environmental risk analysis process based on national environmental and social legislation, Performance Standards and/or Equator Principles.</p>
4.	Issuing entity	<p>Generic name given to those who issue property titles (shares), credit titles (bonds) and/or participation certificates.</p>
5.	SEMS Evaluation	<p>Brief analysis of the specific environmental, social and reputational risks of credits under \$1 million, in relation to national environmental and social legislation, as well as international guidelines.</p>
6.	ESG factors (environmental, social, corporate governance)	<p>Thematic materials for companies:</p> <p>Environmental factors: animal welfare, biodiversity, land use, carbon emissions, climate change, energy use, regulation, value chain management, waste management, recycling, water management, weather patterns, among others.</p> <p>Social factors: community relations, controversial business, customer relations, products, diversity issues, employee relations, human capital management, human rights, labor standards, responsible marketing, union relations, among others.</p> <p>Corporate governance factors: transparency, anti-corruption measures, structure and size of the Board of Directors, duality of the CEO, compensation schemes, ownership structure, shareholder rights, voting procedures, among others.</p> <p>Material financial impact: Financial impact derived from an ESG risk.</p>

7.	Socio-environmental impact	Positive or negative modification of the physical, natural, social or cultural environment, including surrounding communities and workers, caused by commercial activities financed by banks.
8.	Responsible investment	An investment approach that recognizes the relevance of ESG factors to the investor, as well as the stability and health of the markets as a whole over the long term. Responsible investing incorporates ESG factors to better manage risk and generate long-term returns.
9.	Engagement	Direct communication between investors and clients or issuing companies on environmental, social and corporate governance issues.
10.	GFNorte Exclusion List:	Economic activities or operations classified as risky or prohibited situations, located in the Credit Philosophy chapter of the GFNorte Credit Manual.
11.	Performance Standards	<p>These are guidelines on Environmental and Social Sustainability created by the IFC, which aim to provide guidance to clients in identifying, preventing and mitigating social and environmental risks and impacts. The PS are an integral part of the risk management approach and together, the eight standards define the aspects that the client must respect during the investment cycle, namely</p> <ol style="list-style-type: none"> 1. Assessment and management of environmental and social risks and impacts 2. Work and working conditions 3. Resource efficiency and pollution prevention 4. Community health and safety 5. Land acquisition and involuntary resettlement 6. Conservation of biodiversity and sustainable management of living natural resources 7. Indigenous Peoples 8. Cultural Heritage
12.	Equator Principles	<p>The Equator Principles represent the most important social and environmental standard within the financial sector, are global, apply to all industry sectors and are mentioned below:</p> <ol style="list-style-type: none"> 1. Categorization of environmental and social risk 2. Environmental and social assessment 3. Applicable environmental and social standards 4. Environmental and Social Management System and Action Plan 5. Stakeholder engagement 6. Complaint mechanism 7. Independent review 8. Contractual commitments 9. Independent monitoring and reporting 10. Reporting and transparency

13.	Principles of Responsible Investment	<p>Initiative for responsible investment that includes the following six principles.</p> <ol style="list-style-type: none"> 1. Incorporate ESG risks into investment analysis and decision-making processes. 2. Integrate ESG factors into investment management policies and practices. 3. Promote transparent disclosure of ESG factors by the entities in which they are invested. 4. Inspire acceptance and implementation of the Principles within the Mexican financial sector. 5. Work in conjunction with other signatories to enhance the effectiveness of the implementation of the Principles. 6. Report on activity and progress in implementing the Principles.
14.	Reputational risk	<p>Possibility that an event impacts the corporate image of the company due to positive or negative public perception. GFNorte defined that in terms of socio-environmental risk, reputational risk is a function of the negative perception of a project by the general community, government authority and non-governmental organisations (NGOs) as well as its exposure in the media.</p>
15.	Environmental, social and governance risks	<p>Probability of the occurrence of dangerous events or exposures that generate adverse impacts on the natural environment, communities or the institution itself and its collaborators, as a result of the activities in which we invest or finance the banks.</p>
16.	Sensitive sector	<p>A sector of industrial activity that has the potential to cause adverse environmental and social risks and impacts in sensitive areas, such as the impact on natural areas, displacement of populations, loss of species, damage to cultural heritage or to indigenous peoples, among others. Examples of sensitive sectors are mining, oil and gas, agriculture, energy, chemicals, tourism, and forestry, among others.</p>
17.	Social Environmental Management (SEMS) and Risk System	<p>SEMS is the tool for analyzing the risks and impacts generated by the activities Banorte finances in Corporate and Business Banking, whose objective is to promote that the portfolio's clients develop projects in a socially and environmentally responsible manner, in compliance with the law and applying best practices. Based on the Equator Principles, the Performance Standards of the IFC (International Finance Corporation) and the GFNorte exclusion list, SEMS was integrated into the Bank's regulations in 2015, operating as part of the credit process in charge of the Social and Environmental Risk Area (ARSA).</p>

		<p>The analysis process consists of the identification, categorization, evaluation and management of risks and impacts presented in a socio-environmental due diligence prior to the authorization of the loans requested from Banorte. In this way, the Credit Committee considers the opinion, recommendations and conditions imposed by the ARSA on the loans in order to grant the authorization.</p>
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