REPORT ON CLIMATE
RISKS AND OPPORTUNITIES

TASK FORCE ON CLIMATE-RELATED
FINANCIAL DISCLOSURES 2023

The climate future is a priority

BANORTE

URGENT ACTIONS FOR A RESILIENT FUTURE
CLIMATE RISK MANAGEMENT FOR THE MITIGATION OF IMPACTS
AMBITIOUS TARGETS TO ACHIEVE GLOBAL GOALS

GRUPO FINANCIERO BANORTE

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Letter from the Chairman of the Board

For the third year in a row, I am pleased to present this report on climate risks and opportunities under the framework of the Taskforce on Climate-related Financial Disclosures (TCFD). In this report, we emphasis the priority we place on climate change within our business strategy, our decision-making and in risk management at Grupo Financiero Banorte.

Climate change is one of the most pressing global challenges today, and its effects threaten the security and health of populations, the balance of nature, and the stability of economies. For this reason, Grupo Financiero Banorte recognizes its shared responsibility as part of the financial industry and joins in efforts to combat climate change together with our employees, customers and investors.

As a Mexican company located in Latin America and the Caribbean, one of the most mega-diverse regions of the world and particularly vulnerable to the effects of climate change, we are convinced that we must rise to these challenges urgently and collectively, in order to achieve a resilient, fair, sustainable and prosperous future.

For more than a decade, we have been joining in frameworks and initiatives to contribute to the sustainable development goals. Today we lead the drive to limit global warming and take ambitious measures that will bring us to a goal of zero net emissions of greenhouse gases by the year 2050.

Our strategy is to reduce greenhouse gas emissions in order to decarbonize our operations as well as those of key sectors of the economy with which we do business; to manage climate risks so as to mitigate their impact on the Group, and to provide sustainable financing and investment that strengthen our supply of financial products and services.

The challenges ahead are great; but our commitment is unwavering and permanent. In October 2023, hurricane Otis struck Mexico's Pacific coast in the state of Guerrero, leaving a vivid reminder of the devastating effect climate change can have on life, health and business continuity. We will continue to redouble our efforts and engage all of our stakeholders in driving the transformation our world requires.

Many thanks
Carlos Hank González
Chairman of the Board of Directors
Grupo Financiero Banorte

Overview

The work done by GFNorte in 2023 around climate change is the subject of this third report under the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). These recommendations pertain to aspects of governance, strategy, risk management, as well as climate-related targets and metrics. In this report, we prioritize the definition and verification of targets, the analysis of physical, transition, and nature-related risks, the development of climate scenarios, and stress tests.

At GFNorte, we incorporate climate change and its risks and opportunities into our decision-making process, encompassing various governance bodies and levels within the organization, from the Board of Directors, the Risk Policies Committee, the Audit and Corporate Practices Committee, the Sustainability Committee, the Specialized Climate Change Team, to various collaborative working groups or “cells” overseeing the execution of Sustainability projects.

We believe that the climate strategy should be dynamic over time to progress gradually and consistently towards the consolidation of a resilient and low-emission economy. In 2023, we updated our climate strategy, considering global best practices, institutional priorities, and relevant actions for the period 2024-2030.

In this way, we have defined five strategic lines of work: 1) Analysis of physical, transition, and nature-related risks, 2) Sustainable financing, 3) Decarbonization, 4) Business, and 5) Accountability and transparency aligned with the five guiding pillars of the climate risk transition strategy “MEDIR,” which consist of Modeling climate risk, Emphasizing the “green value” proposition, Decarbonizing the portfolio, Integrating climate change into operations, and Reporting commitments and progress.

Through a study of physical risks, transition risks, and analysis of greenhouse gas (GHG) emissions quantifications in GFNorte’s portfolios, we identified risks and opportunities in the short (0-4 years), medium (5-14 years), and long term (over 15 years) for corporate and business portfolio industries. The analysis of physical risks focused on the bank’s branches, the real estate and lodging industry, and the mortgage portfolio, while the analysis of transition risks was applied to the wholesale portfolio in the most polluting industries. In the case of physical risks, the municipalities of Mexico were classified according to their level of risk based on their geographical location with higher resolution . Hydro-meteorological events such as cyclones, floods, and storm surges were considered to determine the level of exposure of our bank branches, as well as real estate, lodging, and mortgage portfolios.

Through this exercise, we have found that the concentration of bank branches and assets in the abovementioned portfolios in the areas currently classified as high risk is low. In this report we focus particularly on the case of Hurricane Otis, which impacted the Pacific coast of the country on October 25, 2023, a striking example of the materialization of climate risks and their severe impacts. Both the impacts and the actions taken by GFNorte to support affected communities and customers are addressed.

As a complement to the historical analyses, we conducted exercises with climate scenarios and pilot stress tests. Scenarios are useful for understanding in an organized and coherent manner possible future situations related to climate change, while stress tests allow for the estimation of potential losses, portfolio sensitivity in certain industries, and the institution’s resilience to adverse scenarios.

[1] The exercise was conducted with a resolution of 0.025°, similar to a coverage of 3km per calculated centroid.

For acute physical risks, we explored two approaches: top-down and bottom-up. The first approach included a climate scenario in the Capital Adequacy Assessment. It considered a short-term horizon of 3 years and an exponential growth of CO_2e emissions, assuming that industries do not take sufficient action to reduce emissions by 2030 as required by the General Law on Climate Change. This would affect the trajectory of GHG emissions, which in turn would affect the temperature and, consequently, the various production chains in the country, and thus affecting macroeconomic variables. As a result of the pilot climate stress test for physical risks, we concluded that the institution's capital is sufficient to absorb the additional losses that would occur if the previously mentioned climate scenarios materialized. In the second approach, climate scenarios involving different temperature increases by 2050 (from +2°C to +4.3°C compared topre-industrial levels) were used. We estimated the impact on our direct operations and the aforementioned portfolios, as well as the impact of cyclones on the value of mortgage and real estate guarantees in scenarios aligned with the Intergovernmental Panel on Climate Change (IPCC). The scenarios show that although impacts are limited in 2030, as the time horizon extends and/or scenarios become more pessimistic, these impacts increase. This signals the need to raise awareness among our customers so that they can implement or strengthen protection against hydrometeorological phenomena.

For transition risks, we began with the premise that these risks will affect virtually all economic sectors, with the industries that generate the most GHG emissions facing greater difficulties in the energy transition. Since there are no historical data to measure transition risks, we rely on economic models, risk factors, and sensitivities to these factors specific to each industry, which are interrelated with climate scenarios suggested by the Network for Greening the Financial System (NGFS). One of the key variables in these scenarios is the carbon price, which has already been introduced in some countries around the world to mitigate industrially generated climate change. The result is an increase in costs across the entire production chain. In the 2023 transition risk exercise, we calculated the "Climate Shock," an indicator that measures whether our customers could withstand the cost of an increase in the carbon price, assuming Scope 1 emissions in proportion to their EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). Using NGFS's updated Net Zero and Delayed Transition scenarios for 2030, 2040, and 2050, we estimated how this Climate Shock would behave. The exercise grouped customers by the most polluting industries in the portfolio and created a traffic light system to classify customers and quantify the impact the carbon price increase would have under different scenarios. The results indicate that the most significant impacts would be felt in the aluminum, iron, steel, and agricultural industries.

This year for the first time, the report includes a section focused on nature-related risk, discussing our initial efforts to identify information and define metrics relevant to Mexico, such as water, in order to establish a precedent for managing and disclosing this type of risk.

As part of our risk management and the strategy to achieve climate transition, this year we successfully approved risk policies to advance Banorte's Decarbonization Policy for the portfolio, so that we can support customers in their transition plans and financing needs while ensuring compliance with decarbonization commitments and achieve Net Zero by 2050.

In 2023, our priority was to quantify Scope 1 and 2 operational emissions, and to measure Scope 3 (financed) emissions, in GFNorte's loan portfolio for priority industries, and in our fund manager's investment portfolio. The scope for measuring financed emissions and reduction targets encompassed the oil & gas, energy, real estate and lodging, agriculture, aluminum, iron and steel, coal, transportation, cement, and construction industries in the wholesale portfolio and mortgages in the retail portfolio, as well as other financial instruments in the bank's portfolio. In October 2023, the Science Based Target Initiative (SBTi) validated GFNorte's targets, making us the first financial group in Latin America to achieve this milestone. To ensure the targets are met, GFNorte continues to draft a decarbonization roadmap for our internal operations and financed emissions.

The report on climate-related risks and opportunities under the TCFD guidelines represents one of the institution's most significant efforts in disclosing climate-related information. Therefore, with the aim of constantly improving and staying abreast of the most exacting global standards and regulations in this field, in 2024 our report will incorporate the guidelines of the international framework of International Sustainability and Climate Standards (IFRS S2), making the necessary adjustments to maintain continuous and transparent disclosure.

Introduction

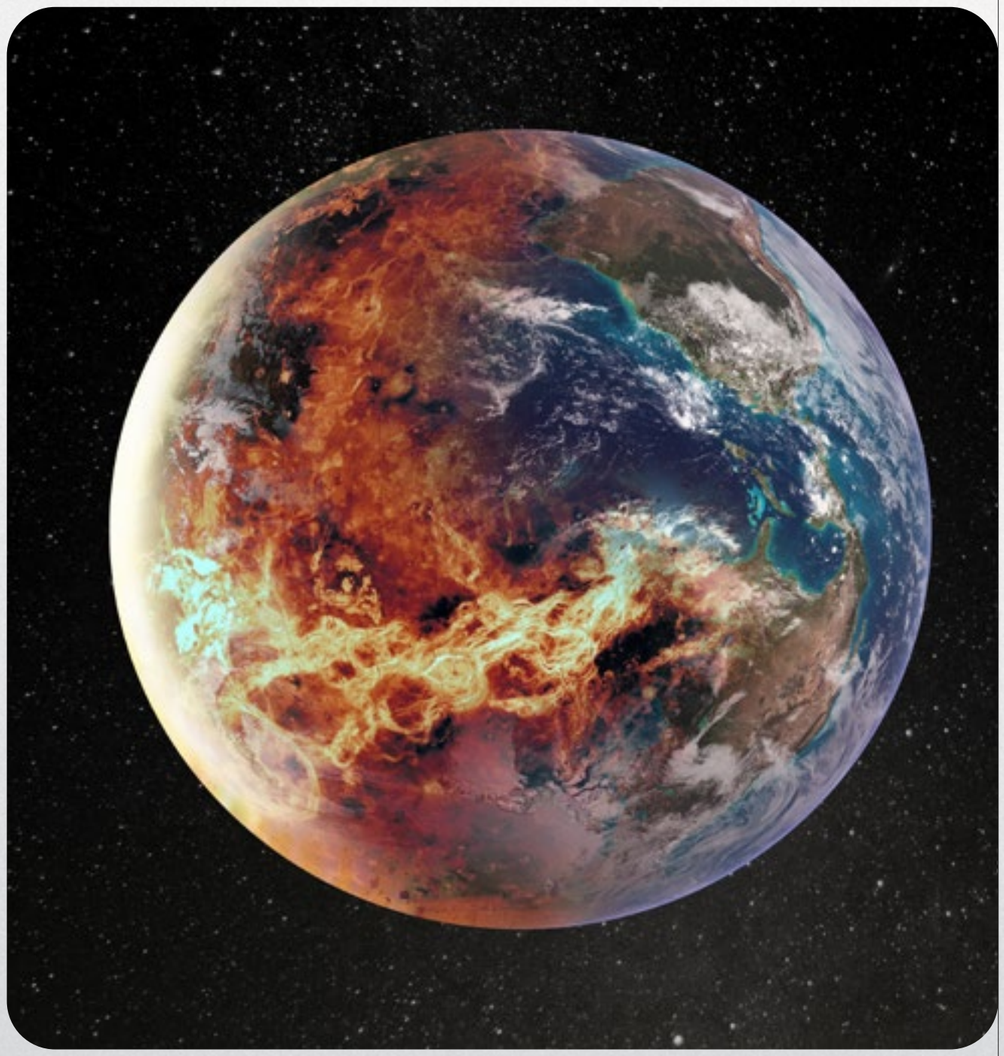
Climate change is an increase in the natural variability of the climate over comparable periods of time, attributed to an alteration of the composition of the global atmosphere. At present it is occurring at a speed and intensity unprecedented in human history. It is happening worldwide, and its consequences can be devastating.

Human activity, primarily the burning of fossil fuels that produce greenhouse gases (GHG), is the root cause of this serious threat that is raising the planet's temperature. Its impacts are already noticeable in all regions of the world and in all industrial sectors. Future scenarios are not encouraging, as they foresee significant repercussions in the environmental, social, political, technological, and financial realms due to the losses resulting from the inaction of human beings to stem this tide.

Among the consequences of rising temperatures are an increased frequency and intensity of extreme weather events, a decrease in the availability of water for human consumption, a reduction in agricultural productivity, loss of biodiversity, and a change in ecosystem composition, among others.

It is crucial to act urgently and allocate both financing and investment for mitigating and adapting to the effects of climate change. Influencing the energy sector, specifically activities related to oil, coal, and gas, as well as transportation, real estate, and agricultural and livestock farming, could contribute significantly to combating this problem.

As a financial institution, we play a key role in achieving goals for reducing emissions and decarbonization. The influence we have with our customers opens up significant opportunities to accelerate results and replicate, disseminate, and improve best practices.



Recommendations of the Taskforce on Climate-related Financial Disclosures

Governance

Governance bodies

GFNorte holds the firm conviction that effective corporate governance must incorporate climate change, and its risks and opportunities into decision-making by bodies at all levels of the organization. Climate governance in our Group is spearheaded by the Board of Directors, the Risk Policies Committee, the Sustainability Committee, the Climate Change Specialist Team, and, beginning in 2023, by various multidisciplinary work groups called “cells” that focus on execution of all sustainability-related projects.

GFNORTE CLIMATE GOVERNANCE STRUCTURE

- Board of Directors
- Risk Policies Committee
- Sustainability Committee
- Sustainability Macrocell
- Climate Risk Cell
- Climate Change Specialist Team

Board of Directors

The Board of Directors is the financial group's highest governance body. It is made up of 14 members, 9 of whom are independent. The diversification of members' areas of expertise ensures appropriate alignment with institutional strategies.

In order to ensure an open communication channel between the organization and the board, some board members sit on the Risk Policies and Audit and Corporate Practices Committees, where the most relevant ESG aspects are discussed on a monthly basis

In 2023 we conducted training sessions on risk matters for the Board of Directors and senior management members. These training sessions included case studies, best practices, and current trends in cybersecurity and new digital risks. We believe that providing our leadership with up-to-date information and broad-based knowledge is essential for them to have an informed perspective on the key risks and trends, as well as the best practices for managing them. For more information about the composition of the Board and the governance structure of the Group, please refer to the following link

Risk Policies Committee

The purpose of the Risk Policies Committee (RPC) is to manage the risks to which the institution is exposed and ensure that transactions are conducted in keeping with the desired risk profile, the comprehensive risk management framework, and risk exposure limits approved by the board.

The RPC meets monthly. It is made up of regular and alternate board members, the CEO of GFNorte, the Managing Director for Product Development, Adjunct Managing Director for the leasing and factoring subsidiary, Adjunct Managing Director for Markets and Institutional Sales, Adjunct Managing Director of Investment Banking, Managing Director of Risk Management and Credit, Chief Legal Officer, Managing Director for Wholesale Banking, Managing Director of Operations Administration and Finance, Adjunct Managing Director for Corporate Banking and Financial Institutions, Managing Director for Commercial Banking and the Chief Audit Executive. The RPC reports directly to GFNorte's Board of Directors.

The regular agenda for RPC meetings includes a section on Sustainability Risk. In 2023 the committee discussed matters like measuring carbon footprint in industries with the greatest climate exposure—agriculture, iron & steel, coal, transportation, cement and construction; methodologies for measuring climate risk; decarbonization initiatives and policies; information disclosure and TCFD report results, among others.

SUSTAINABILITY RISK MATTERS DISCUSSED BY THE RPC, 2023

2023	Topics discussed
January	Strategic Sustainability Projects 2023
February	Sustainability Committee Agenda - First Half 2023
March	Carbon Footprint Measurement Phase 2
April	Enhancements in Information Disclosure - Annual Report
May	TCFD Report
June	Social Pillar Indicators
July	Decarbonization Initiatives
August	Climate Risk Methodologies
September	Equator Principles
October	CSA S&P 2023 Ratings and SBTi Goals Approval
November	Decarbonization Policy
December	Sustainability Score

Sustainability Committee

GFNorte's Sustainability Committee (SC) is in charge of defining the Group's sustainability strategy, aligning it with institutional objectives, and implementing it through environmental, social, and governance (ESG) initiatives led by the strategic departments that are part of this organism.

Regarding climate change, the SC has the authority to approve the climate strategy and validate action plans for its execution. It sets goals for reducing GHG emissions and decarbonizing the loan portfolio, incorporates physical and transition risks into the comprehensive risk analysis, and promotes strategic partnerships and employee involvement.

The SC reports to the Risk Policies Committee, which in turn reports to the Board of Directors. Additionally, the Committee authorizes and reviews proposals from the Climate Change Specialist Team, the Sustainability Macrocell, and the Climate Risk Cell.

The SC meets three times a year, and in 2023, members discussed priority topics such as the TCFD report, emissions quantification, definition of decarbonization goals, formation of the Climate Risk Cell, sustainability standards related to climate matters, and other aspects linked to institutional projects.

CLIMATE CHANGE MATTERS DISCUSSED IN THE 2023 SUSTAINABILITY COMMITTEE

Meeting	Topics discussed	Attendance
1	• 2022 Integrated Annual report and 2022 TCFD Report • Quantification of emissions and decarbonization targets • Sustainable Finance Cell • Organizational chart of ESG responsibilities by Managing Director	92.86%
2	• Status of ESG projects • Sustainability Macrocell • Sustainability standards (IFRS S1 and S2)	92.86%
3	• Update on statue of Sustainability Macrocell • ESG Ratings	84.6%

Sustainability Macrocell

Cells are an innovative format for multidisciplinary collaboration, tested at the bank as a way to guarantee achieving institutional goals. The Sustainability Macrocell was created by the Sustainability Department, in coordination with the Customer Experience Department, to address and track sustainability priorities, in line with the updated materiality exercise for 2023-2025 that resulted in our sustainability strategy. The Sustainability Macrocell is composed of six individual cells:

01
SUSTAINABLE FINANCING CELL

02
CLIMATE RISK CELL

03
FINANCIAL LITERACY CELL

04
OPERATIONAL ECO-EFFICIENCY CELL

05
REPORTING CELL

06
LEGAL AFFAIRS CELL

Climate Risk Cell

The purpose of the Climate Risk Cell is to manage the physical, transition, and nature-related risks of the wholesale and mortgage portfolios by generating databases, checking information, and developing methodologies, models, internal processes, and regulations. This unit also discusses and enhances the climate strategy, transition plan, and various initiatives proposed by the Climate Change Specialist Team, through feedback from the business areas of the bank that it calls upon regularly, based on the Group's specific objectives.

Climate Change Specialist Team

The Climate Change Specialist Team (CCST) was created to propose the Group's climate strategy, establish the transition plan, and suggest actions to implement this strategy while complying with global initiatives, primarily the TCFD, TNFD, NZBA, SBTi, CDP, and PCAF. The CCST is comprised of representatives from the Risk and Sustainability Departments, in 2023 particularly, it was strengthened by the addition of specialists in risk, climate change, modeling, and nature. This allowed it to fine-tune aspects such as quantifying the bank's carbon footprint, defining climate goals, modeling scenarios, developing stress tests, estimating the financial impact of climate-related risks, and evaluating tools.

Training

At GFNorte, we are convinced of the importance of developing and strengthening employees' capabilities and skills in the field of climate change as a means to increase the institution's resilience to its risks and seize opportunities. During 2023, we provided mandatory virtual training to our employees on sustainability and environmental and social risk management. We also gave them access to various specialized courses on climate change topics, resulting in a total of 16,038 hours dedicated to studying this subject.

CLIMATE CHANGE TRAINING 2023

Type of training	Hours spent
Mandatory	14,457 hrs.
Specialized	1,581 hrs.
Total	16,038

Incentives aligned with climate change

GFNorte considers it of the utmost importance to motivate and recognize the contribution of the areas and teams that enable us to meet climate commitments. Therefore, we have a scheme of both monetary and non-monetary incentives for employees whose institutional objectives support the execution of our climate strategy.

Monetary incentives are attached to targets defined by the departments and are entered into the internal performance evaluation platform. This platform allows us to track progress and determine whether these goals have been met.

MONETARY AND NONMONETARY INCENTIVES FOR INSTITUTIONAL CLIMATE CHANGE ACTION

		Goals				
Position	**Type of incentive**	**Climate governance**	**Climate strategy**	**Climate-related risks**	**Metrics and targets**	**Accountability**
Executive Department of Investor Relations and Sustainability	Monetary	X	X			X
Management positions in the Sustainability Department	Monetary		X		X	X
Executive Department of Wholesale Credit Risk	Monetary	X	X	X	X	X
Management positions in the Executive Department of Wholesale Credit Risk	Monetary		X	X	X	X
Climate Change Specialist Team	Nonmonetary	X	X	X	X	X

The scope of each position's goals depends on their specific job description, and may include the following:

Climate governance

Creation of policies and definition of climate-related training.

Climate strategy

Definition, validation, implementation, and monitoring of the climate change strategy.

Climate-related risks

Development and continuous improvement, validation, implementation, and monitoring of internal models for the management of physical and transition risks under various climate scenarios, as well as climate stress tests.

Metrics and targets

Quantification of Scope 1, 2, and 3 GHG emissions, as well as the measurement of progress toward GHG emissions reduction targets.

Accountability

Generation, review, and approval of mandatory and voluntary reports on climate change.

Strategy

GFNorte climate strate

Climate change is one of the most pressing global threats today. The effects of physical and transition risks threaten the security and health of populations, the balance of nature, and the stability of economies. Organized, guided worldwide action is urgently needed to mitigate and adapt to these effects and build a resilient, fair, sustainable and prosperous future.

At GFNorte, we know that, as part of the financial industry, we can play a crucial role in responding to this crisis. Therefore, we have joined in the call to limit global warming to 1.5 degrees Celsius by 2030 and achieve net-zero greenhouse gas emissions by 2050 through ambitious initiatives with our employees, customers, and investors.

In 2023, we updated our climate strategy, taking into account the material priorities of the Group, as well as global best practices in this area. In this way, we rely on the MEDIR methodology, which defines five guiding pillars by its acronym, and means “measure” in Spanish:

M

Model
We will analyze physical, transition, and nature-related risks, contrasting various scenarios and conducting stress tests that allow us to take action to mitigate and adapt to the effects of climate change, and prevent or minimize impacts on nature, in addition to quantifying possible losses.

E

Emphasize green value
In line with national and global goals, we will contribute to greening the banking industry by offering sustainable products and services that finance activities that have positive impacts on the environment and the population, and by consolidating sustainable markets.

D

Decarbonize
Considering the urgent transition to a low-emission economy, we will establish ambitious reduction targets for both our portfolios and operations, developing institutional policies and processes to support the achievement of our goals and assisting our customers in achieving theirs.

I

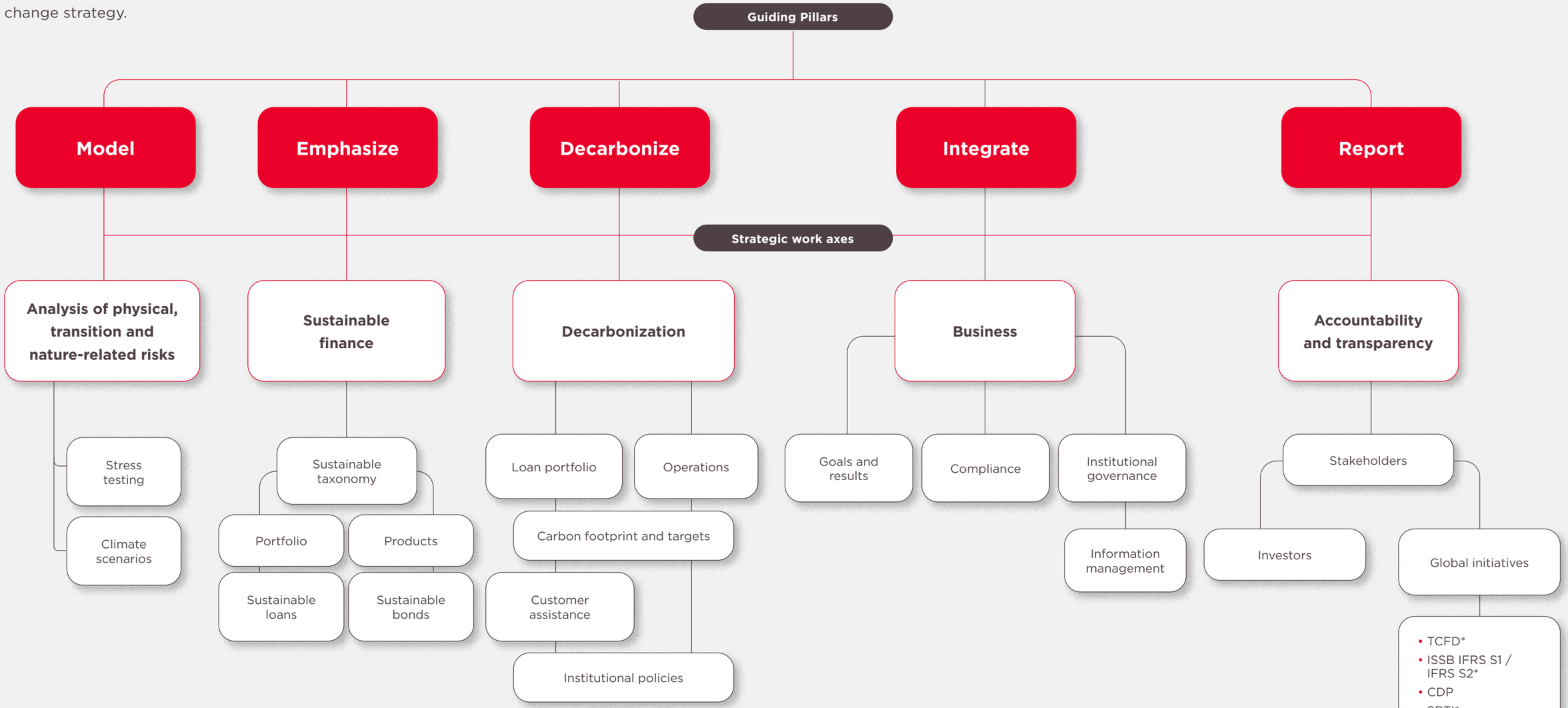
Integrate
We intend to make climate change an ongoing priority for our business, considering institutional goals, strengthening governance of our group, considering compensation and budgets, and enhancing climate information management systems for ourselves and our customers.

R

Report
Our firm commitment to stakeholders moves us to offer an increasingly clear accountability of our compliance with the global initiatives we have joined for more than a decade, to our investors, customers, suppliers and the communities to which we belong.

In addition to the guiding pillars, we incorporate five strategic work axes that provide for key action lines in the years from 2024 to 2030. The following is a conceptual diagram of our climate change strategy.

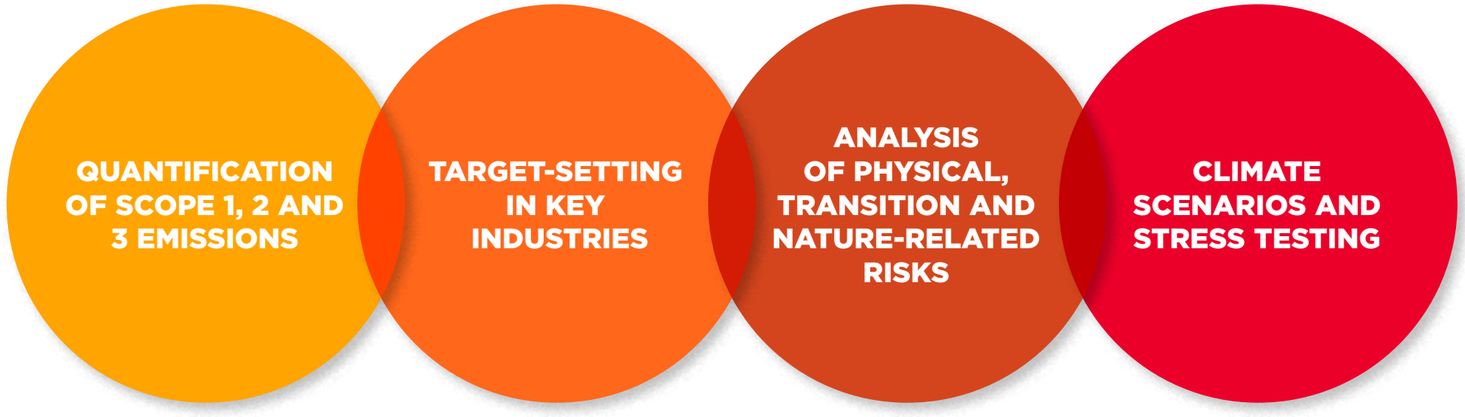
GFNORTE CLIMATE STRATEGY 2024-2030



* **TCFD:** Task Force on Climate-related Financial Disclosures. **ISSB IFRS S1 and IFRS S2:** General Sustainability-Related Information Disclosure Requirements (IFRS S1) and Climate-Related Information Disclosure Requirements (IFRS S2). **SBTi:** Science-Based Targets. **NZBA:** Net Zero Banking Alliance. **TNFD:** Task Force on Nature-related Financial Disclosures. **PRB:** Principles for Responsible Banking. **EP:** Equator Principles. **PRI:** Principles for Responsible Investment.

GFNorte believes that climate strategy should be dynamic over time, to gradually and steadily advance toward building a resilient, low-emission economy. In 2023, our efforts centered on quantifying Scope 1 and 2 operating emissions, and measuring financed (Scope 3) emissions in the loan portfolio of Grupo Financiero Banorte and the emissions of the investment portfolio of Operadora de Fondos Banorte. We also prioritized target-setting, analysis of physical, transition and nature-related risks, developing climate scenarios and conducting stress tests.

2023 FOCUS OF GFNORTE CLIMATE STRATE



Scope of this report

This report was limited to corporate operations and the most relevant industries for the business. The scope of emissions measurement and reduction targets included oil & gas, energy, real estate and lodging, agriculture, aluminum, iron and steel, coal, transportation, cement, and construction (all from the wholesale portfolio), as well as the mortgage portfolio of the retail portfolio, and other financial instruments in the bank's portfolio. In October 2023, the Science-Based Target Initiative (SBTi) validated GFNorte's targets, making us the first Financial Group in Latin America to achieve this milestone. The analysis of physical risks focused on the bank's branches, the real estate and lodging industry, as well as the mortgage portfolio, while the analysis of transition risks applied to the wholesale portfolio. In each case, scenarios were developed, and stress tests were conducted.

SCOPE OF THE REPORT

	Quantification of emissions	Target setting	Analysis of transition risks • Scenarios • Stress testing
Scope 1	Operations	Operations	Branches
Scope 2	Operations	Operations	
Scope 3	**Bank, Leasing, and Factoring** • Oil and Gas • Power Generation • Real Estate and Temporary Accommodation • Mortgage • Agriculture • Aluminum • Iron and Steel • Coal • Transportation • Cement • Construction • Other Financial Instruments **Fund Manager** • Stocks • Corporate Bonds • Sovereign Bonds	**Bank, Leasing, and Factoring** • Oil and Gas • Power Generation • Real Estate and Temporary Accommodation • Mortgage • Agriculture • Aluminum • Iron and Steel • Coal • Transportation • Cement • Construction	• Branches • Real Estate and Temporary Accommodation • Mortgage • Real Estate • Power Generation • Oil and Gas • Agriculture • Iron and Steel • Coal • Transportation • Cement • Construction

Climate-exposed industries

To identify the industries with the greatest climate exposure in our financing portfolio, we created a classification system based on our internal taxonomy and global literature on this topic. Based on the 1,156 Industry Activity Codes (IAC) that our group works with, we defined 41 climate-exposed industries (CEI), which are presented in the table below, and which were the basis of our selection of industries to study.

In 2024, we will revise this list to align it with current industry classifications.

CLIMATE-EXPOSED INDUSTRIES 2023

#	Industry
1	State and Municipal Government
2	Oil and Gas
3	Real-estate services
4	Retail
5	Financial and Insurance Services
6	Transportation, Postal, and Warehousing Services
7	Temporary Accommodation Services
8	Civil Engineering Construction
9	Professional Services
10	Building Construction
11	Other Manufacturing
12	Power Generation
13	Agriculture and Livestock
14	Cement Manufacturing
15	Food, Beverage, and Tobacco Manufacturing
16	News Media
17	Corporate and Business Management Services
18	Furniture Rental Services
19	Water and Gas Utilities
20	Chemical Product Manufacturing
21	Recreational Services
22	Paper Product Manufacturing
23	Federal Government
24	Waste Management
25	Educational Services
26	Food and Beverage Preparation Services
27	Plastic and Rubber Product Manufacturing
28	Textile and Apparel Manufacturing
29	Iron and Steel Manufacturing
30	Specialized Construction
31	Aluminum Manufacturing
32	Other Services
33	Healthcare and Social Assistance Services
34	Wood and Wood Product Manufacturing
35	Basic Metal Manufacturing, excluding Iron, Steel, and Aluminum
36	Non-Metallic Mineral Mining
37	Metallic Mineral Mining, excluding Coal and Iron
38	Coal Mining
39	Electric utilities
40	Iron Ore Mining
41	Mortgage

Time horizons

Since the consequences of climate change materialize over long periods of time, which may extend beyond GFNorte's traditional strategic planning, and the impacts can occur starting in the present, we have established the following time horizons to guide the identification and analysis of physical and transition risks.

TIME HORIZONS DEFINED BY GFNORTE FOR CLIMATE RISK ANALYSIS

Horizon	From (years)	To (years)
SHORT	0 years	4 years
MEDIUM	5 years	14 years
LONG	15 years	30 years

Risks, opportunities and resilience

The physical risks associated with climate change have potential consequences that include increasingly frequent extreme weather events, rising sea levels, water stress in some areas, the spread of wildfires, among other events, which can be classified as acute (caused by natural disasters) or chronic (resulting from long-term changes in climate patterns). Geographic location is crucial for accurately measuring physical risks, and the greater the geospatial granularity, the more accurate the measurement will be.

The impacts of physical risks can be direct, affecting our operations, or indirect, through our customers. However, the materialization of these risks could increase the likelihood of credit default by customers or deplete the value of the collateral backing our loans, resulting in incremental credit losses, the need for higher reserves and capital adequacy, and a reduction in profits for GFNorte.

To assess the potential impacts of acute physical risks on the direct operation of our branches and some of the bank's most important loan portfolios, we conducted a high-granularity assessment of hydro-meteorological risks.

Transition risks refer to the possibility of sweeping political, legal, technological, and market changes necessary to mitigate and adapt to climate change. GHG reduction measures, for example, will impact all sectors of the economy but to varying degrees. Significant investment will be required to move towards clean energy generation and achieve net-zero goals. Industries that are more difficult to decarbonize will face higher transition risks, such as oil & gas, power generation, agriculture, cement, steel, etc.

The following is a non-exhaustive list of opportunities and risks facing the industry groups included in Banorte's wholesale portfolio, arising from physical and transition risks, with different materialization periods, ranging from Short Term (ST), Medium Term (MT), and Long Term (LT). **See Table** for the definition of these terms.

Risks and opportunities for industries in the corporate and business portfolio

Industry (total MXN mn)	Risks	Opportunities
Oil & Gas MXN33.93 bn	**PR1: Extreme weather events** • Description: Vulnerability to extreme weather events such as hurricanes and floods that could affect the oil and gas infrastructure and production, causing operational disruptions, facility damage, and revenues loss. Term: MT/LT **PR2: Changes in Climate Conditions** • Description: Alterations in climate patterns that affect the exploration and production of hydrocarbons with the potential effect of changes in resource availability and more challenging operating conditions. Term: MT/LT **TR1: Carbon tax** • Description: Increased indirect costs resulting from an increase in the carbon tax as per the Mexican Excise Tax Law, pressuring margins due to higher indirect costs. Term: MT **TR2: Implementation of emissions trading system** • Description: Increased indirect costs following the implementation of the Emissions Trading System (ETS) as per the General Law on Climate Change (LGCC) pressuring margins due to higher indirect costs. Term: MT **TR3: Climate regulations** • Description: Changes in government regulations to reduce carbon emissions, which may increase compliance costs and cause production restrictions and asset depreciation. Term: ST/MT **TR4: Shift in energy demand** • Description: Lower demand for fossil fuels due to the transition to cleaner energy sources reducing revenues and making it necessary to diversity businesses. Term: MT/LT	**O1: Increased demand for financing in energy efficiency projects** • Description: Increased revenues due to higher demand for financing in energy efficiency and operational projects, carbon capture and sequestration, as well as the use of renewable energy and alternative fuels. Term: ST/MT **O2: Financing business model transition** • Description: Redirecting capital flows by financing the transition from fossil fuel-based business models to renewable sources and alternative fuels. Term: MT/LT **O3: Energy diversification** • Description: Investing in renewable energy sources and low-carbon technologies resulting in portfolio diversification and reduced dependence on fossil fuels. Term: ST/MT **O4: Operational and technological efficiency** • Description: Introduction of more efficient and sustainable technologies. • Potential Impact: Reduction in operational costs, improved efficiency, and meeting environmental expectations. Term: ST/MT **O5: Value chain innovation** • Description: Developing innovative solutions such as enhanced recovery and carbon capture technologies or the development of renewable energy and transition to alternative sources to mitigate environmental impacts, improving reputation, opening access to new markets, and strengthening social license to operate. Term: MT/LT

*Figures as of December 2022. PR: Physical risk; TR: Transition risk; O: Opportunity

Risks and opportunities for industries in the corporate and business portfolio

Industry (total MXN mn)	Risks	Opportunities
Energy generation MXN14.35 bn	**PR3: Fluctuation in renewable energy generation** • Description: Vulnerability to climatic variability that can affect the generation of renewable energy, such as solar and wind, causing fluctuations in energy production and challenges in maintaining supply stability. Term: MT/LT **PR4: Extreme weather events** • Description: Direct impact on energy generation infrastructure due to extreme weather events such as storms or floods, causing interruptions in generation and possible reconstruction costs. Term: MT/LT **TR1: Carbon tax** • Description: Increased indirect costs resulting from an increase in the carbon tax as per the Mexican Excise Tax Law, pressuring margins due to higher indirect costs. Term: MT **TR2: Implementation of emissions trading system** • Description: Increased indirect costs following the implementation of the Emissions Trading System (ETS) as per the General Law on Climate Change (LGCC) pressuring margins due to higher indirect costs. Term: MT **TR5: Change in consumer preferences** • Description: Lower income resulting from a change in consumer preferences towards low-cost and cleaner energy, reducing company revenues and payment capacity. Term: MT **TR6: Changes in energy policies** • Description: Modifications in government policies that could affect the investment and operation of energy generation projects, causing legal uncertainty, lower profitability, and possible adjustments in long-term planning. Term: ST/MT **TR7: Competition with traditional energy sources** • Description: Persistence of subsidies for fossil fuels that could affect the competitiveness of renewable energy sources, discouraging investment in clean energy and obstacles to the transition. Term: MT/LT	**O6: Increased financing demand** • Description: Increased income due to higher demand for financing for new energy generation plants from renewable sources and/or alternative fuels. Term: ST/MT **O7: Investment in clean technologies** • Description: Expanded capacity to invest in renewable energy generation, such as solar and wind, contributing to sustainability, diversifying the energy mix, and possibly reducing costs over the long term. Term: MT/LT **O8: Smart infrastructure development** • Description: Implementation of smart grid technologies to efficiently manage energy generation and distribution, improving system resilience and operational optimization. Term: MT/LT **O9: Participation in carbon markets** • Description: Enter carbon markets to monetize emission reductions, generating additional income and aligning with sustainability objectives. Term: ST/MT

*Figures as of December 2022. PR: Physical risk; TR: Transition risk; O: Opportunity

Risks and opportunities for industries in the corporate and business portfolio

Industry (total MXN mn)	Risks	Opportunities
Real Estate and Lodging MXN95.45 bn	**PR5: Materialization of climate events** • Description: Increased capital expenditure following the materialization of more frequent, intense, and unpredictable climate events, mainly in coastal areas, which could lead to disruptions in our customers' assets and operations. Term: MT/LT **PR6: Temperature rise and extreme climate events** • Description: Vulnerability to extreme temperatures and climate events such as floods or storms that could impact building infrastructure, resulting in property damage, decreased habitability, and potential reconstruction costs. Term: MT/LT **PR7: Water scarcity** • Description: Water scarcity could affect the availability of resources for construction and operation of buildings, increasing costs, restricting development, and posing challenges in property management. Term: LT **TR8: Increased costs due to higher energy consumption** • Description: Increased direct costs resulting from higher energy consumption due to rising temperatures and an increase in energy costs. Term: MT **TR9: Energy efficiency regulations** • Description: Changes in regulations demanding higher energy efficiency standards in buildings, necessitating additional investments, design adaptations, and potential impact on the valuation of existing properties. Term: MT **TR10: Shift in market preferences** • Description: A shift in market demand towards more sustainable and energy-efficient properties, leading to the devaluation of properties not aligned with these preferences, impacting real estate investments. Term: ST/MT	**O10: Increase in revenues due to higher demand for financing** • Description: Increase in revenues due to higher demand for financing to implement adaptation measures aimed at repairing and making properties and infrastructure more resilient, while offering more sophisticated hydrometeorological insurance coverage. Term: MT **O11: New projects focused on emission reduction** • Description: Possibility of attracting and retaining customers by offering advisory services on industry best practices to promote new projects focused on emission reduction which require financing for implementation. Term: MT **O12: Sustainable product offerings** • Description: Possibility of attracting and retaining customers by offering sustainable products for financing properties with low-carbon technologies and sustainable building certifications (LEED, EDGE, BREEAM, among others). Term: MT **O13: Sustainable buildings** • Description: Developing buildings with sustainable standards and energy efficiency, attracting environmentally conscious tenants, reducing operational costs, and improving corporate image. Term: ST/MT **O14: Innovation in design and construction** • Description: Adopting innovative design and construction practices to enhance resilience and sustainability, differentiating the organization in its markets, reducing climate-related risks, and increasing structural durability. Term: ST/MT **O15: Investments in sustainable technologies** • Description: Implementing sustainable technologies such as renewable energy and intelligent management systems, reducing operational costs, increasing efficiency, and raising property valuations. Term: ST/MT

*Figures as of December 2022. PR: Physical risk; TR: Transition risk; O: Opportunity

Risks and opportunities for industries in the corporate and business portfolio

Industry (total MXN mn)	Risks	Opportunities
Agriculture & livestock MXN10.22 bn	**PR8: Impact on quantity and quality of grain and livestock production** • Description: Lower income due to the impact on the quantity and quality of grain and livestock production, crucial for food security (e.g., corn, beans, rice, among others), resulting from changes in average temperature, as well as increased frequency and severity of droughts or frost. Term: MT/LT **PR9: Changes in precipitation patterns** • Description: Variations in the quantity and distribution of rainfall that could affect agricultural production and water availability, causing crop loss, water scarcity, and decreased productivity. Term: MT/LT **PR10: Temperature increase** • Description: Rising temperatures that could impact crop cycles and favor the spread of pests, leading to reduced agricultural production, changes in crop choices, and the need to adjust farming practices. Term: MT/LT **TR11: Changes in agricultural policies** • Description: Modifications in government policies related to agricultural sustainability and emission reduction, necessitating adjustments in farming practices, possible additional costs, and changes in profitability. Term: MT **RT12: Water resource scarcity** • Description: Increased competition for water resources between agriculture and other sectors, resulting in limitations on irrigation, reduction in arable land, and the need to adopt more efficient practices. Term: MT	**O16: Increase in revenues due to higher demand for insurance.** • Description: Increase in revenues due to higher demand for specialized insurance coverage to offset losses in grain and livestock production. Term: MT/LT **O17: New projects with a focus on emission reduction** • Description: Attracting and retaining customers by offering advisory services on industry best practices to promote new projects focused on emission reduction, which require financing for implementation. Term: ST **O18: Higher demand for technology financing** • Description: Increase in revenues due to higher demand for technology financing emphasizing efficient use of energy, soil, water, fertilizers, and other aspects that promote sustainable agriculture and livestock. Term: ST/MT **O19: Sustainable product offerings** • Description: Attracting and retaining customers by offering sustainable products for financing agriculture and livestock activities with sustainable certifications (Rainforest Alliance, UTZ, SAGARPA Organic, among others). Term: ST **O20: Sustainable agriculture** • Description: Adopting sustainable agricultural practices that minimize environmental impact, improving resilience to climate events, accessing sustainable markets, and complying with regulations. Term: ST/MT **O21: Crop diversification** • Description: Exploring the diversification of crops that are more resistant to changing climate conditions, increasing flexibility in adverse weather conditions and mitigating the risk of crop loss. Term: ST/MT **O22: Innovative agricultural technologies** • Description: Incorporating technologies such as precision agriculture, regenerative agriculture, and efficient irrigation systems, improving efficiency, reducing costs, and increasing productivity. Term: MT

*Figures as of December 2022. PR: Physical risk; TR: Transition risk; O: Opportunity

Risks and opportunities for industries in the corporate and business portfolio

Industry (total MXN mn)	Risks	Opportunities
Cement, Aluminum, Iron and Steel MXN8.31 bn	**PR11: Impact on production from extreme weather events** • Description: Vulnerability to extreme weather events that could affect the production and operation of cement, aluminum, and steel plants, causing production interruptions, infrastructure damage, and possible reconstruction costs. Term: MT/LT **PR12: Variability in availability of water resources** • Description: Changes in the availability of water necessary for industrial processes, leading to increased costs, production restrictions, and the need for more water-efficient technologies. Term: LT **TR2: Implementation of emissions trading system** • Description: Increased indirect costs following the implementation of the Emissions Trading System (ETS) as per the General Law on Climate Change (LGCC) pressuring margins due to higher indirect costs. Term: MT **TR13: Environmental and emissions regulations** • Description: Changes in government regulations to reduce emissions and promote more sustainable practices, resulting in increased compliance costs, possible asset devaluation, and the need for technological adaptation. Term: MT **TR14: Shift in demand toward sustainable materials** • Description: Shift in market demand toward more sustainable construction materials, requiring production adjustments, shifting investment away from conventional technologies, and making diversification necessary. Term: ST/MT	**O23: Promote new projects focused on emission reduction** • Description: Possibility of attracting and retaining customers by offering advisory services on industry best practices to promote new projects focused on emission reduction, which require financing for implementation. Term: ST **O24: Increased demand for project financing** • Description: Increase in revenues due to higher demand for financing for energy and operational efficiency projects, carbon capture and sequestration, as well as the use of renewable energy and alternative fuels. Term: ST/MT **O25: Development of low carbon technologies** • Description: Investing in cleaner technologies for the production of cement, aluminum, and steel, reducing emissions and improving regulatory compliance, while enhancing corporate reputation. Term: MT/LT **O26: Recycling and circular economy** • Description: Adopting recycling practices and promoting material circularity, reducing dependence on raw materials, conserving resources, and aligning with sustainable trends. Term: ST/MT **O27: Innovation in efficient processes** • Description: Implementing more efficient technologies and processes to reduce carbon intensity, reducing operational costs, improving efficiency, and adapting to sustainable standards. Term: ST/MT

*Figures as of December 2022. PR: Physical risk; TR: Transition risk; O: Opportunity

Risks and opportunities for industries in the corporate and business portfolio

Industry (total MXN mn)	Risks	Opportunities
Transportation MXN10.23 bn	**PR13: Impact on transportation infrastructure due to climate events** • Description: Vulnerability of transportation infrastructure (roads, bridges) to extreme weather events such as floods and storms, causing transportation disruptions, infrastructure damage, and possible reconstruction costs. Term: MT/LT **PR14: Variations in fuel efficiency due to climate changes** • Description: Changes in fuel efficiency due to climate variations affecting vehicle performance, raising operational costs, necessitating fleet adaptation, and increasing dependence on more expensive energy sources. Term: LT **TR1: Carbon tax** • Description: Increased indirect costs resulting from an increase in the carbon tax as per the Mexican Excise Tax Law, pressuring margins due to higher indirect costs. Term: MT **TR15: Increase in fossil fuel prices** • Description: Direct cost increases due to the rise in fossil fuel prices resulting from market price volatility. Term: ST/MT **TR16: Emissions regulations and environmental standards** • Description: Changes in government regulations to reduce emissions and promote cleaner technologies in transportation, leading to increased compliance costs, asset devaluation, and the need for technological adaptation. Term: ST/MT **TR17: Shift in demand for sustainable transportation** • Description: Shift in market demand towards more sustainable transportation options, discouraging traditional business models, possible fleet obsolescence, and the need for diversification. Term: MT	**O28: Sustainable product offering** • Description: Attracting and retaining customers by offering sustainable products for financing low-emission transportation, such as hybrid, electric, and green hydrogen vehicles. Term: ST **O29: Increased demand for transportation financing** • Description: Increase in revenues due to higher demand for financing for low-emission transportation, such as hybrid, electric, and green hydrogen vehicles. Term: ST **O30: Investment in sustainable vehicles and technologies** • Description: Adopting electric, hybrid vehicles, and cleaner technologies which can reduce emissions, enhance regulatory compliance, and attract environmentally conscious consumers. Term: ST/MT

*Figures as of December 2022. PR: Physical risk; TR: Transition risk; O: Opportunity

The following table summarizes the main physical risks identified in each industry group:

PHYSICAL RISKS BY INDUSTRY

Industry/Risk	Cyclone	Flooding	Extreme rainfalls	Drought	Extreme temperatures
Oil & Gas	X	X			X
Energy generation	X	X	X		X
Building, real estate and lodging	X	X	X		
Agriculture	X	X	X	X	X
Cement, aluminum, iron and steel	X	X			X
Transportation	X	X	X		

The following summarizes the main transition risks identified in each industry group:

TRANSITION RISKS BY INDUSTRY

Risk / Industry	Oil & Gas	Energy generation	Building, real estate and lodging	Agriculture	Cement, aluminum, iron and steel	Transportation
Regulatory risks						
Regulations	X	X	X	X	X	X
Carbon price/tax	X	X			X	
Idle assets	X		X			X
Market risks						
Reduced demand	X					
Shift in consumer preferences	X	X	X	X	X	X
Supply chain risks				X	X	
Technology risks						
New technologies	X	X	X	X	X	X

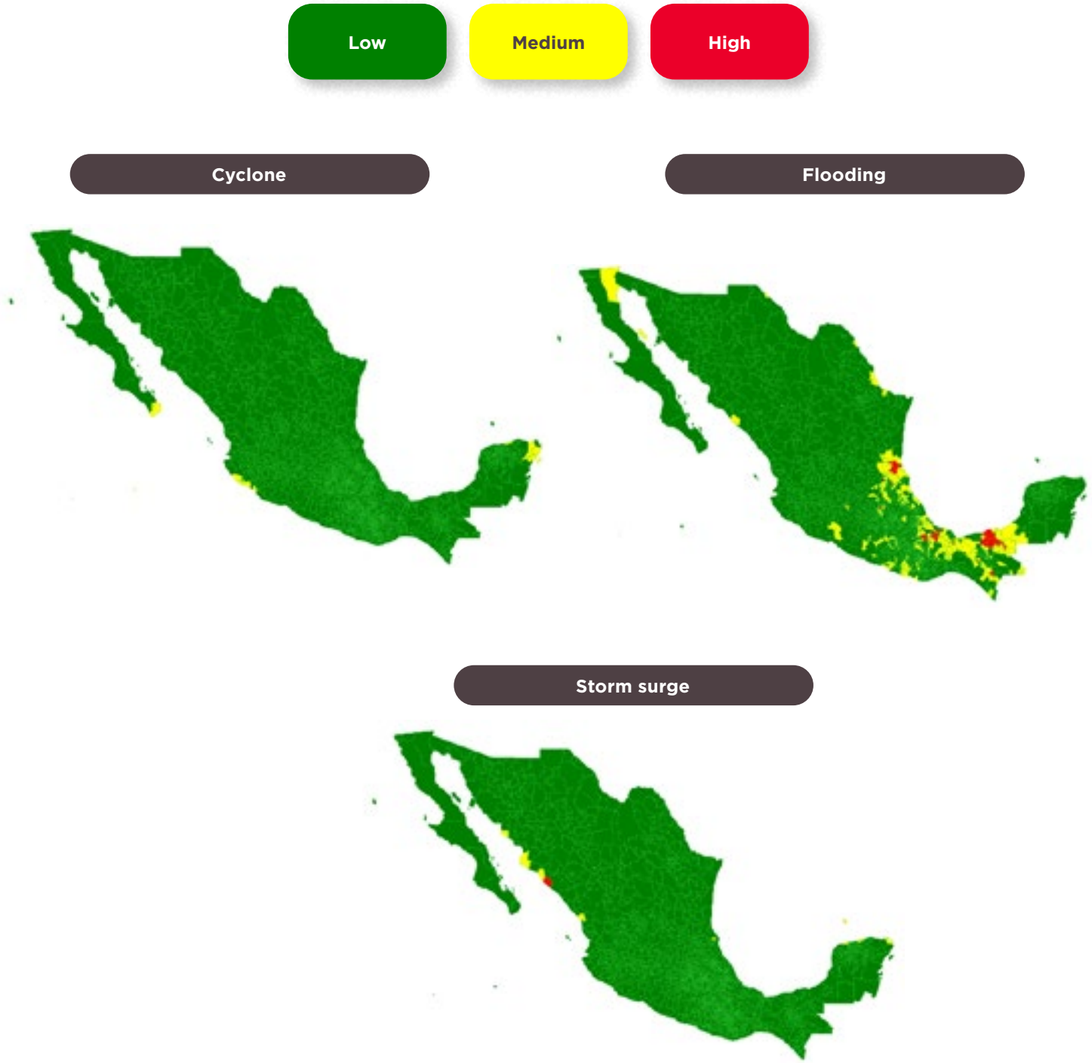
Risk assessment

Physical risks

GFNorte has specialized tools for modeling physical risks and quantifying their impacts. We used these to classify Mexico's municipalities based on their exposure to acute climate risks that might affect the bank's branches, the mortgage portfolio, as well as the real estate and lodging portfolio. We increased granularity over the previous year's exercise to a resolution of 3 km, which allowed us to create a risk indicator at the municipal level.

We modeled hydrometeorological risks—cyclones, pluvial flooding, and storm surges. For cyclones and storm surges, we incorporated data from storms between 1950-2022 in the North Atlantic and Northeast Pacific cyclone basin. For pluvial flooding, we used the results from a general circulation model coupled with a hydrographic model. Using this information, we generated a risk indicator based on the impacts of these hydrometeorological events, taking into account the distribution of collateral values with a resolution of approximately 3 km, covering the entire national territory. **Figure Traffic light map of theroretic hydrometeorological impacts** shows the decrease in the value of collateral that would result from aggregated hydrometeorological events at the municipal level, with cumulative impacts from 2023 to 2030, considering the RCP 2.6 baseline scenario (see **Section Climate Scenarios**) and a traffic light indicator system[3].

TRAFFIC LIGHT MAP OF THEORETIC HYDROMETEOROLOGICAL IMPACTS



2 The events of hurricane Otis Will be incorporated next year because the tools we were using at the time we ran the exercises did not have up-to-date information.
3 Established based on expert criteria and statistics, with a scale of dark green (no impact) to dark red (high impact).

The following table lists the ten municipalities that would suffer the greatest impact from these phenomena, under the base scenario of RCP 2.6 (see **Section Climate Scenarios**). Aggregation at the state level can be seen in **Five most heavily affected States** Table

TOP 10 MOST HEAVILY AFFECTED MUNICIPALITIES*

	Cyclone	Pluvial flooding	Storm surge
Greatest Impact	Cozumel, Quintana Roo	Tlacojalpan, Veracruz	Navolato, Sinaloa
	Los Cabos, Baja California Sur	Teoloyucan, Edo. de México	Ixil, Yucatán
	Tecomán, Colima	Amatitlán, Veracruz	Isla Mujeres, Quintana Roo
	Benito Juárez, Quintana Roo	Carlos A. Carrillo, Veracruz	Progreso, Yucatán
	Solidaridad, Quintana Roo	Tuxtilla, Veracruz	Tamalín, Veracruz
	La Huerta, Jalisco	San Pedro Ixcatlán, Oaxaca	Escuinapa, Sinaloa
	Cihuatlán, Jalisco	Otatitlán, Veracruz	Angostura, Sinaloa
	Manzanillo, Colima	San José Independencia, Oaxaca	Dzilam de Bravo, Yucatán
	Dzilam de Bravo, Yucatán	Centro, Tabasco	San Ignacio Río Muerto, Sonora
Least impact	Lázaro Cárdenas, Quintana Roo	Osumacinta, Chiapas	Ahome, Sinaloa

*The tools and historic data used do not include hurricane Otis.

Based on the traffic light risk indicator for each event and regardless of whether not GFNorte has any exposure there, Mexico's 2,424 municipalities fall into the following categories:

BREAKDOWN OF MUNICIPALITIES BY IMPACT (TRAFFIC LIGHT SYSTEM)

	2030			2030		
	Low	Medium	High	Low	Medium	High
Cyclone	99.59%	0.41%	0.00%	89.89%	4.29%	5.82%
Flooding	85.07%	13.20%	1.73%	74.05%	20.26%	5.69%
Storm surge	99.59%	0.37%	0.04%	98.68%	0.58%	0.74%

FIVE MOST HEAVILY AFFECTED STATES

	Cyclone	Pluvial flooding	Storm surge
Greatest impact	Baja California Sur	Veracruz	Sinaloa
	Quintana Roo	Tabasco	Quintana Roo
	Sinaloa	Chiapas	Baja California Sur
	Tamaulipas	Oaxaca	Sonora
Least impact	Yucatán	Campeche	Campeche

BRANCHES

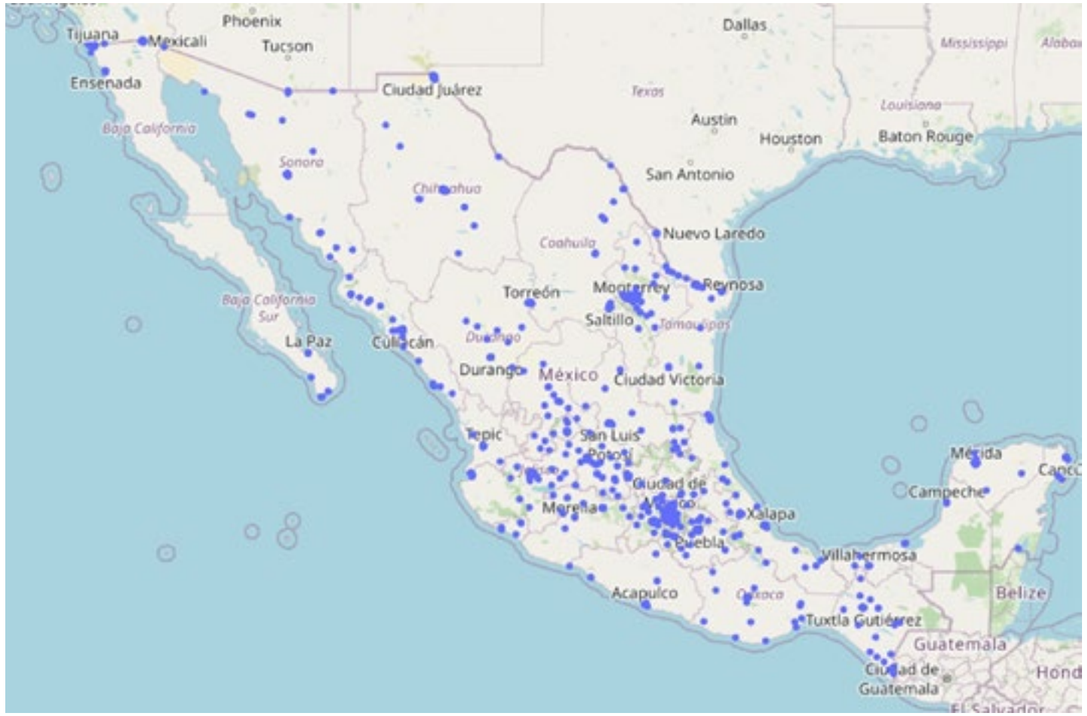
The increased severity and frequency of climate events may cause monetary losses due to the limitation or temporary closure of branch operations, customers' lack of access to financial services, and building damage.

The map shows the location of the Financial Group's 1,158 branches.

We used a traffic-light based theoretical impact metric to assess the risk to our branches.

Based on the geographic classification of hydrometeorological risk, we determined the number of branches in each of the exposed municipalities.

LOCATION OF GFNORTE BRANCHES



THE ORETIC HYDROMETEOROLOGICAL RISK EXPOSURE BY BRANCH

	Low	Medium	High
Cyclone	98.2%	1.8%	0.0%
Flooding	88.5%	9.9%	1.6%
Storm surge	99.1%	0.8%	0.2%

In 2023, eight weather events were recorded, five of which had economic impacts on 22 of our branches. The costs of physical damages to these properties were approximately MXN25.76 mn, and in terms of profitability, we estimate a net operating loss of approximately MXN27.27 mn due to 1,446 hours of interrupted operations (94% from hurricane Otis).

As a preventive measure against climate risks, we have a training program focused on risk regulation and detection, which was completed by 5,612 of our active brigade members. We also have a resilience plan in place to ensure business continuity and an efficient return to operations in our branches. The cost of these measures during the year totaled MXN12.02 mn.

Banorte's climate adaptation plan includes a command center responsible for monitoring and providing information on national weather conditions. We also have a business continuity plan that integrates various measures against these risks, a business continuity methodology based on international practices from the Disaster Recovery Institute International, and a disaster recovery plan to address the possibility of damage to Banorte's Main Data Center.

In our commercial banking network, we have a recovery strategy for branch channels called "bunker branches." These branches allow us to maintain operational continuity for our customers in the event of contingencies or disasters in the affected area.

Finally, we have insurance against losses caused by material damages directly caused to covered assets by accidental, sudden, and unforeseen risks related to hydro-meteorological events. For more information about our Climate Adaptation Plan, visit the following **link**

PHYSICAL IMPACT FROM HURRICANES

Climate event	Physical impact	Loss of profit
Hurricane "Beatriz"		$ 440.7
Hurricane "Lidia"		$ 944.6
Hurricane "Hilary"		$ 2,177.1
Hurricane "Norma"	$436.5	$ 24,143.6
Hurricane "Otis"	$23,325	$ 21,966.4

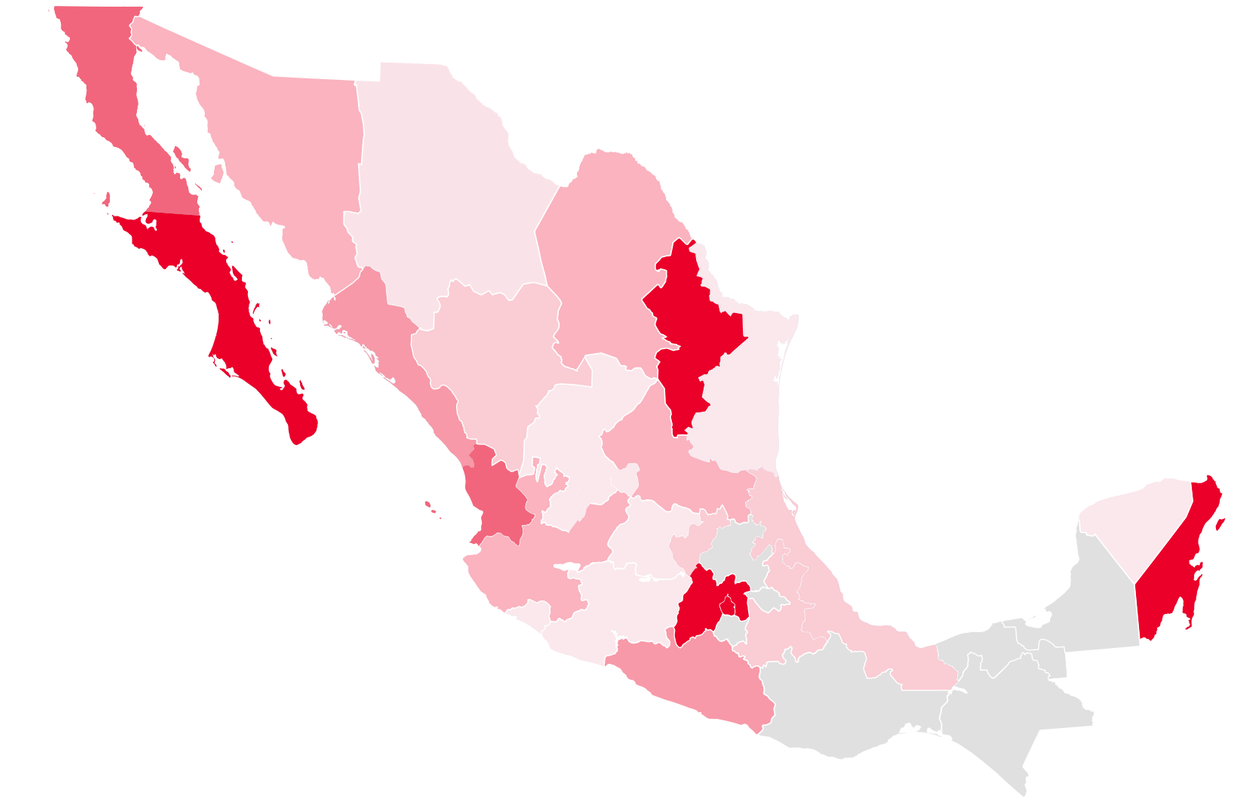
* Figures in thousands of pesos.

Real-estate and lodging services

In the real-estate and lodging services portfolio, extreme hydro-meteorological phenomena may threaten the continuity of customers' operations, increase their capital expenses for damage repairs, and lead to a devaluation of assets. Additionally, asset deterioration could shorten their useful life. This could have an impact on our customers' payment capacity and the value of the collateral backing our own assets.

As of December 2022, the real estate and lodging portfolio consisted of 275 customers with a balance of MXN95.45 bn. We created the following map of these properties, showing that Quintana Roo, Mexico City, Baja California Sur, Nuevo León, and Mexico State have the highest portfolio concentration in this industry **(Portfolio balance – Real-estate and lodging services).** This exercise covered 71.9% of the portfolio, considering the level of detail required in the geolocation of real estate collateral.

PORTFOLIO BALANCE – REAL-ESTATE AND LODGING SERVICES



Lowest balance **Highest balance**

Under scenario RCP 2.6 (see section 2.5.3), which was used as the base case scenario, no assets were grouped into the “high” category, but if we extend the horizon and consider more severe scenarios, the prospects are quite different, as shown in section 2.5.4. Our commitment at GFNorte is to assist our customers in adapting to and mitigating the possible impacts of these phenomena, always in line with the Paris agreement to limit global warning to less than 2°C.

MAP OF HYDROMETEOROLOGICAL IMPACT IN THE REAL-ESTATE AND LODGING SERVICES INDUSTRY

Low | Medium | High

Cyclone

Flooding

Storm surge

RISK OF HYDROMETEOROLOGICAL IMPACT ON BALANCES IN THE REAL-ESTATE AND LODGING SERVICES INDUSTRY*

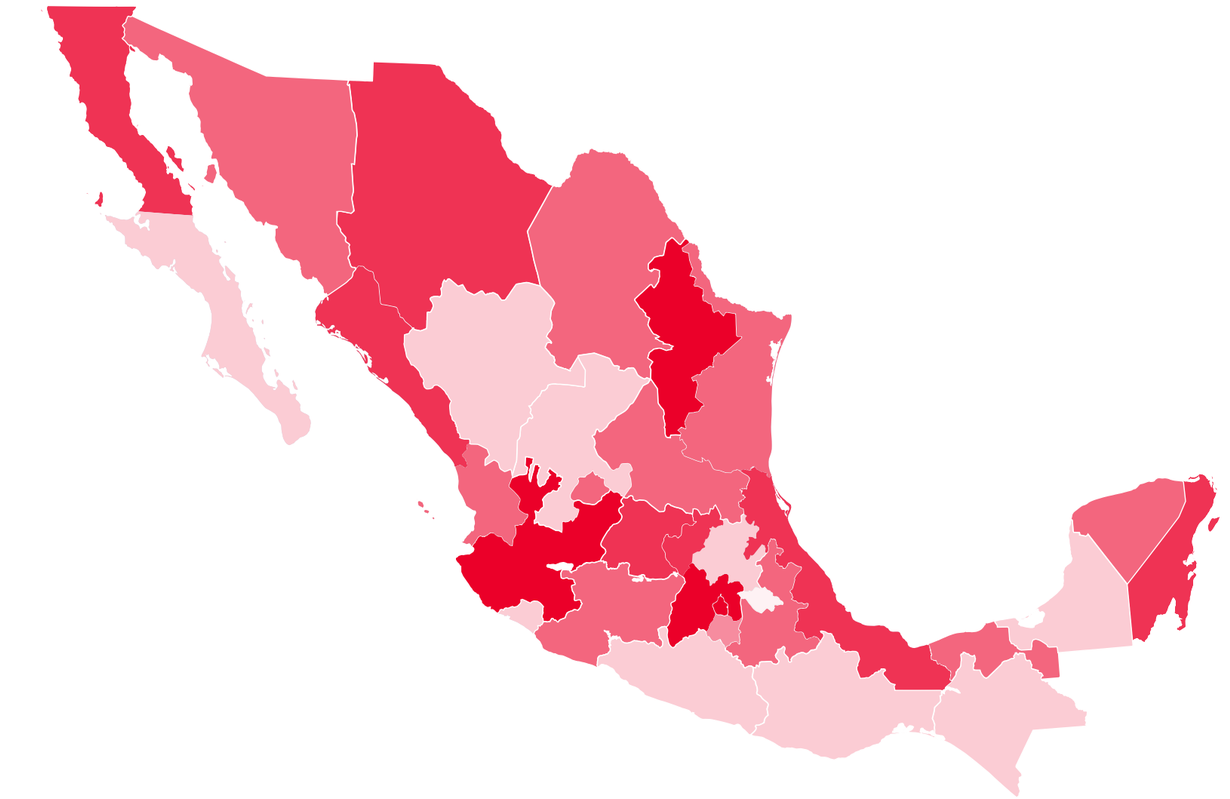
	Low	Medium	Alto
Cyclone	43.2%	28.7%	0.0%
Flooding	66.5%	5.4%	0.0%
Storm surge	67.9%	4.0%	0.0%

*Totals add up to less than 100% because 28.1% of the portfolio was excluded from the exercise due to lack of geolocation data.

Mortgages

As of December 2022, the mortgage portfolio was the bank's largest consumer portfolio for the bank, with 169,837 loans and a balance of MXN226.46 bn. As the following figure shows, the greatest concentrations of loan balance are in Mexico City, Nuevo León, Jalisco, and Mexico State **(Map Balance of the mortgage portfolio as of December 2022).** The table shows the balance of geolocated collateral with the precision defined by the exercise's theoretical criteria. The exercise covers 98.9% of the mortgage portfolio balance, thanks to the level of detail in the geolocation of real estate collateral.

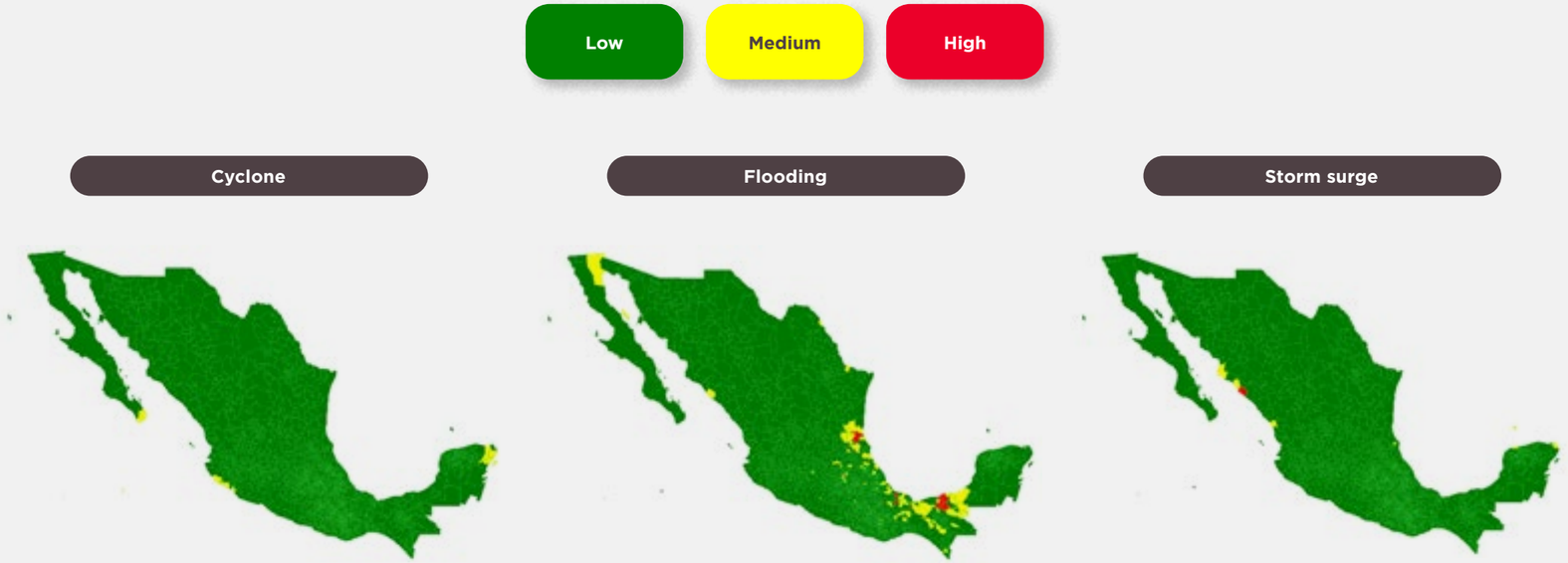
BALANCE OF THE MORTGAGE PORTFOLIO AS OF DECEMBER 2022



Lowest balance **Highest balance**

In this section, we examined risks related to cyclones, storm surges, and pluvial flooding to assess the level of exposure of our branches, as well as of the real estate, lodging and mortgage portfolios. What we found was a relatively low concentration of these assets in areas categorized as higher risk, but it is important that we explore the impact under various climate scenarios at different time intervals to anticipate potential risks if mitigation measures are not taken. These scenarios are examined further in **section Stress testing.**

MAP OF HYDROMETEOROLOGICAL IMPACT IN THE MORTGAGE PORTFOLIO



RISK OF HYDROMETEOROLOGICAL IMPACT ON BALANCES IN THE MORTGAGE PORTFOLIO*

	Low	Medium	High
Cyclone	95.7%	3.2%	0.0%
Flooding	88.7%	8.8%	1.4%
Storm surge	98.1%	0.7%	0.2%

*Totals add up to less than 100% because 1.1% of the portfolio was excluded from the exercise due to lack of geolocation data.

Materialization of Climate Risks: Hurricane Otis

On October 25, 2023, Hurricane Otis made landfall in the state of Guerrero. It was a category 5 tropical cyclone in the Pacific Ocean that underwent rapid intensification, and it caused loss of life, property damage, damage to roads, hospitals, hotels, homes, local people and businesses, causing widespread economic losses in the state. The reasons for rapid intensification are complex but are primarily attributed to the presence of warm water in the Pacific Ocean. Due to climate change, events like this could become more frequent and have a more severe impact in coming years.

At GFNorte, there were impacts on branches and ATMs, mainly in the municipality of Acapulco de Juárez, Guerrero, where we have six branches. The "bunker branch" located in Club de Golf Acapulco reopened on November 10, and the Francisco Javier Mina branch in downtown Acapulco reopened on November 14. In the Insurance Division, an increase in claims was reported for auto, home (mortgage and others), and various insurance lines (traditional subscription, technical lines, and corporate business). In the retail segment, special support programs were deployed for customers affected by hurricanes, earthquakes, and pandemics, which involved postponing customer payments for a specified period depending on the emergency. In the case of Hurricane Otis, support included postponing principal payments, minimum payments, interest, insurance, and fees equivalent to 6 months, depending on the payment frequency, for products such as auto loans, payroll loans, mortgages, SME loans, credit cards (including Empuje), and personal loans. In the real estate portfolio, we have borrowers with real-estate collateral that suffered minimal impact thanks to damage insurance. We also have one customer developing a residential project that will only experience delays in its construction schedule.

GFNorte showed solidarity with the affected communities and businesses by providing support programs to affected customers, including:

- **Two mobile banking service units** in the Acapulco area, open to the general public.
- **Virtual assistance from our Maya chatbot** to provide clear and concise information to customers and users about the Support Program for Guerrero through Banorte Móvil, online banking, the BEM portal, and BEP.
- **Waiver of fee payments** on collection terminals (point of sale terminals, Banorte personal terminals, e-commerce, interbank transactions, regular charges, payment league, Mo-To, and CAT) for three months.
- **Credit card support** with 0% commission on cash withdrawals and no annual fees or penalties for 3 months.
- **Support in the form of postponed payments** on payroll, personal, credit card, automotive mortgage and SME loans for a period of 6 months for customers residing in Guerrero or customers residing in Guerrero with products from other states.

Finally, GFNorte reaffirmed its commitment to Mexican families affected by Hurricane Otis and set up a donation account where the Banorte Foundation matched every peso donated. The funds raised will be used to support recovery efforts in the state of Guerrero.

Climate Scenarios

The Intergovernmental Panel on Climate Change (IPCC) has developed a set of scenarios that are useful in better understanding climate scenarios and their relevance in climate change assessment. These widely used scenarios are called Representative Concentration Pathways (RCP) and Shared Socioeconomic Pathways (SSP). There are also a set of scenarios prepared by the Network for Greening the Financial System (NGFS). The RCP scenarios were initially developed to describe future concentrations of greenhouse gases in the atmosphere and were published in the IPCC's Fifth Assessment Report (AR5). They were named based on the radiative forcing in the atmosphere caused by the estimated concentration of carbon dioxide equivalent (CO_2e) by the year 2100. For example, the RCP 2.6 scenario represents a future in which significant measures are taken to reduce emissions, resulting in a radiative forcing of 2.6 W/m², limiting the temperature increase to 2 degrees Celsius or less. In contrast, RCP 8.5 represents a scenario in which no climate action is taken, resulting in a radiative forcing of 8.5 W/m², with high atmospheric concentrations of CO_2e and significantly higher global warming.

The Shared Socioeconomic Pathways (SSP) scenarios published in the IPCC's Sixth Assessment Report (AR6), on the other hand, focus on socioeconomic aspects and are used to understand how socioeconomic decisions and trends can influence greenhouse gas emissions and, therefore, climate change. SSP scenarios are divided into five different pathways that describe possible futures, ranging from a sustainable world with low emissions (SSP1) to a world characterized by regional fragmentation and high emissions (SSP3). Within this framework, socioeconomic challenges for adaptation and mitigation are crucial. In terms of adaptation, these challenges refer to the obstacles we face when adapting to ongoing climate changes, such as floods or droughts. Adaptation actions can vary significantly across the different futures described by the SSPs. Similarly, regarding mitigation, these challenges address the obstacles we need to overcome to reduce greenhouse gas emissions and limit climate change. Each SSP scenario proposes different approaches and measures for mitigation, reflecting how different socioeconomic contexts could influence our strategies and capacity to address these global challenges.

SHARED SOCIOECONOMIC PATHWAY SCENARIOS

SSP Scenario	Scenario name	Adaptation challenges*	Mitigation challenges*	Brief description
SSP1	Sustainability (Taking the Green Road)	Low	Low	Global transition toward a more sustainable path. Inequality is reduced and consumption is oriented toward low material growth and lower resource and energy intensity.
SSP2	Middle of the Road	Medium	Medium	Development and income growth proceeds unevenly, without significant change in social, economic, and technological trends. Partial improvements in environmental management and moderate resource and energy use
SSP3	Regional Rivalry (A Rocky Road)	High	High	Countries focus on achieving energy and food security goals within their own regions. Economic development is slow and environmental deterioration is significant. Consumption is material-intensive and environmental policies are limited.
SSP4	Inequality (A Road Divided)	High	Low	Highly unequal investments in human capital, combined with increasing disparities in economic Widening economic and technological gaps between an internationally connected societies and low-tech economies. Energy development diversifies, with a focus on local issues around middle and high income areas.
SSP5	Fossil-fueled Development (Taking the Highway	Low	High	Dependence on fossil fuels and resource-intensive lifestyles. Rapid economic growth with successful management of local environmental problems.

* Level of socioeconomic challenges in the future

One way to understand the relationship between the RCP and SSP scenarios is through specific combinations, such as SSP1-1.9. The SSP number would represent the socioeconomic pathway associated with a particular RCP scenario, indicating the maximum level of radiative forcing caused by the concentration of carbon dioxide equivalent (CO_2e) in the atmosphere by the year 2100. For example, SSP1-1.9 represents a combination where a sustainable socioeconomic path of SSP1 is followed, implying equitable and sustainable development, along with the specific goal of RCP1.9 to reach a maximum radiative forcing of 1.9 W/m^2. These scenarios allow scientists and policymakers to explore how present and future actions can shape our planet in terms of climate and socioeconomic factors.

In its Phase IV report, the NGFS presented seven scenarios based on SSP scenarios. These scenarios provide a solid foundation for assessing and understanding climate risks in the global financial system, enabling financial institutions and regulators to anticipate and address challenges arising from climate change. Additionally, the NGFS focuses on promoting financial sustainability by encouraging the incorporation of environmental considerations into financial practices and policies, which becomes essential in the face of climate change.

The following table shows temperature and CO_2 concentrate trends in the atmosphere under the different scenarios.

DESCRIPTION OF SSP-RCP SCENARIOS

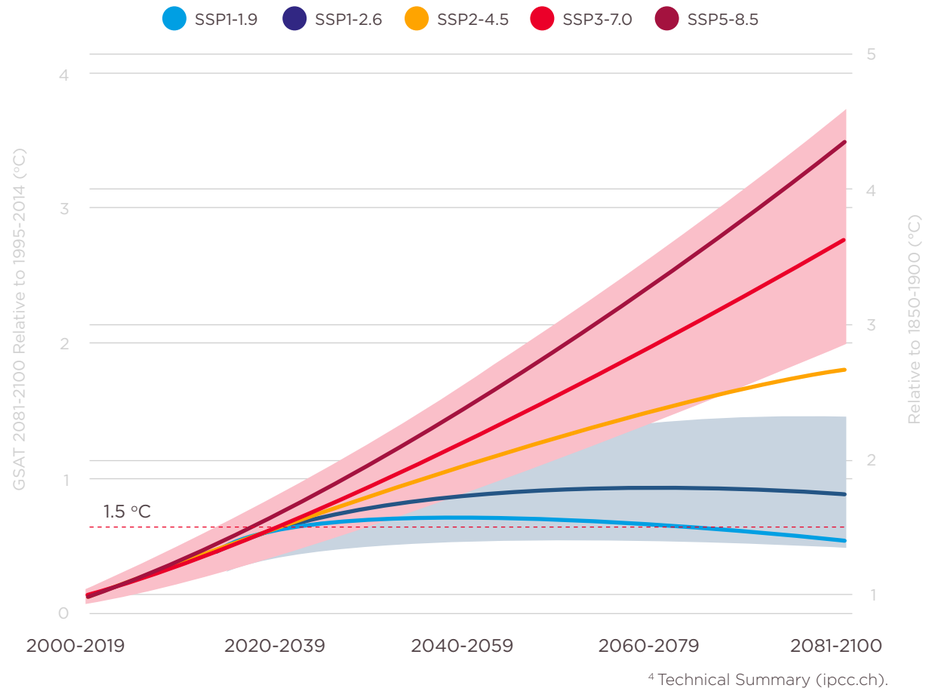
SSP Scenario	RCP Scenario	Temperature target	Temperature range	GHG emissions
SSP1-1.9	RCP 1.9*	**< 1.5 °C**	1.4 [1.0 a 1.8] °C	Very low
SSP1-2.6	RCP 2.6	**< 2 °C**	1.8 [1.3 a 2.4] °C	Low
SSP2-4.5	RCP 4.5	**< 3 °C**	2.7 [2.1 a 3.5] °C	Intermediate
SSP3-7.0	RCP 7.0*	**< 4 °C**	3.6 [2.8 a 4.6] °C	High
SSP5-8.5	RCP 8.5	**> 4°C**	4.4 [3.3 a 5.7] °C	Very high

* RCP scenarios not included in AR5

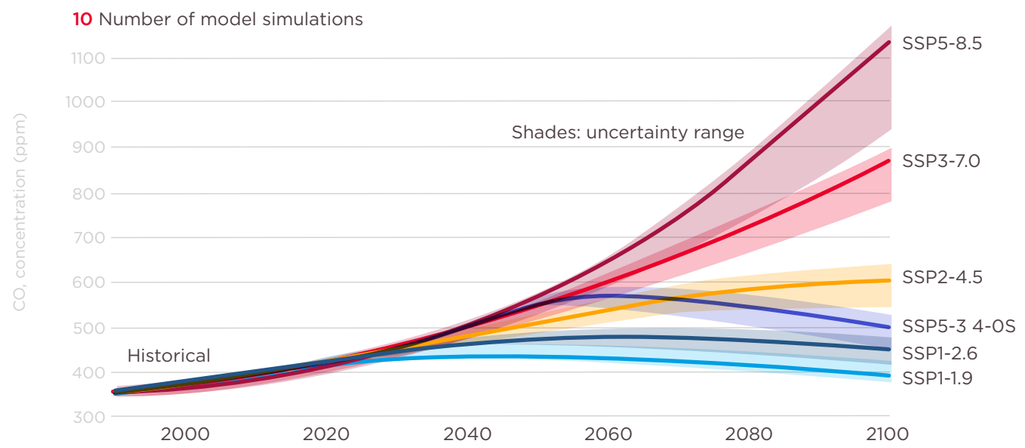
DESCRIPTION OF RCP SCENARIOS

RCP	Radiative forcing	Temperature	Emissions trend
2.6	2.6 W/m²	**~2.0 °C**	Emissions decreasing strongly
4.5	4.5 W/m²	**~2.4 °C**	Emissions decreasing slowly
6	6.0 W/m²	**~2.8 °C**	Emissions stabilizing
8.5	8.5 W/m²	**~4.3 °C**	Emissions rising

SSP-RCP PATHWAYS[4]



[4] Technical Summary (ipcc.ch).



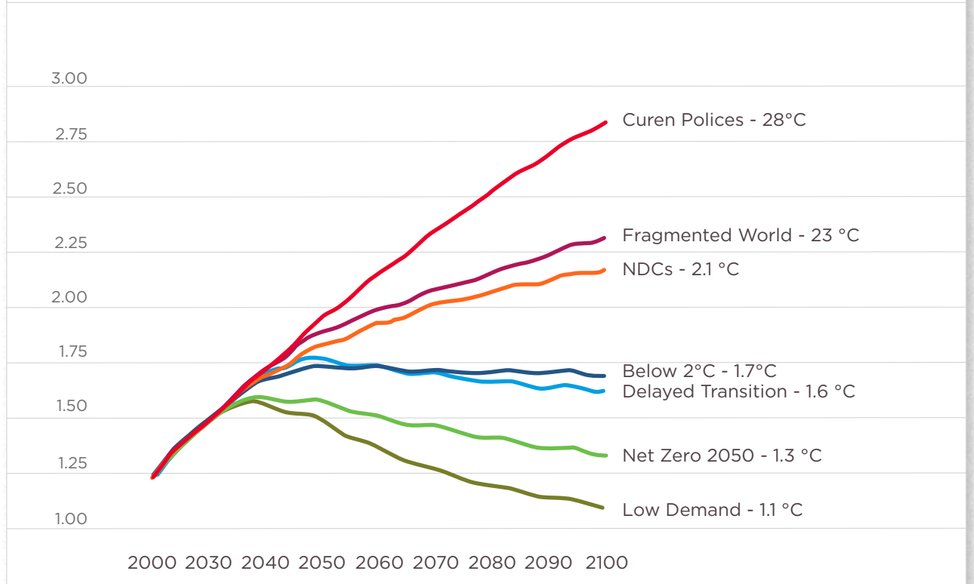
*Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessme Report of the Intergovernmental Panel on Climate Change (2021)

The NGFS scenarios constitute a long-term vision encompassing a wide variety of variables related to future changes in the climate and economies. These scenarios take into account policy ambitions, which are reflected in factors like carbon taxes and other climate policies. When we adjust key variables in the climate models, like temperatures and carbon emissions we find different possible pathways for future development. The following is a brief description of the seven NGFS scenarios:

NGFS PHASE IV SCENARIOS

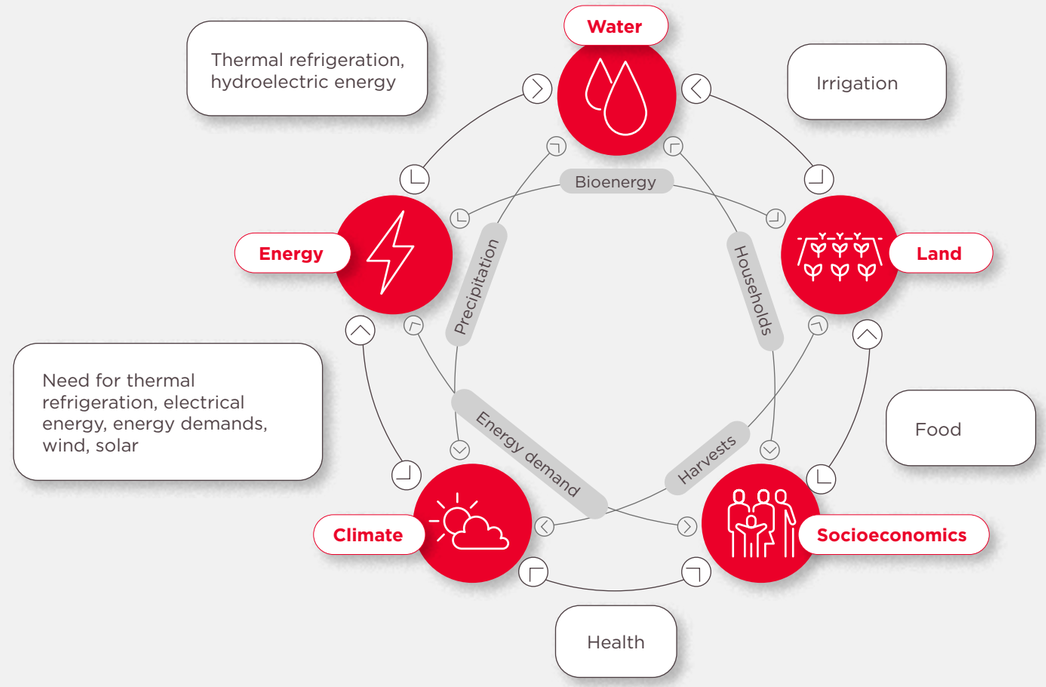
Category	Scenario	Description
Orderly	Net Zero 2050	Limits global warming to 1.5 °C through stringent climate policies and innovation, reaching global net zero CO_2 emissions around 2050.
	Below 2°C	Gradually increases the stringency of climate policies, giving a 67% chance of limiting global warming to below 2 °C.
	Low Demand	Assumes that significant behavioral changes, reducing energy demand, would mitigate pressure on the economic system to reach global net zero CO_2 emissions around 2050.
Disorderly	Delayed Transition	Assumes annual emissions do not decrease until 2030. Strong policies are needed to limit warming to below °2C. Negative emissions are limited.
Hothouse world	Nationally determined contributions	Foresees that currently pledged conditional NDCs are implemented fully, and respective targets on energy and emissions in 2025 and 2030 are reached in all countries.
	Current Policies	Assumes that only currently implemented policies are preserved, leading to high physical risks and zero transition risks.
Too little, too late	Fragmented World	Assumes a delayed and divergent climate policy response among countries globally, leading to high transition risks in some countries and high physical risks everywhere due to the general inefficacy of the transition.

INCREASE IN AVERAGE GLOBAL TEMPERATURES (°C)*



* NGFS Climate Scenario Technical Documentation V4.2 (2023)

For the purposes of GFNorte's analysis, variables were used based on Global Change Analysis Model-Integrated Assessment Models (GCAM-IAM), which share very similar characteristics and produce their scenarios through the interaction of the following factors.



Stress testing

Stress testing allows for a systematic and coherent understanding of possible future scenarios to estimate potential losses under various assumptions that may materialize. It also helps assess the portfolio's sensitivity to climate risks and institutional resilience.
Considering our climate commitments and GFNorte's central role in the Mexican financial system, we conducted initial pilot stress testing to determine the institution's ability to withstand extreme economic and climate scenarios in the future. To gain a more comprehensive view, we approached it from two perspectives: top-down and bottom-up.

Top-Down Approach

In 2023, the climate scenario included in the 2023-2025 Capital Adequacy Assessment, which GFNorte annually prepares to comply with the General Provisions Applicable to Credit Institutions, was updated. The climate scenario is based on projections of national macroeconomic variables from the baseline scenario and incorporates climate shocks resulting from changes in greenhouse gas emissions, affecting temperature and consequently impacting various production chains in the country. This is done under a top-down approach.

The main triggers for the scenario were as follows:

EMISSION TRAJECTORY

Based on carbon dioxide equivalent (CO_2e) emissions—measured in kilotonnes for each economic sector and each state of the country—an exponential CO_2e emissions growth scenario is assumed, given that during this period (2023-2025), industries and economic sectors are not taking necessary actions to achieve the emissions reduction goal by 2030 as outlined in the LGCC. The factors for the impact on the national economy are considered only for the 2023-2025 period to maintain consistency with the exercise's timeframe. In the short term, there is an increase in CO_2e emissions, leading to changes in physical events, monetary losses, and consequently a negative impact on GDP and other key macroeconomic variables

TEMPERATURE

An analysis is conducted of minimum, average, and maximum temperatures at the state and national levels, since the trajectory of CO_2e emissions directly affects these and, consequently the frequency and severity of physical events on the planet.

SEVERITY AND FREQUENCY OF HYDROMETEOROLOGICAL EVENTS

Changes in the average global mean temperature result in more frequent, intense, and unpredictable climatic events such as cyclones and floods. These phenomena directly affect hotel and restaurant operations, especially in coastal areas. They can also cause disruptions in airport services, delaying in merchandise deliveries and hampering international trade in general.

FREQUENCY AND SEVERITY OF TEMPERATURE EVENTS

The trajectory of the global mean temperature leads to changes in the frequency of droughts in the country's main agricultural zones, affecting the prices of essential products and most raw materials. Import and export of these products are also affected, primarily impacting the agricultural and livestock industries.

FREQUENCY AND SEVERITY OF GEOLOGICAL EVENTS

Considerations include the impact of heavy rainfalls and storms, as well as the depletion of groundwater due to temperature changes, leading to land subsidence and landslides, affecting the construction and real estate industries due to damage to infrastructure, roads, housing, buildings, and public services.

Based on all these considerations, a top-down stress test was conducted. The results confirm that GFNorte has sufficient regulatory capital to continue intermediating resources and lending in the short and medium term. However, the increase in the frequency and/or severity of physical risks serves as early warnings that allow GFNorte to act in advance, monitoring, limiting and controlling these risks in industries with high climate exposure, especially the housing, real estate, and lodging industries we analyzed, as well as in the agricultural and infrastructure portfolios.

Bottom-Up Approach

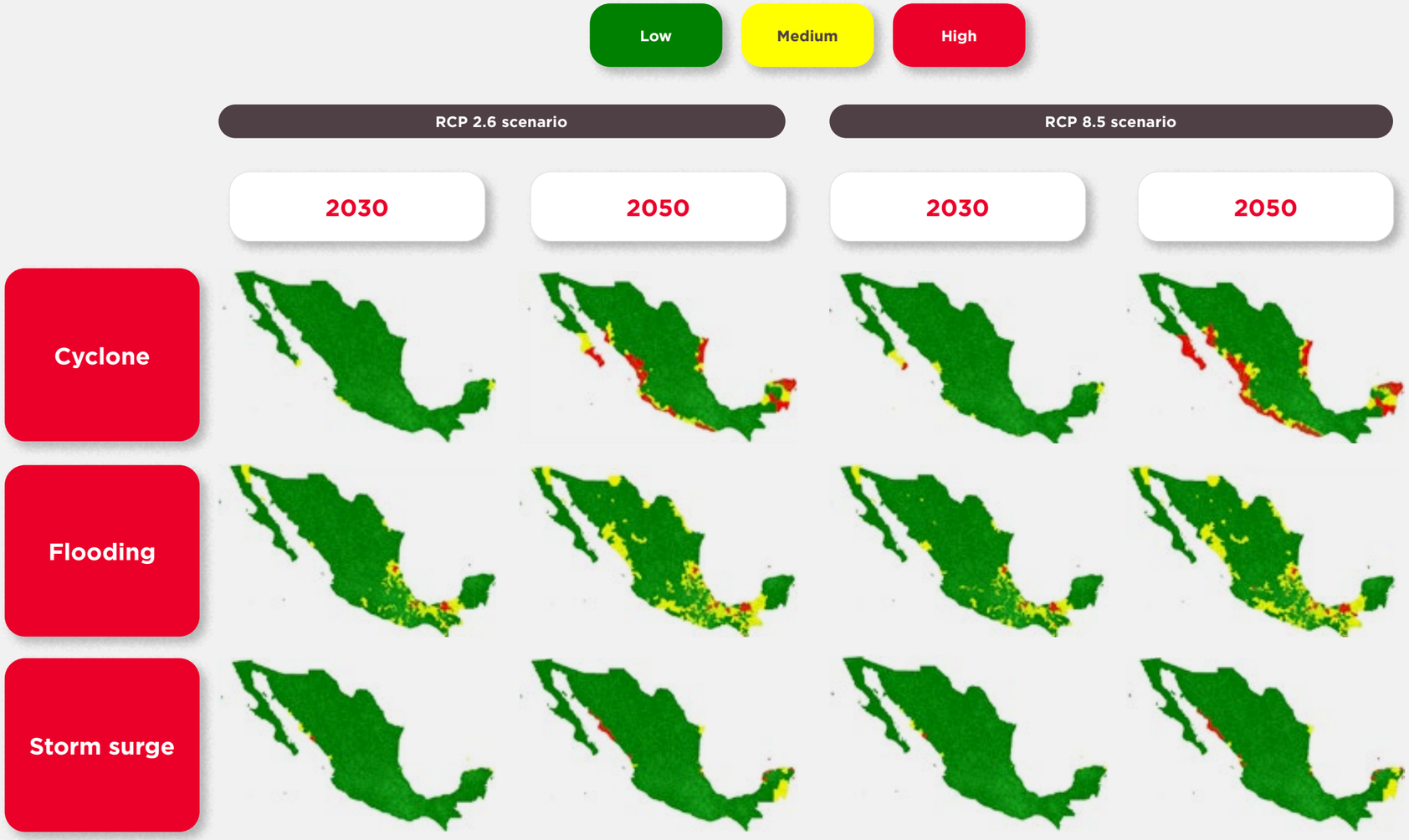
The bottom-up approach involves analyzing portfolios at the level of each operation to determine their level of exposure and vulnerability to physical and transition risks with greater precision. However, it requires more resources given the volume of information and the assumptions and data required to integrate the various analyses.

Physical risks

Organizations like the NGFS and the IPCC have modeled various climate scenarios based on greenhouse gas emission concentrations. GFNorte decided to delve deeper into the analysis at the Mexico level to enhance estimations according to our customers' specific characteristics and the collateral exposed to acute climate events, as well as their impacts under various climate change scenarios.

Considering different climate scenarios, an exercise was conducted to estimate the impacts on branches, the real-estate and lodging services portfolio, and mortgages.

THEORETIC AGGREGATE HYDROMETEOROLOGICAL IMPACT BY MUNICIPALITY FOR RCP SCENARIOS



THEORETIC HYDROMETEOROLOGICAL IMPACT BY MUNICIPALITY

		2030			2050		
		Low	Medium	High	Low	Medium	High
RCP 2.6	Cyclone	99.59%	0.41%	0.0%	89.89%	4.29%	5.82%
	Flooding	85.1%	13.2%	1.7%	74.1%	20.3%	5.7%
	Storm surge	99.6%	0.4%	0.0%	98.7%	0.6%	0.7%
RCP 8.5	Cyclone	99.17%	0.78%	0.04%	86.72%	4.87%	8.42%
	Flooding	83.9%	14.3%	1.9%	73.6%	20.6%	5.8%
	Storm surge	99.6%	0.4%	0.0%	98.6%	0.7%	0.8%

Impact on branches

Making use of theoretical maps, we analyzed branch information, the mortgage portfolio and the real-estate and lodging services portfolio to compare the impact for Banorte. The following table shows the impact of the three hydrometeorological events we studied (cyclones, flooding and storm surges):

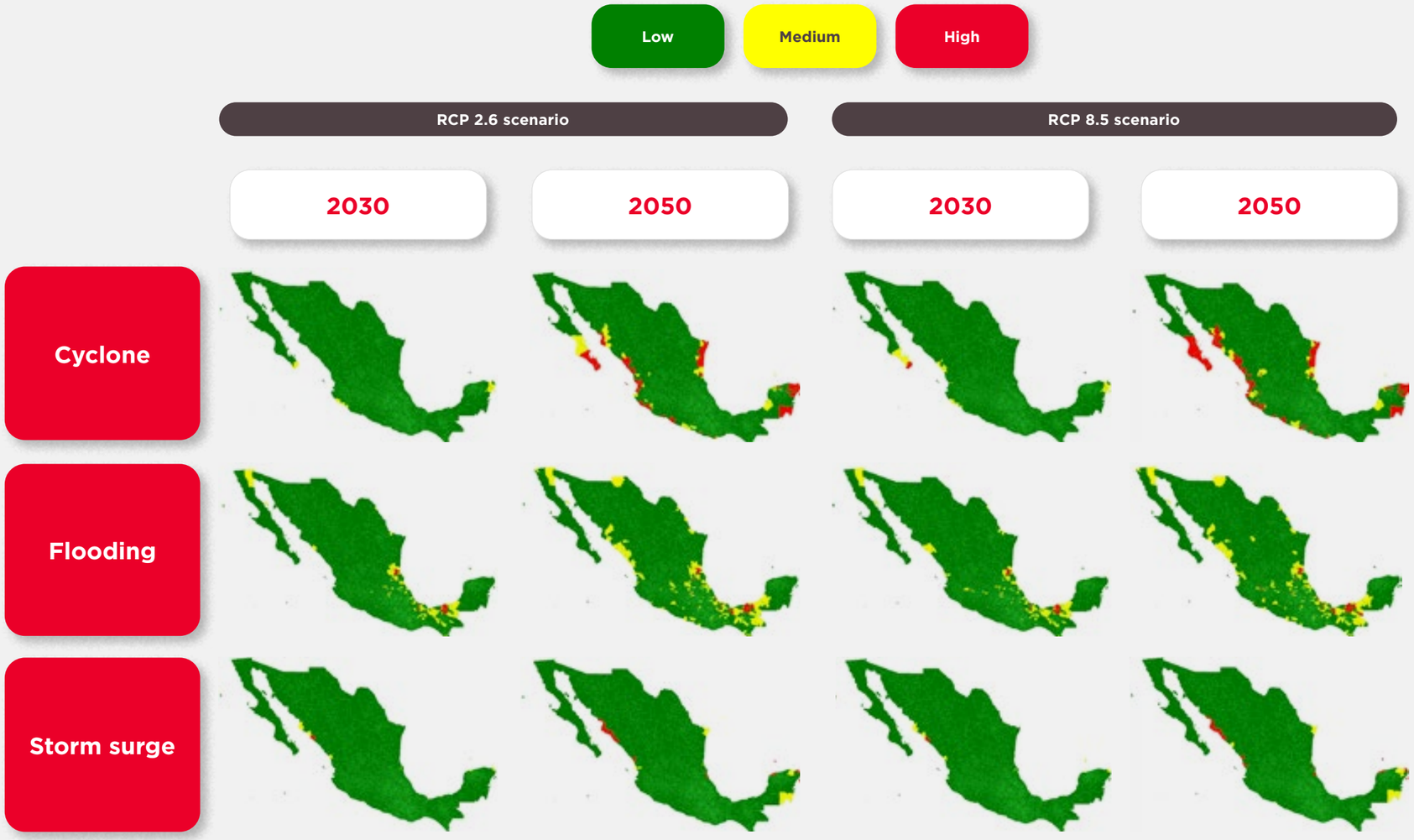
THEORETIC HYDROMETEOROLOGICAL IMPACT BY NUMBER OF BRANCHES

		2030			2050		
		Low	Medium	High	Low	Medium	High
RCP 2.6	Cyclone	98.2%	1.8%	0.0%	89.0%	4.3%	6.6%
	Flooding	88.5%	9.9%	1.6%	76.9%	20.1%	3.0%
	Storm surge	99.1%	0.8%	0.2%	97.7%	0.9%	1.5%
RCP 8.5	Cyclone	96.9%	2.6%	0.5%	87.1%	3.9%	9.0%
	Flooding	86.6%	12.1%	1.3%	76.7%	20.3%	3.0%
	Storm surge	99.1%	0.8%	0.2%	97.6%	0.9%	1.6%

Mortgage portfolio

To quantify the impact on the mortgage portfolio, we performed calculations for scenarios RCP 2.6, RCP 4.5, RCP 6.0, and RCP 8.5. Below are the results of two scenarios: one with very low greenhouse gas emissions (RCP 2.6) and, in contrast, one with high emissions (RCP 8.5) for the periods between 2023-2030 and 2023-2050. **Table Theoretic hydrometeorological impact by number of branches** shows the balance of collateral, accurately geolocated as defined by the theoretical exercise, and the percentage of the portfolio balance. **Map of hydrometeorological impact in the mortgage portfolio** presents the risk indicator. This exercise covered 98.9% of the portfolio balance, due to the level of detail available on the geolocation of real estate collateral.

MAP OF HYDROMETEOROLOGICAL IMPACT IN THE MORTGAGE PORTFOLIO



HYDROMETEOROLOGICAL IMPACT IN THE MORTGAGE PORTFOLIO UNDER RCP SCENARIOS

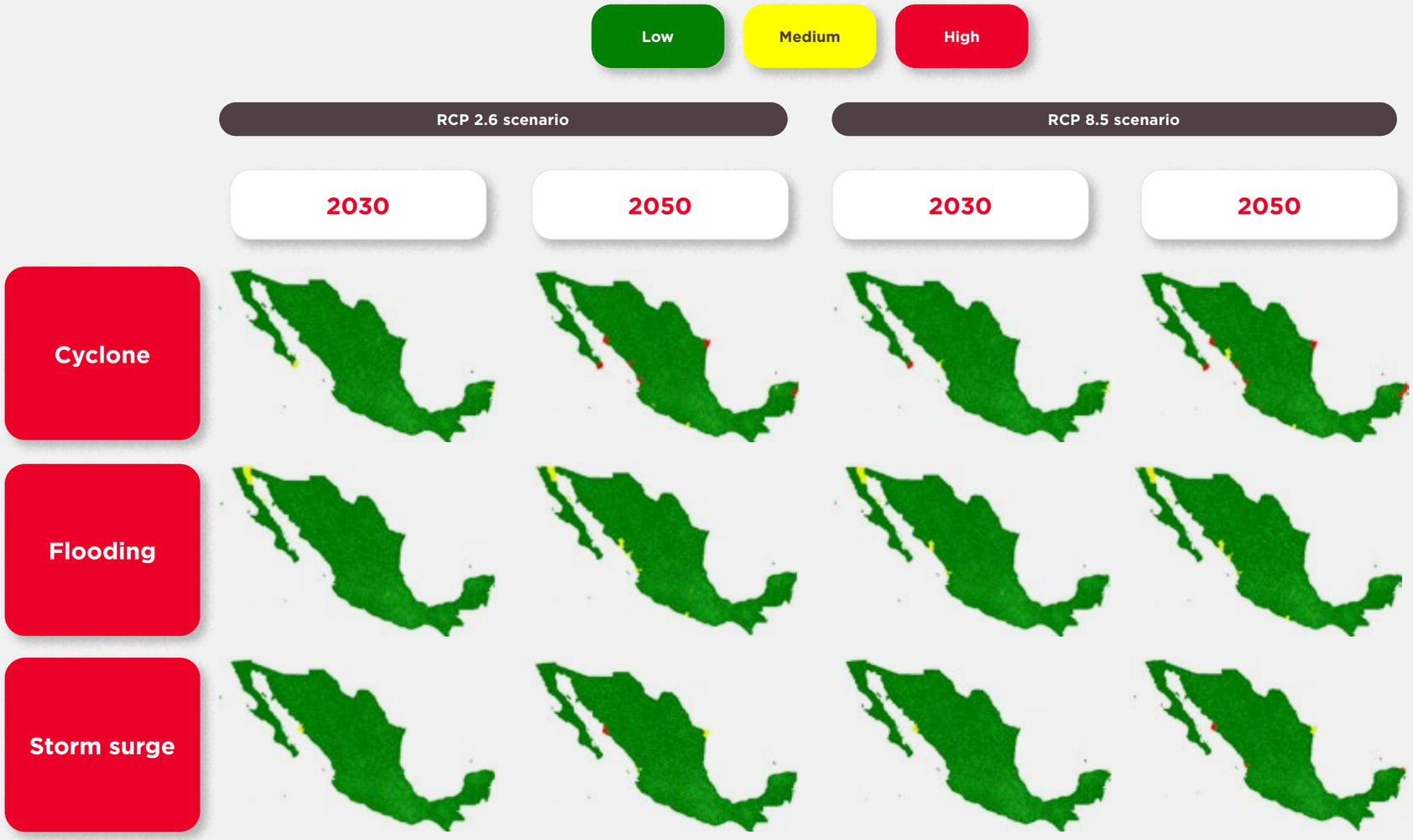
		2030			2050		
		Low	Medium	High	Low	Medium	High
RCP 2.6	Cyclone	95.7%	3.2%	0.0%	87.3%	4.0%	7.5%
	Flooding	88.7%	8.8%	1.4%	79.8%	15.8%	3.4%
	Storm surge	98.1%	0.7%	0.2%	96.8%	1.1%	1.0%
RCP 8.5	Cyclone	94.7%	3.6%	0.6%	85.8%	3.5%	9.6%
	Flooding	87.2%	9.9%	1.8%	79.9%	15.6%	3.4%
	Storm surge	98.1%	0.7%	0.2%	96.8%	1.1%	1.0%

Note: Totals add up to less than 100% because 1.1% of the portfolio was excluded from the exercise due to lack of geolocation data.

Real-estate and lodging services

To quantify the impact on the real-estate and lodging portfolio, we made calculations for scenarios RCP 2.6, RCP 4.5, RCP 6.0, and RCP 8.5. Below are the results of two scenarios: one with very low greenhouse gas emissions (RCP 2.6), and in contrast, one with high emissions (RCP 8.5) for the periods between 2023-2030 and 2023-2050. In **Table Hydrometeorological Impact in the Real-Estate and Lodging Services Portfolio under RCP Scenarios**, we can observe the percentage of the real-estate and lodging services portfolio balance that would be affected due to various types of hydrometeorological events detailed. In this exercise, 71.9% of the balance could be incorporated due to the level of detail required in the geolocation of real estate collateral.

MAP OF HYDROMETEOROLOGICAL IMPACT IN THE REAL-ESTATE AND LODGING SERVICES PORTFOLIO



HYDROMETEOROLOGICAL IMPACT IN THE REAL-ESTATE AND LODGING SERVICES PORTFOLIO UNDER RCP SCENARIOS*

		2030			2050		
		Low	Medium	High	Low	Medium	High
RCP 2.6	Cyclone	43.2%	28.7%	0.0%	33.3%	1.8%	36.9%
	Flooding	66.5%	5.4%	0.0%	61.3%	9.5%	1.2%
	Storm surge	67.9%	4.0%	0.0%	67.4%	0.5%	4.0%
RCP 8.5	Cyclone	42.8%	19.1%	10.0%	32.3%	0.5%	37.0%
	Flooding	65.1%	6.3%	0.5%	61.3%	9.5%	1.2%
	Storm surge	67.9%	4.0%	0.0%	67.4%	0.0%	4.4%

*Note: Totals add up to less than 100% because 28.1% of the portfolio was excluded from the exercise due to lack of geolocation data.

Because this portfolio includes several properties located in coastal municipalities that transition from medium to high risk for cyclones by the year 2050, there is a significant increase in the risk level for this phenomenon. However, these theoretical exercises do not yet factor in the effects of mitigation plans and measures that GFNorte customers will implement with our support.

The scenarios show us that, while the impacts remain constrained in 2030, as the time horizon lengthens and/or the scenarios become more pessimistic, customers need to be made more aware to ensure they have the necessary protection against hydrometeorological events. For example, they should consider expanding insurance coverage to mitigate damage, and building more resilient structures.

Transition risks

Since there is no historical data useful for measuring transition risks, we used economic models, risk factors, and sensitivities to these specific factors for each industry. These factors are interrelated with the climate scenarios of the NGFS (Network for Greening the Financial System).

For this analysis, we performed a 'Climate Shock' analysis. This indicator measures the customer's response to the cost associated with an increase in the price of carbon, given their scope 1 emissions. The formula used for calculation is as follows:

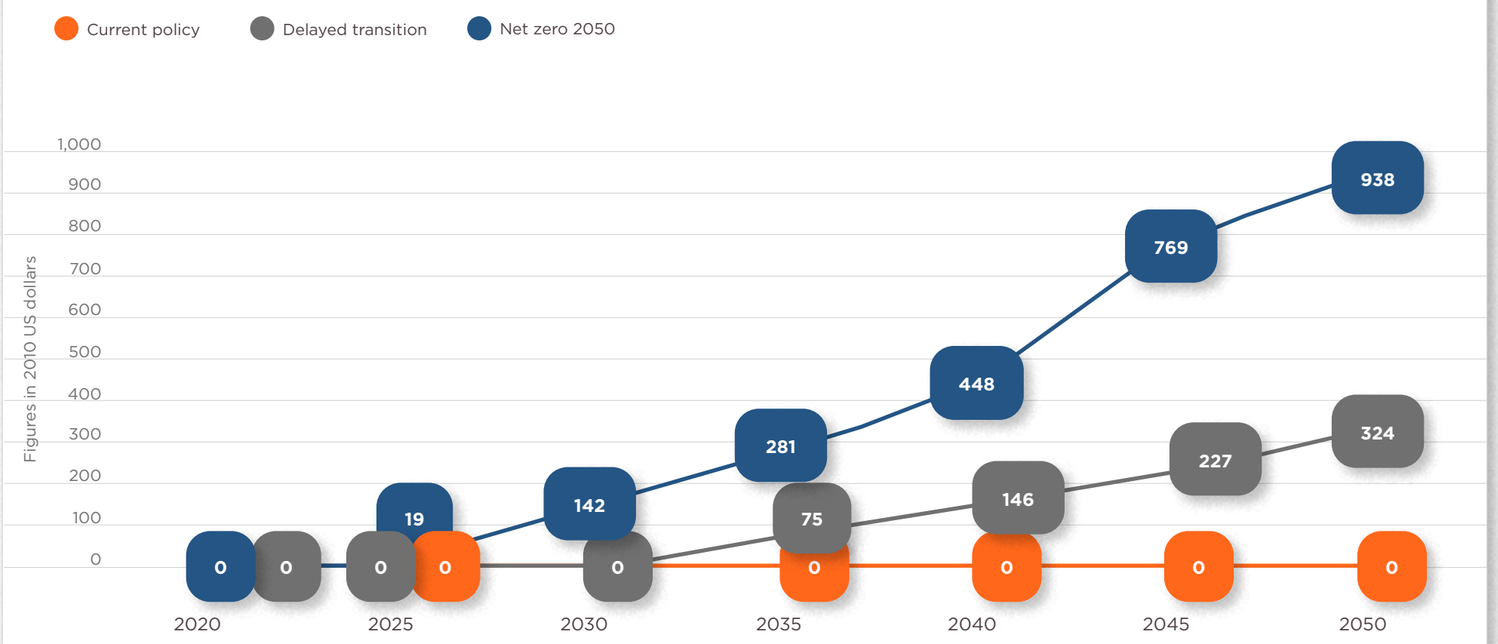
Where Scope 1 emissions are calculated using the PCAF (Partnership on Carbon Accounting Financials) methodology with data quality 4 and figures as of the end of 2022. The EBITDA is taken from the financial statements of the customers as of the same date.

To standardize criteria and ensure that the same process to calculate the shock was used for each customer, accounts with data quality 1, 2, or 3 were processed using the same data quality 4 methodology. The carbon price was obtained from an updated version for the year 2023 of the NGFS Phase IV scenarios. For the exercise, IAM GCAM 6.0 for the Mexico region was used, based on the Net Zero and Delayed Transition scenarios. Below are the carbon prices under the different scenarios:

FOR A COMPANY i, A SCENARIO k, AND A YEAR t, WE DEFINED A CLIMATE SHOCK BY THE FOLLOWING FORMULA:

$$\varepsilon(i,k,t) = \frac{\text{Scope 1 emissions}^{*} \; \Delta \text{ Carbon price } (i,k,t)}{\text{EBITDA } (i,k=0,t=0)}$$

CARBON PRICE PER METRIC TON FROM NGFS SCENARIOS



The carbon tax is a price-based policy instrument. In addition to the price-dissuasive aspect, the tax is also intended as a way to channel revenues to climate-related projects. It is usually added to the selling price of a product based on the amount of greenhouse gas emissions (GHG) emitted during its production and/or use. Some taxes may be applied directly to a company's or industry's emissions.

The carbon price is part of the policy transition risk and can impact a company's financial situation through different channels. In the model, only the direct impact of an increase in the carbon price was considered. Therefore, this analysis is static, as it is based on projecting carbon prices applied to the companies' current situation and does not represent the development and response of companies in the following years. In other words, it excludes possible changes in EBITDA caused by the transition, as well as any adaptation and mitigation measures that the company might take.

To assess the impact of NGFS scenarios on the climate shock, the portfolio was segmented into the top 10 most polluting industries (oil & gas, energy, real estate and lodging, agriculture, aluminum, iron and steel, coal, transportation, cement, construction), representing 53% of the commercial, corporate, and federal government portfolio. The rest of the portfolio was included in the category of "others[5]" as long as they met the necessary characteristics for the analysis, i.e. financial statements as of December 2022 and calculated emissions.

A traffic light system was developed to interpret the impact of the climate shock on our customers, which were classified into three defined thresholds indicating their capacity to deal with increases in the carbon price. The traffic light system relates Scope 1 CO_2 emissions estimated for each customer in the study to the carbon price and their EBITDA. Customers facing greater difficulty in coping with the impact of the carbon cost resulting from climate change will experience a more significant deterioration.

The next table shows the breakdown of this indicator, by industry group and classified by the traffic light system.

TABLE NET ZERO CLIMATE SHOCK BY INDUSTRY

Industry	NZ Shock 2030			NZ Shock 2040			NZ Shock 2050		
Real estate	92%	1%	7%	92%		8%	90%	2%	8%
Energy generation	89%	11%		89%	11%		89%	11%	
Oil & gas	86%	7%	7%	66%	23%	11%	38%	50%	12%
Agriculture	23%	48%	29%	2%	48%	50%	32%		68%
Aluminum	50%	50%			100%		50%	50%	
Iron and Steel		100%			40%	60%	20%		80%
Coal[6]			100%			100%			100%
Transportation	93%	4%	3%	90%	7%	3%	87%	7%	6%
Cement	11%	56%	33%		67%	33%		33%	67%
Construction	84%	5%	11%	66%	22%	12%	34%	52%	14%
Others	86%	7%	7%	74%	16%	10%	53%	35%	12%

[5] "Others" includes manufacturing, services, retail and investment projects besides energy generation.
[6] The indicator for the coal industry is currently at yellow, but by Banorte policy is it restricted, so it has been classified as red.

According to **Table Overall Net Zero scenario shock,** under the 2030 net zero scenario, 79% of customers would experience a low level of climate shock (traffic light green), meaning they could deal with an increase in the carbon price, while the 11% classified at yellow level would have moderate difficulty in dealing with this increase. The industries classified as experiencing a high level of climate shock (red), as shown in **Table Net zero climate shock by industry,** are the most polluting ones, such as agriculture and cement. These would have a harder time adjusting to an increase in the carbon price. Iron and steel would have moderate difficulty, while real-estate transportation and energy generation would have an easier time adapting to the change. Under the 2050 net zero scenario, the number of customers who would have little difficulty drops significantly, and most of them would remain at “yellow.”

OVERALL NET ZERO SCENARIO SHOCK

	Low	Medium	High
2030	79%	11%	10%
2040	67%	19%	14%
2050	49%	32%	19%

The Delayed Transition scenario assumes that annual global emissions would not drop until the year 2030. This is summed up in **Table Table Delayed Transition climate shock by industry,** showing the calculations and traffic-light indicators for the years 2040 and 2050.

DELAYED TRANSITION CLIMATE SHOCK BY INDUSTRY

Industry	DT Shock 2040			DT Shock 2050		
Real estate	92%	1%	7%	92%		8%
Energy generation	89%	11%		89%	11%	
Oil & gas	86%	7%	7%	73%	19%	8%
Agriculture	23%	47%	30%	4%	52%	44%
Aluminum	50%	50%		100%		
Iron and Steel		100%			60%	40%
Coal[7]			100%			100%
Transportation	93%	4%	3%	91%	6%	3%
Cement	11%	56%	33%		67%	33%
Construction	84%	5%	11%	71%	17%	12%
Others	86%	7%	7%	80%	12%	8%

[7] The indicator for the coal industry is currently at yellow, but by Banorte policy is it restricted, so it has been classified as red.

OVERALL DELAYED TRANSITION SCENARIO SHOCK

	Low	Medium	High
2040	79%	11%	10%
2050	70%	17%	13%

Under the Delayed Transition scenario for the year 2050, 70% of customers with climate shock are in the “green” category, indicating a good ability to cope with the increase in the carbon price, while 17% are at the medium threshold, facing moderate difficulties in covering these costs, and 13% will have some difficulty in dealing with this increase. The results of both scenarios (Net Zero and Delayed Transition) indicate that the four industries most sensitive to changes in the carbon price are agriculture, coal, cement, and iron & steel.

The results are similar when we model GFNorte’s portfolio over the long term. Due to different carbon prices and the fact that Delayed Transition policies would be implemented starting from 2030, however, the impact is lower than under the Net Zero scenario.

GFNorte continues to analyze tools that might improve the calculation of transition risks because, although the climate shock indicator does help identify companies in our portfolio that would have the most difficulty in facing the transition, it does not take into account various factors such as company growth, investment in low-carbon technologies, adaptation to new policies and market preferences, changes in carbon emissions due to the activities of each industry, etc.

Nature-related risk

Central banks worldwide recognize biodiversity loss as a source of systemic risk together with climate change. There is increasing evidence that nature degradation poses risks to companies, capital providers, financial systems, and economies. Current research indicates that these risks are increasing in severity and frequency.

Critical global supply chains, from agribusiness to semiconductor manufacturing, can be disrupted by water scarcity and water stress. Land and soil degradation have been shown to negatively impact companies' market value and increase credit risk for associated lenders. Pollinator loss is affecting agricultural production, and in some countries, it is increasingly challenging to meet the growing demand for pollination services. Companies that have not managed their nature-related impacts, from agrochemicals to mining, have faced permit denials and lawsuits, resulting in credit rating downgrades and sliding market valuations.

Mexico is the fifth most biodiverse country in the world, and GFNorte recognizes that nature must be at the core of any climate action. Since 2021, we have joined global financial institutions and companies from various industries to form the Taskforce on Nature-related Financial Disclosures (TNFD), an initiative for disclosing nature-related dependencies, impacts, risks, and opportunities, whose recommendations were launched in the market in September 2023.

In late 2023, our Board of Directors approved adoption of this framework, committing to report our results in our annual reports starting from 2025. In this climate change report, we present an initial approach to nature-related risks, exploring the issue of water safety, given its close relationship to the climate change risks studied in previous sections and its importance to the country.

Water Safety

Water in Mexico is an issue that demands immediate attention. The country's growing population requires increasing amounts of water, putting greater pressure on aquifers and significantly reducing the available per-capita quantity. Currently, Mexico's renewable water supply is low and is expected to decrease further, which will mean rising water stress. Climate change exacerbates this issue, with increased precipitation in tropical areas in the south and droughts in semi-arid regions in the north of the country.

Water safety refers to a society's access to an acceptable quantity and quality of water for survival and various activities. It also implies an acceptable level of water-related risks such as droughts, floods, or contamination.

For the management and preservation of water resources, Mexico is divided into thirteen hydrological-administrative regions (HAR), each corresponding to a watershed, which are overseen and administered by the National Water Commission (CONAGUA).

In Mexico, there are:

722
surface watersheds

653
Aquifers

37
Hydrographic regions

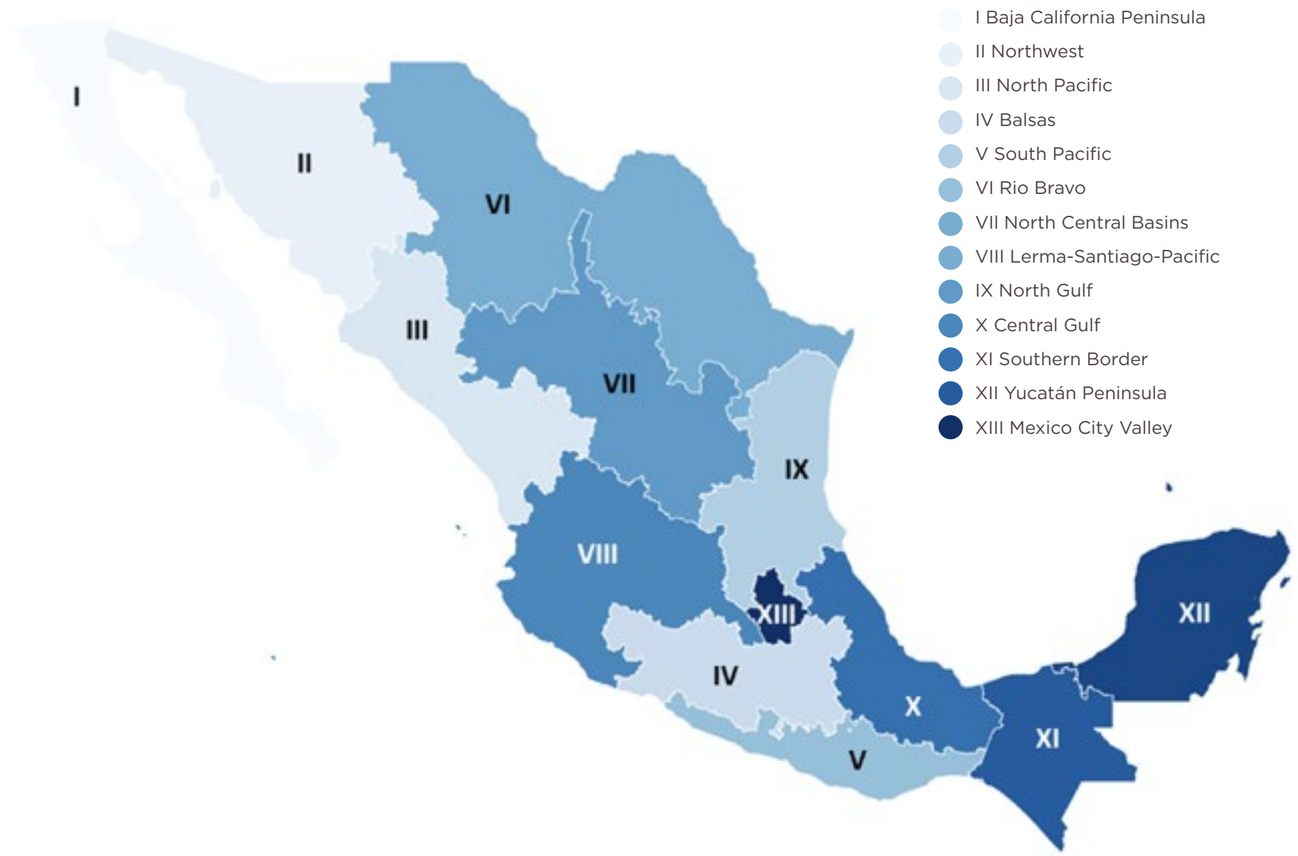
13
Hydrological-administrative regions

Hydrology of Mexico

The HAR shown in **Map Division of Mexico's thirteen HAR** are territorial divisions based on their morphological, orographic, and hydrological characteristics, and their boundaries differ from the political division by states and municipalities. Mexico's HAR are formed by groupings of watersheds, considered basic units for the management of water resources..

Mexico's largest HAR, in terms of area, is the Rio Bravo (VI), that covers 390,440 km^2. In contrast, the Mexico City Valley HAR (XII) covers barely 18,229 km2. The HAR that encompass the most municipalities are Central Gulf (X) with 432 and Balsas (IV) with 420.

DIVISION OF MEXICO'S THIRTEEN HAR

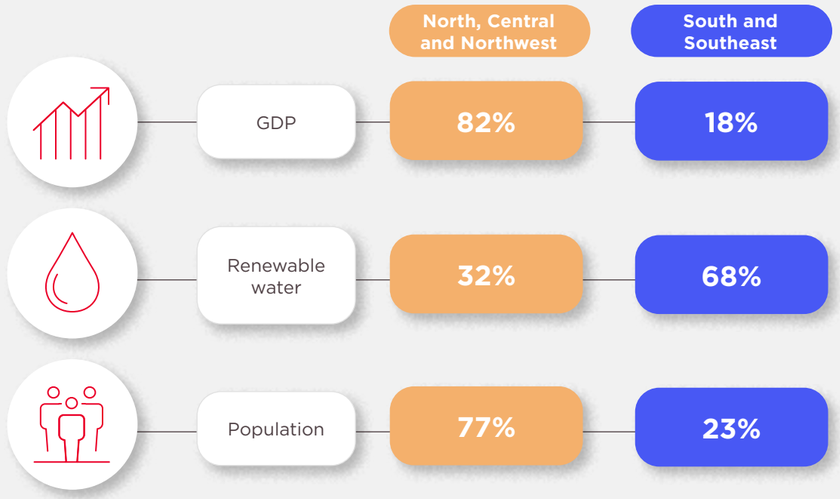


Water safety assessment

We conducted a directed, systematic and organized search for information to obtain data on water risk, aquifer pressure, availability of water per capita in Mexico, and historic indicators of water pollution (CONAGUA 2020, INEGI 2020). We downloaded geolocation data on Mexico's watersheds and their organization into hydrological-administrative regions (INEGI 2018).

There are significant contrasts between the HAR in the north, northwest, and central areas compared to those in the south and southeast. Economic inequality also translates into inequality in access to water and sanitation, and vice versa. As Figure Inequality in distribution of Mexico's water resources shows, in much of the country (north, center, and northeast), where most of the population is concentrated, and which accounts for 82% of the country's GDP, water resources are scarce. This is due to a low percentage of precipitation, higher water consumption, and greater exploitation of watersheds.

INEQUALITY IN DISTRIBUTION OF MEXICO'S WATER RESOURCES[8]



[8] Taken from *NumeraguA*, CONAGUA 2022

Water Safety Indicators

GFNorte is currently in the process of assembling indicators to analyze Physical Water Risk to that would yield information on water stress in Mexico. There are various metrics that allow for the estimation of water safety in a region, and we selected six, based on four criteria: availability, accessibility, safety, and quality. These are shown in TableProposed metrics for analyzing water safety.

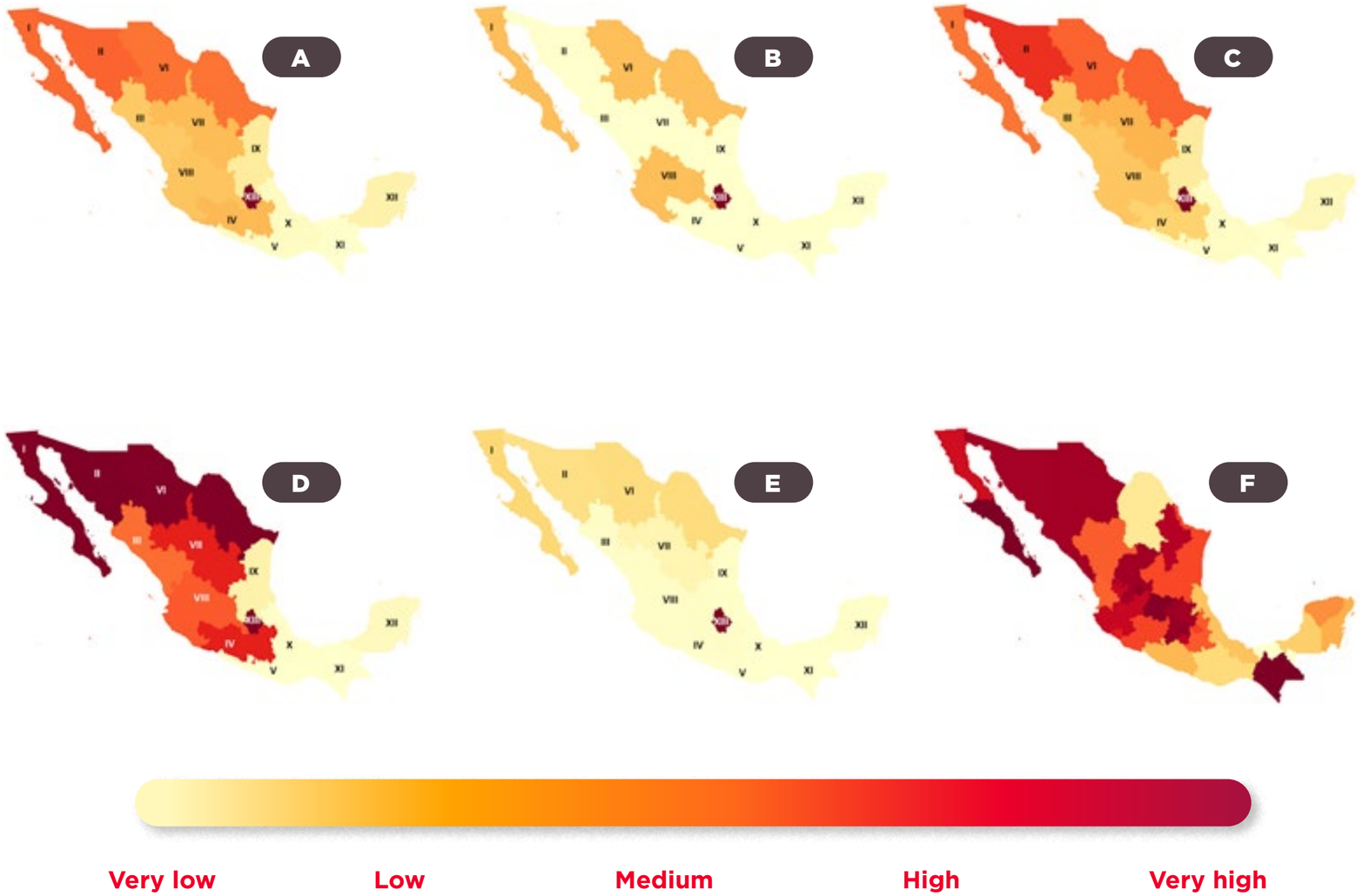
PROPOSED METRICS FOR ANALYZING WATER SAFETY

Method	Description
Degree of Pressure (DP)	Percentage volume of annual average total water extraction for consumption uses (returns to aquifers) to the total renewable water resources.
Falkenmark Index (FI)	Per capita available water. Defined as the ratio of the total annual runoff available for human use.
Relative Water Stress Index (RWSI)	Relative water demand. Specifies the available demand for industrial, domestic, and agricultural use.
Water Stress Index (WSI)	Consumption-Availability Ratio. Acknowledges environmental water requirements as an important parameter of available freshwater.
Available Water Remaining (AWARE)	The relationship between freshwater consumption for human uses plus environmental flow and the total water availability in a unit of area.
World Resources Institute Water Risk (WRI-WR)	Demand for available water in a given period of time, or when consumption is restricted because of poor quality.

The main sources of information are data produced by various agencies in Mexico, including the National Water Commission (CONAGUA), the National Institute of Statistics, Geography, and Informatics (INEGI), and the Ministry of Environment and Natural Resources (SEMARNAT), which provided the calculations and formulas for each indicator. Research has been conducted in various databases to improve the quality of the data used. For a more accurate analysis, obtaining updated figures is important, as is exploring various methodologies that could be applied in the future to supplement the overview of the water situation in Mexico, such as Remote Sensing Analysis to observe the reduction of hydrological basins.

This section presents the maps that were constructed for each of the aforementioned indicators.

WATER STRESS INDICATORS IN MEXICO



Indicators: a) Degree of Pressure (DP); b) Falkenmark Index (FI); c) Relative Water Stress Index (RWSI); d) Water Stress Index (WSI); e) Available Water Remaining (AWARE); f) World Resources Institute Water Risk (WRI-WR)

DP is low in regions V, X, and XI, indicating aquifers without stress. In contrast, HARs in the northern zone show a medium to high level of pressure, indicating a state of stress in the aquifers (Map A). Particularly, HAR XIII, corresponding to the Mexico City Valley, shows a very high pressure level, indicating overexploitation of aquifers and the inability of water basins to regenerate at the same rate as the water resource is extracted.

The Falkenmark Index (FI) (Map B) reveals that most HARs in Mexico are under water stress, with three HARs (I, VI, VIII) facing chronic water scarcity. HAR XIII stands out again, as it is in a state of absolute water scarcity, reflecting the water issue in the country due to a lack of access to the resource. This is out of keeping with the United Nations' Sustainable Development Goal number 6, which is ensuring water for all.

As for the RWSI (Map C), HARs V, X, XI, and XII show no water stress. This means that water resources can satisfy the demand for domestic, industrial, and agricultural use in terms of water quantity. On the other hand, HARs I, II, III, VI, VII, VIII, and XIII face significant water stress, with water availability potentially becoming a limiting factor for development. Notably, HAR XIII has an RWSI value exceeding one, signifying significant pressure on water resources. The water supply is insufficient to meet the high demand.

The WSI (Map D), calculated at the Ecological Water Requirements (EWR) limit of 30%, shows that HARs V, IX, X, and XI are slightly exploited, HAR III is moderately exploited, indicating that 40%-70% of usable water is available in a basin before the requirement for aquatic ecosystems conflicts with other uses. HARs IV, VII, VIII, and XII are highly exploited (0-40% of usable water is available in a basin before EWR conflicts with other uses), and HARs I, II, VI, and XIII are overexploited, with EWR in conflict with other uses. HAR XIII, in particular, is almost six times beyond the threshold of this category.

The AWARE Index (Map E), related to human consumption and availability for various industries, shows a moderate risk in most of Mexican territory. Unsurprisingly, however, as a high-development area, HAR XIII has an AWARE value exceeding one, indicating a high risk of the available water resource not being sufficient to cover both human and industrial production needs.

In the last indicator, the WRI-WR Index (Map F), most of the territory experiences high levels of water stress. Comparing the results of this indicator with the previous ones, differences in risk levels can be observed when dividing by HAR or states. This discrepancy arises because the REH calculation takes into account availability, demand, consumption, quality, and accessibility. In all the previous five indicators, HAR XI (southern border) shows low water stress, as the basins have little pressure, can recharge due to precipitation, and have good-quality water. However, the Global Water Stress Indicator shows that it is the state with the highest risk, as Chiapas lacks efficient water resource management, resulting in limited accessibility for its residents.

The challenge of ensuring universal access to water rights, alongside economic growth, remains a significant issue. Access to clean water has seen a decrease in the country over the years. A study by the Center for Renewable Energy Studies at the University of Baja California, published in November 2022, highlights that the Mexican population increased fivefold between 1950 and 2020, while the availability of per capita potable water decreased by up to 80%. Between 2014 and 2020, the percentage of the population with access to safely managed potable water decreased from 66.93% to 64.39%, according to data from the National Water Plan 2020-2024, which aligns with the United Nations' Sustainable Development Goals (SDGs) and is extracted from surveys by the National Institute of Statistics and Geography (INEGI).

Climate risk management

At GFNorte, risk management is a key component of our business strategy and governance. We have a robust framework of policies, manuals, processes, procedures, and methodologies that guide our daily responsibilities. As part of the implementation of our Climate Strategy, MEDIR, and in compliance with the recommendations of the TCFD, we have taken a series of actions that directly impact institutional regulations in terms of manuals, comprehensive management of environmental and social risks, policy creation, probability of default, and the restriction of activities in climate-exposed industries.

Processes for identifying, assessing and managing climate risks

Risk Manual

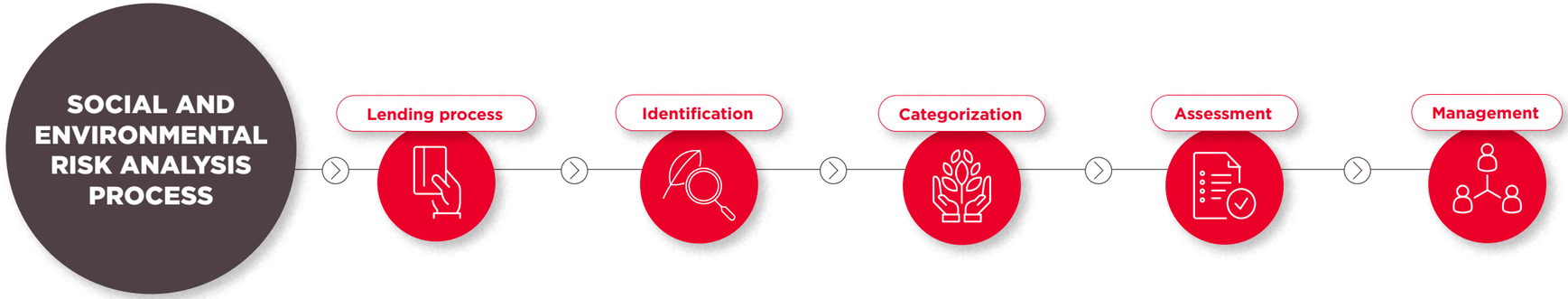
GFNorte is in the process of incorporating climate risks into the organization's overall risk management. Our Climate Change Specialist Team (CCST) has focused on documenting the definition of processes and methodologies that allow for the analysis of the most relevant physical and transition risks, developing climate scenarios to visualize possible future situations, adjusting the institutional strategy, and conducting stress testing to gauge resilience under adverse scenarios..

Social and Environmental Risk Management System

GFNorte's Social and Environmental Risk Management System (SEMS) allows for the identification, categorization, assessment, and management of the environmental and social risks associated with the activities we finance in Corporate, Business, and Infrastructure Banking. The SEMS risk analysis is an integral part of the credit process and the bank's financing decision-making. Learn more **here**

SEMS considers climate change a priority within its risk management framework. In line with the Equator Principles, it supports the objectives of the Paris Agreement and recognizes the need to enhance the availability of climate-related information when assessing the physical and transition risks of funded projects.

SEMS promotes the avoidance of negative climate impacts, and when avoidance is not possible, it advocates for reduction, mitigation, and/or compensation of these impacts. To this end, it incorporates climate risk into all phases of the social and environmental risk analysis process.



As part of the assessment phase, SEMS examines the performance of each project according to the International Finance Corporation's Performance Standards (PS), specifically PS 1. Assessment and management of environmental and social risks and impacts, PS 3. Resource efficiency and pollution prevention, and PS 6. Biodiversity conservation and sustainable management of living natural resources. View the latest **Equator Principles Report.**

Policies for decarbonizing the wholesale portfolio

To advance in Banorte's Portfolio Decarbonization Policy, the RPC approved certain policies aimed at supporting our customers in their transition plans and financing needs to achieve and ensure compliance with decarbonization commitments to achieve Net Zero by 2050. The following explains the three recently approved policies in greater detail.

Target markets

Target Markets (TM) are industries that, due to their economic and credit characteristics, are attractive and have an acceptable level of risk in certain territories for the wholesale portfolio. Using this categorization, we can:

- Gauge industry appetite for placing wholesale portfolios.
- Require higher returns from customers in Non-Target Markets (NTM) to compensate for a higher probability of default.

Each year, management is asked to supply an opinion on each territory and industry indicating whether it is a TM or an NTM. This opinion is complemented by a risk analysis, in accordance with the Policy, which includes a statistical model incorporating credit, financial, and macroeconomic behavior variables. Also, as an informative measure, the estimated economic growth is also included, based on historical GDP evolution and projections for the various industries.

TM definitions were recently modified by the RPC to incorporate an informative industry carbon intensity metric (ICIM), which shows the most polluting industries by themselves and those that pollute the most in Banorte's portfolio.

By including ICIM in the Target Markets methodology, we can:

- Raise awareness and take measures to reduce financed emissions in the most polluting industries.
- Identify which industries will require greater investment to achieve energy transition.
- Maintain Banorte's position as a leading company in developing decarbonization strategies and achieving carbon neutrality in its portfolios.

Probability of Default (PD) in the internal model for businesses

GFNorte has internal rating models for various loan portfolios that have been certified by the CNBV for the purpose of calculating loan-loss reserves and regulatory credit risk capital.

Every 18 months, these models must be recalibrated to ensure their performance is adequate and compliant with all regulatory guidelines. In the most recent calibration of the corporate and business loan portfolio model (still in the process of being approved by CNBV), two variables related to the maturity of climate risk actions by companies were added for the following aspects:

01 Setting of emission reduction targets aligned with Net Zero

02 Disclosure of climate risk impact analysis

Since Mexico currently has no banking system regulation on climate risks, these questions will serve as incentives for companies to benefit by improving their score and reducing their probability of default as they advance in their climate policy.

Restricted activities: coal, oil and non-conventional gas

Because of the high greenhouse gas emissions produced by coal projects, including coal, coke, and coal byproducts, Banorte progressively restricts investment in these until completely prohibiting them in 2030. Activities related to unconventional oil & gas are also restricted, given their higher carbon, sulfur, and impurities content. These include tar sands, shale, arctic, and offshore oil & gas, as well as liquefied natural gas derived from the aforementioned sources.

This policy includes projects or expansion of existing projects related to the activities mentioned in the previous paragraph, as well as companies where a material part of their annual income or installed capacity for power generation is related to the activities mentioned in the previous paragraph.

Exemptions from the policy are granted to companies whose financing is specifically and exclusively dedicated to decarbonization or transitioning to zero-carbon emission alternatives.

This policy will begin gradually restricting financing with a transitional limit starting from January 2024, which is reduced steadily until January 1, 2030, when total prohibition will be enforced.

Climate metrics and targets

Carbon footprint

We manage greenhouse gas (GHG) emissions generated by our direct and indirect activities, using the operational approach of the accounting principles issued by the GHG Protocol.

Scope 1 and Scope 2

Scope 1 and 2 emissions correspond to emissions produced directly and indirectly, respectively, by the company's activities. The following table shows the emissions of each of the group's subsidiaries, by scope.

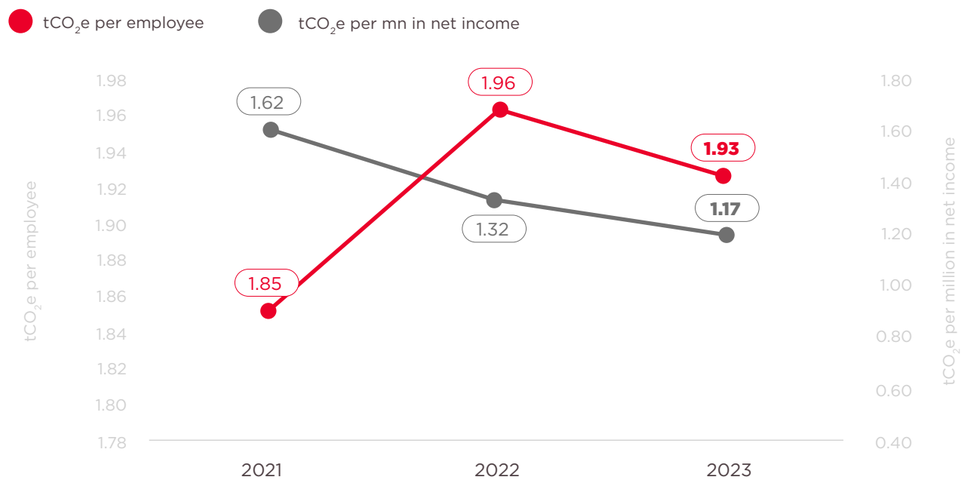
GHG EMISSIONS - SCOPE 1 AND SCOPE 2

Subsidiary	Scope	2021 (tCO_2e)	2022 (tCO_2e)	2023 (tCO_2e)	Var (%)
Afore XXI Banorte	1	132.6	145.4	203.5	40%
	2	1,028.8	1,094.8	1,106.4	1%
	1 + 2	1,161.5	1,240.2	1,309.8	6%
Warehousing	1	168.7	173.3	216.9	25%
	2	62.5	83.6	102.9	23%
	1 + 2	231.2	256.9	319.8	24%
Leasing and factoring	1	20.5	74.6	37.3	-50%
	2	-	-	-	0%
	1 + 2	20.5	74.6	37.3	-50%
Banorte	1	1,190.9	1,289.1	1,513.0	17%
	2	52,131.5	55,070.9	57,047.0	4%
	1 + 2	53,322.3	56,360	58,560.0	4%

Subsidiary	Scope	2021 (tCO_2e)	2022 (tCO_2e)	2023 (tCO_2e)	Var (%)
Insurance and Pensions	1	1,247.6	1,345.9	1,454.3	8%
	2	741.5	738.5	686.1	-7%
	1 + 2	1,989.2	2,084.4	2,140.3	3%
Grupo Financiero Banorte	1	2,760.3	3,028.4	3,424.9	13%
	2	53,964.3	56,987.9	58,942.3	3.4%
	1 + 2	56,724.7	60,016.2	62,367.2	3.9%

Figures as of the close of December 2023.

EMISSION INTENSITY



To calculate emissions intensity, we used a base of 32,392 employees, including full-time employees, those working on a fee basis and other professional service providers, and 53.14 mn in net income.

To calculate the Scope 1 emissions, we used the factors published by the Ministry of Environment and Natural Resources (SEMARNAT) in the “Agreement to establish the technical characteristics and the formulas to apply methodologies for the calculation of greenhouse gas or greenhouse compound emissions.”

To calculate Scope 2 emissions, we used the National Electrical Emission Factor 2022, issued by the Energy Regulatory Commission (CRE), available at the time of emissions reporting. Scope 2 emissions are location-based, as they are consumed directly from the national power grid.

To guarantee the traceability and quality of the information obtained, annually, we engage an independent consultant and SEMARNAT-accredited agency to verify and validate our inventory of Scope 1 and Scope 2 GHG emissions (OC-VV-GHG).

The GHG emissions of Scope 1 and Scope 2, increased by 3.9%, due to an increment of 4.2% in energy consumption. However, we had a decrease in the intensity of emissions per employee and per million pesos of net profit of 1.9% and 11.2%, respectively, which is associated with an increment in denominators of 5.9% in employees and 17.0% in net profit, compared to the previous year.

Scope 3

Scope 3 emissions include indirect emissions not directly controlled by the organization, that is, those generated in its value chain. These are divided into 15 categories, the first of which are classified as “upstream” activities and the rest as “downstream.” The following is a breakdown of our Scope 3 GHG emissions for categories 1, 2, 3, 4, 5, 6, and 9.

Category 1, 2, 4 and 9 emissions were calculated based on the expenses and factors supplied by the United States Environmental Protection Agency (US EPA) in the document “Supply Chain GHG Emission Factors for US Commodities and Industries v1.1.1.” The most recent factors published are for the year 2018 so we adjusted them for inflation in the intervening period and the exchange rate at the close of 2023. It should be noted that the increase in category 2 GHG emissions is due to the inclusion of new sources (in 2022 only PCs and laptops were considered).

Category 3 emissions were calculated using the fuel-based method and the factors provided by the UK Department for Environment, Food & Rural Affairs (DEFRA) in the document “Conversion factors 2020: full set.”

To calculate category 5 emissions, we used the type-of-waste based method, and for category 6, the distance-based method. Both categories used factors provided by the US EPA in the document “Emission Factors for Greenhouse Gas Inventories 2023.”

SCOPE 3 GHG EMISSIONS

GHG Protocol category	Description	Source	Coverage (%)	2022 (tCO_2e)	2023 (tCO_2e)
1	Purchased goods and services	Advertising print material, consultancy, refrigerant gas suppliers	95%	6,756.8	11,707.8
2	Capital goods	Purchase of office equipment	88%	828.0	18,013.0
3	Fuel- and energy-related activities (not included in Scope 1 and 2)	Electricity transmission and distribution (T&D), and fuel well to tank (WTT)	100%	709.4	758.7
4	Upstream transportation and distribution	Correspondence, internal mail, and other internal shipments	88%	1,335.7	2,461.9
5	Waste generated in operations	Waste sent for recycling and to municipal landfills	36%	180.1	282.7
6	Business travel	Flights related to work matters	100%	261.7	1,298.4
9	Downstream transportation and distribution	International shipments, delivery of credit cards, and statement mailings	88%	723.4	502.0

Figures as of December 2023

Scope 3 category 15 greenhouse gas emissions (known as financed emissions) are essential for the financial industry as they defined as indirect emissions associated with financing and investment. Since 2022, we have been quantifying financed emissions and we define emissions reduction targets with the highest industry standards in line with our commitment to decarbonization.

The table below above presents these emissions by subsidiary and asset class.

GFNORTE FINANCED EMISSIONS (SCOPE 3)

Subsidiary	Asset class	Coverage (%)	2021 (tCO_2e)	2022 (tCO_2e)	Chge (%)	Data quality
Banorte	Mortgage	100%	184,657	209,132	13%	4.0
	Commercial real estate	75%	711,980	724,549	2%	4.1
	Investment projects	69%	943,032	825,194	-12%	4.2
	Corporate loans	92%	7,921,188	8,732,899	10%	4.1
Leasing and factoring	Corporate loans	100%	544,732	402,658	-26%	4.8
Afore XXI Banorte	Stocks	100%	321,802	309,956	-4%	2.0
	FIBRAs	77%	35,905	40,249	12%	2.0
	Corporate bonds	62%	639,541	626,891	-2%	2.0
	Sovereign bonds	100%	9,036,920	9,036,920	0%	2.0

Subsidiary	Asset class	Coverage (%)	2021 (tCO_2e)	2022 (tCO_2e)	Chge (%)	Data quality
Fund manager	Stocks	93%	57,303	81,013	41%	2.0
	Corporate bonds	67%	7,496	18,815	151%	1.5
	Sovereign bonds	100%	1,557,426	1,450,290	-6.9%	2.0
Grupo Financiero Banorte	Assets on the balance sheet	27%	10,305,589	10,894,432	5.7%	
	Off-balance assets	61%	11,656,393	11,564,134	-0.8%	

Figures as of December 2022.

The financed emissions reported for assets on the balance sheet include subsidiaries Banorte and Arrendadora y Factor Banorte, while emissions from off-balance assets correspond to the subsidiaries Afore XXI Banorte and Operadora de Fondos Banorte. In both cases, we used the Global GHG Accounting and Reporting Standard A, published by the Partnership for Carbon Accounting Financials (PCAF).

The "coverage" column shows the percentage of the total balance or investment within that the asset class. Mortgage loans, commercial real estate, and investment projects include short and long-term financing, while corporate loans include long-term financing. Short-term financing is defined as of loans with maturities of less than one year, and long-term financing is defined as loans with maturities of more than one year.

To calculate financed emissions for Banorte (the bank) and Arrendadora y Factor Banorte (our leasing and factoring subsidiary), Scope 1, 2, and 3 greenhouse gas emissions were considered based on the availability of corresponding factors in the PCAF database. Investment projects and corporate loans encompass industries that are more carbon-intensive, including energy generation, oil & gas, aluminum, agriculture, coal, cement, construction, iron and steel, and transportation. Sources used for calculations include internal databases as well as customers' public reports and PCAF emission factors.

To calculate financed emissions for stocks, FIBRAs, and corporate debt held by Afore XXI Banorte (our retirement fund manager), we included Scope 1 and 2 greenhouse gas emissions by the issuers. If the issuer's enterprise value was not available for calculation, market capitalization was used. In the case of international companies with a presence in Mexico and a sustainability report at the subsidiary level, emissions of greenhouse gases at the Mexico level were used; otherwise, emissions at the corporate level were used for calculations. To quantify emissions from sovereign bonds, Mexico's consumption emissions were used, where emissions intensity refers to CO_2 emissions per Gross Domestic Product based on Purchasing Power Parity (PPP-adjusted tCO_2e/GDP). Sources used for calculations include internal databases, as well as MSCI, Bloomberg, and S&P.

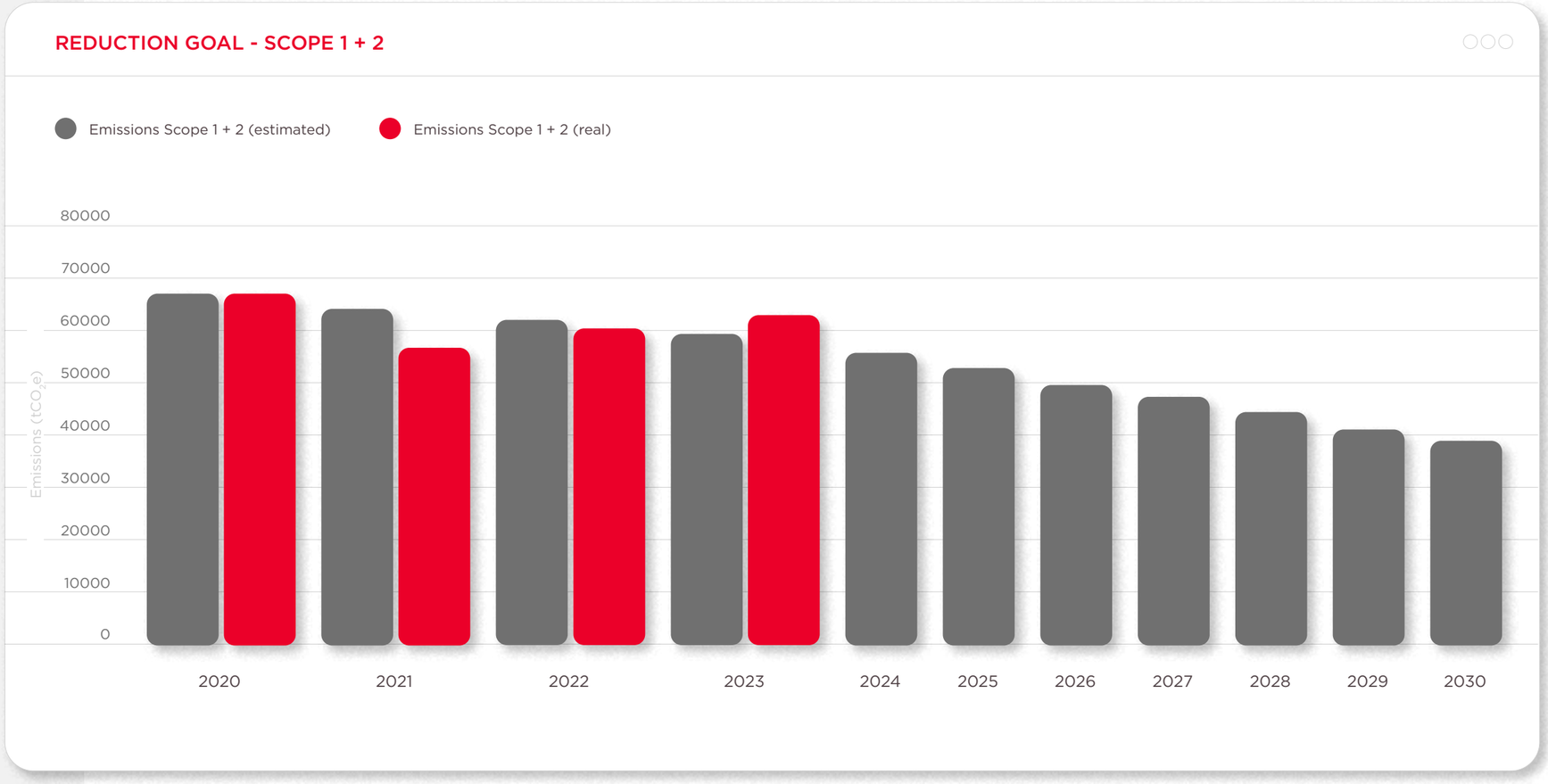
To calculate financed emissions for stocks, FIBRAs, and corporate debt held by Operadora de Fondos Banorte (our fund management subsidiary), we included Scope 1 and 2 greenhouse gas emissions by the issuers, except for oil & gas and mining, which include scope 3. To quantify emissions from sovereign bonds, we used Mexico's consumption emissions, where emissions intensity refers to the CO_2 emissions per Gross Domestic Product based on Purchasing Power Parity (PPP-adjusted tCO_2e/GDP). Sources used for calculations include internal databases, as well as issuers' public reports, Refinitiv, and CDP.

The data quality column shows the result of a weighted average of the customer/issuer balances that make up the asset classes by their respective data quality. PCAF's data quality scale is used, where data quality 1 is of the highest quality, and data quality 5 is the lowest.

GHG emission reduction targets

Scope 1 and 2 GHG emission targets at the group level

In 2023, we redefined our Scope 1 and 2 GHG emission reduction targets with a coverage of 100%, using the Absolute Contraction Approach, aligned with the scenario of a 1.5°C rise in global temperature.



Financed emission reduction targets at the group level

We also set GHG emission reduction targets for Scope 3, category 15, with a coverage of 21.9% of the assets of the Financial Group. For this purpose, we used the Science-based Target-Setting Manual for the Financial Industry and the Sectorial Decarbonization Approach (SDA) and the Portfolio Coverage Approach, all supplied by the SBTi, using the scenarios of 1.5°C and below 2°C, according to the asset class and industry.

SCOPE 3 TARGETS AT THE GROUP LEVEL

Asset class	KPI 2021 (Base year)	KPI 2022	Metric	Coverage (% of assets)	Target	Target year	Methodology	Climate scenario
Mortgage	8.90	8.19	$kgCO_2e/m^2$	100%	42.1%	2030	SDA	SBTi 1.5°C
Commercial real estate	42.0	43.4	$kgCO_2e/m^2$	75%	52.5%	2030	SDA	SBTi 1.5°C
Energy generation	0.49	0.50	tCO_2e/MWh	100%	73.7%	2030	SDA	SBTi 1.5°C
Corporate loans – Oil & Gas	1.45%	6.63%	Percentage coverage	95%	27.4%	2026	SBTi Portfolio coverage	SBTi 1.5°C
Corporate loans – other long-term loans				68%				
Common and preferred stock	10.5%	3.4%	Percentage coverage	100%	34.1%	2026	SBTi Portfolio coverage	SBTi 1.5°C
Corporate bonds								
Exchange-traded funds (ETFs)								

Figures as of December 2022.

Short term refers to loans with maturities of less than one year; long term means loans with maturities of more than one year. In both cases, with respect to the base year (2022 for the purposes of this exercise).

The targets for the mortgage and commercial real estate segments apply only to Banorte (the bank), and include short- and long-term loans. Commercial real estate does not include investment projects. Targets for both these asset classes were set using the Sectorial Decarbonization Approach (SDA) Tool for Commercial Real Estate and Residential Mortgages, version 1.2.

The target for energy generation includes investment projects and corporate loans with short- and long-term maturities. We used the "Science Based Targets Setting Tool" version 2.1 to set the target for energy generation.

Corporate loans include the portfolios of Banorte (the bank) and Arrendadora y Factor Banorte (leasing and factoring). This asset class includes loans to the Oil & Gas industry at short and long terms, and other long-term loans, primarily from other highly carbon-intensive industries.

The Common and Preferred Stock, Corporate Bonds, and ETF asset classes correspond to the book account "Investments in Securities." This account includes negotiable financial instruments, assets available for sale and held to maturity, by all subsidiaries of the Group that manage assets on the balance sheet. The ETFs directly consider the commitments of the instrument managers to SBTi, not constituent issuers. The coverage percentage is lower in our comparison due to changes in the exposure of certain assets that previously had a higher concentration in the account and now have emissions reduction targets aligned with and approved by SBTi.

In line with SBTi methodologies, the exercise covers all mandatory asset classes and their respective coverages, except if the asset class does not exist in the Group's balance sheet. Additionally, coverage also includes mortgages, which are a voluntary asset class.

In total, greenhouse gas emission reduction targets for Scopes 1, 2, and 3 went through a validation process with SBTi with a favorable result, making GFNorte the first financial institution in all of Latin America to have its targets validated by the initiative.

Financed emission reduction targets at the Banorte level

To complement this exercise, we set targets for highly carbon-intensive industry groups at the Banorte level (the bank subsidiary), covering 44.2% of the total loan portfolio. The targets were developed under the guidelines of the Net Zero Banking Alliance (NZBA), the SDA and Absolute Contraction methodologies, using SBTi's 1.5°C scenario and the Net Zero 2050 scenario of the International Energy Agency (IEA-NZE 2050).

Short term refers to loans with maturities of less than one year; long term means loans with maturities of more than one year. In both cases, with respect to the base year (2022 for the purposes of this exercise).

The reported ranges are between the optimistic and conservative scenarios for the measures that Banorte would have to take, depending on the market response. These ranges have been approved by the Board of Directors and are included for informational purposes.

In line with the NZBA guide, the exercise covers the nine mandatory highly carbon-intense industries.

GHG emission reduction targets were approved by the Sustainability Committee, the Risk Policies Committee (RPC) and the Board of Directors.

SCOPE 3 TARGETS AT THE BANORTE (BANK) LEVEL

Industry	KPI 2021 (Base year)	KPI 2022	Metric	Industry coverage (% Portfolio)	2030 Target	Board approved range	Methodology	Climate scenario
Mortgage	8.90	8.19	$kgCO_2e/m^2$	100%	42.1%	20% - 39%	SDA	SBTi 1.5°C
Commercial real estate	42.0	43.36	$kgCO_2e/m^2$	75%	52.5%	19% - 37%	SDA	SBTi 1.5°C
Energy generation	0.49	0.50	tCO_2e / MWh	100%	73.7%	34% - 68%	SDA	SBTi 1.5°C
Oil & gas	2,109,250	1,875,030	tCO_2e	95%	21.0%	24% - 47%	Absolute contraction	IEA - NZE 2050
Agriculture	1,691,253	1,789,475	tCO_2e	100%	35.0%	18% - 35%	Absolute contraction	IEA - NZE 2050
Aluminum	5,973	15,273	tCO_2e	100%	35.0%	18% - 35%	Absolute contraction	IEA - NZE 2050
Iron and steel	50,136	45,027	tCO_2e	100%	22.0%	11% - 22%	Absolute contraction	IEA - NZE 2050
Coal	1,418	156	tCO_2e	100%	68.0%	34% - 68%	Absolute contraction	IEA - NZE 2050
Transportation	46,608	51,729	tCO_2e	100%	18.0%	9% - 18%	Absolute contraction	IEA - NZE 2050
Cement	1,161,167	1,194,810	tCO_2e	100%	17.0%	3% - 18%	Absolute contraction	IEA - NZE 2050
Construction	164,519	194,841	tCO_2e	100%	35.0%	18% - 35%	Absolute contraction	IEA - NZE 2050

Figures as of the close of 2022.

Decarbonization plan

To meet these goals, we are working on a decarbonization roadmap for our internal operations and financed emissions, which will include the following aspects:
Scope 1 + 2 emissions:

- Identify and evaluate the substitution of electricity consumption in our main administrative buildings with clean or renewable energy suppliers operating within the wholesale electricity market (WEM), ensuring the traceability of the resource with their respective IRECs.
- Evaluate opportunities for distributed energy generation by installing solar panels in own branches through different schemes.
- Conduct an energy audit of branches with the highest energy consumption using the energy intensity metric kWh/m2 by region.
- Replace obsolete equipment with more efficient equipment, especially air conditioning and lighting systems.
- Establish a continuous monitoring program to identify additional improvement opportunities.
- Environmental awareness for employees.
- Establish an internal carbon pricing mechanism.
- Identify and evaluate the possibility of obtaining an environmental certification for our main administrative buildings.
- Acquire carbon offsets (for up to 10% of emissions in the reporting year), from reforestation projects or carbon capture and storage, among others.
- Evaluate the gradual replacement of internal combustion vehicles in the fleet with hybrid or electric vehicles.

Progress towards meeting the goals is variable, as it depends on different factors such as: prioritization, budget allocation, as well as the implementation time of each of the projects.

Scope 3 emissions:

- Develop policies to define the Group's stance on climate change for financial decision-making.
- Focus efforts on understanding transition plans and addressing the financing needs of the main customers in each industry.
- Seek to generate greater knowledge among our customers through strategic alliances, including industry experts, and by sharing best practices with the most advanced companies.
- Strengthen our climate governance by creating multidisciplinary teams called "cells" responsible for implementing various sustainability-related projects, including internal changes that make sustainable financing traceable, updates and evolution of climate risk management, and the development of sustainable products, among another 40 projects.
- Train and raise awareness of our employees, especially the sales force, about the importance of decarbonization and how they can contribute from their area of control.
- Promote transparency of GHG emissions of customers in the loan portfolio and emissions portfolio.
- Continue to refine, to the extent possible as possible, the quality of information about our customers, and automate calculation of the carbon footprint of our portfolio, in order to more expediently measure progress towards our medium and long-term decarbonization goals.

Conclusions

This report shares GFNorte's progress in climate-related risk and opportunity management, in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

It attests to the fact that climate change is integral to the agendas of the institution's most important governing bodies and that, furthermore, that the Group has an increasingly specialized internal team responsible for these issues, reflecting the priority we place on climate within the business.

GFNorte showed substantial progress over the previous year in its climate strategy, having restructured it into five guiding pillars based on the MEDIR methodology, which consist of: Modeling climate risk, Emphasizing the green value proposition, Decarbonizing the portfolio, Integrating climate change into operations, and Reporting on commitments and progress, and into five strategic working axes: 1) analysis of physical, transition, and nature-related risks, 2) sustainable financing, 3) decarbonization, 4) business, and 5) accountability and transparency. We have also established quantitative baselines that are useful for adjusting the strategy and working toward global commitments, measuring scope 1, 2, and 3 emissions, and defining decarbonization targets. Furthermore, our analysis of physical and transition risks led to the development of in-house methodologies for scenario building and stress testing that will soon be incorporated into the organization's traditional risk management.

In particular, the analysis of physical risks allowed us to estimate the level of risk associated with hydro-meteorological events faced by our branches and the portfolios we studied. The results showed that, as temperatures rise in the climate scenarios used by the IPCC, our branches and our real-estate, lodging and mortgage portfolios present increasing exposure. An analysis of cyclone risk revealed that the greatest impacts on the value of mortgage portfolio collateral are in Quintana Roo, Sinaloa, Baja California Sur, Yucatán, and Nayarit, while for real estate and lodging portfolios, they were in Quintana Roo, Baja California Sur, Sinaloa, Nayarit, and Jalisco. This confirms the need to strengthen mitigation actions, although GFNorte has sufficient capital to absorb losses caused by the materialization of various hydro-meteorological risks, according to stress tests we conducted.

In our analysis of transition risks, the scenarios we used were Delayed Transition and Net Zero, each of which yields different perspectives on decarbonization risk in our portfolios, while the Delayed Transition scenario is more flexible, with measures beginning from 2030 allowing us to gradually manage these portfolios. In contrast, the Net Zero scenario is more severe, as it assumes structural changes that will make it more difficult for companies to prepare for change. Based on the results of this analysis, GFNorte has decided to assist its customers in improving their practices, allowing them to transition in a stable manner according to their own needs. The results of the Climate Shock analysis indicate that industries with a high transition risk are aluminum, iron, steel, and agriculture, all of which engage in specific activities that create higher carbon emissions, and under the scenarios used, they will not be able to generate enough EBITDA to cover the cost of carbon. These industries represent 1.2% of Banorte's portfolio-not an alarming figure, but through various portfolio decarbonization strategies, efforts will be made to reduce their impact on emissions and strengthen tools to green their practices.

In quantifying our emissions, we found that Scope 1 and 2 emissions, which are direct and indirect emissions generated by the company's activities, a significant increase was observed because of the rise in energy consumption compared to the previous three years. For Scope 3 emissions, which are the most material for the financial industry, the exercise focused on the most relevant industries for the bank's portfolio: oil & gas, agriculture, and cement being the most emission-intensive industries. In the case of our fund manager, Operadora de Fondos Banorte, the measurement focused on stocks, corporate bonds, and sovereign bonds, and found that the highest emissions were among stock issuers. Greenhouse gas reduction targets were adjusted for Scope 1 and 2 in keeping with our commitments under the Science-Based Targets initiative (SBTi). Financed emissions targets were defined and validated using SBTi methodologies and the guidelines of the Net Zero Banking Alliance (NZBA), covering 43.5% of Banorte's loan portfolio.

In 2024, we will work to expand the scope of this report to incorporate other important climate-exposed industries in our portfolio. We hope to address areas of opportunity relating to information availability, methodologies, tools, time and process management, among other aspects that will buttress our work, formalize corresponding regulations, and successfully complete the experiences we have embarked upon. Furthermore, our Climate Change Specialist Team will work on defining the decarbonization strategy, with greater involvement by the business areas, customers, academe, and consultants.

On the issue of nature-related risks, we will continue to analyze our dependencies, impacts, risks, and opportunities, in line with the background presented in this report, on water safety and the recommendations of the TNFD, which will be disclosed in fiscal year 2025. We reiterate our interest in protecting nature and preserving Mexico's mega-diversity, while combating climate change and supporting sustainable industrial development.

Finally, in the interests of constant improvement and remaining abreast of the highest global standards and regulations regarding climate, this report will incorporate the guidelines of the framework of International Sustainability and Climate Standards (IFRS S2), making the necessary adjustments to maintain continuous and transparent disclosure.

List of acronyms

ACPC	Audit and Corporate Practices Committee
AWARE	Available water remaining
CCRP	Climate Change Research Program
CCST	Climate Change Specialist Team
CDP	Carbon Disclosure Project
CEI	Climate Exposed Industries
CO2	Carbon dioxide
CONAGUA	National Water Commission
DP	Degree of Pressure
ESG	Environmental, social and governance
EWR	Environmental Water Requirement
FI	Falkenmark Index
GCAM	Global Change Analysis Model
GFNorte	Grupo Financiero Banorte
GHG	Greenhouse gases
HAR	Hydrological-administrative regions
IAMs	Integrated Assessment Models
INEGI	National Institute for Statistics, Geography and Informatics
IPCC	Intergovernmental Panel on Climate Change
IREC	International Renewable Energy Certificate
NDC	Nationally Determined Contributions
NGFS	Network for Greening the Financial System
NiGEM	National Institute Global Econometric Model
NZBA	Net Zero Banking Alliance
PRB	Principles for Responsible Banking
PRI	Principles for Responsible Investment
RCP	Representative Concentration Pathway
RPC	Risk Policies Committee
RWS	Relative Water Stress
S1	Scope 1 emissions
S2	Scope 2 emissions
S3	Scope 3 emissions
SBTi	Science-Based Targets initiative
SC	Sustainability Committee
SDG	Sustainable Development Goals
SEMARNAT	Ministry of the Environment and Natural Resources
TNFD	Task Force on Nature-Related Financial Disclosures
UN	United Nations
WRI-WR	World Resources Institute Water Risk WRI-WR
WSI	Water Stress Index

Glossary

Term	Definition
Adaptation	Ecological, social, or economic changes that occur in response to real or expected climate effects or impacts. Includes changes in processes, practices, and structures to moderate the potential damages or benefit from opportunities associated with climate change.
Biodiversity	The variability of living organisms in all environments, including land and marine ecosystems, other aquatic ecosystems and ecological complexes; includes species and inter-species diversity and ecosystem diversity, resulting from billions of years of evolution by natural processes.
Bottom-up	Method of analysis that is performed from the particular to the general, piecing together units to form systems, or systems to form more complex systems.
Capital adequacy assessment	A component of comprehensive risk management, consisting of a calculation to determine whether an institution's net capital would be sufficient to cover the potential losses derived from the risks to which it could be exposed in different scenarios, including those in which adverse economic conditions prevail.
Climate change	Article 1 of the United Nations Framework Convention on Climate Change defines climate change as "a change of climate which is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and which is in addition to natural climate variability observed over comparable time periods." The UNFCCC differentiates between climate change attributable to human activities that alter the composition of the atmosphere and climate variability attributed to natural causes.
Conditional goal	A goal that requires external support to reduce greenhouse gas emissions.

Term	Definition
COP27	The 27th United Nations Climate Change Conference 2022, which took place from November 6 -18, 2022 in Sharm el-Sheikh, Egypt.
Probability of default	A credit rating measure, defined as the probability that a borrower will fail to perform its obligation to the bank in accordance with the originally agreed terms and conditions.
Desired risk profile	Risk profile that GFNorte is willing to assume in accordance with its business model and strategies, to achieve its objectives.
Expected loss	A standard counterparty risk metric, defined as the value of a potential loss cause by counterparty default.
Exposure at default	Amount that the bank is exposed to losing at the time of default on a loan.
Fossil fuel	A general term referring to underground geological deposits of combustible organic materials formed from the decomposition of plants and animals that after hundreds of millions of years of heat and compression in the earth's crust becomes crude oil, coal, natural gas, or heavy oil.
Framework for Comprehensive Risk Management	Set of objectives, policies, guidelines, and procedures that regulate GFNorte's comprehensive risk management activity.
Fugitive emissions	Leaks and discharges of fossil carbon streams from extraction to final oxidation.

Glossary

Term	Definition
Greenhouse gases (GHG)	Gaseous constituents of the atmosphere, both natural and manmade, that absorb and re-emit infrared radiation, for example, carbon dioxide (CO_2).
Loan-to-value	Ratio between the accounting balance of a loan and the updated amount of collateral.
Loss Given Default	Measures the intensity of the loss that is not expected to be recovered in the event of default, expressed as a percentage of the Exposure at Default (EAD).
Mitigation	Efforts to reduce or prevent greenhouse gas emissions. May include the use of new technologies and renewable energies, improvements in the energy efficiency of old equipment or change in management practices or consumer habits.
Nature-related risk	The TNFD defines nature-related risks as the potential threats posed to an organization linked to its and society's dependencies on nature and nature impacts.
Physical risk	Risks resulting from climate change such as natural disasters that are more frequent and intense in the short term (acute) or longer-term shifts (chronic) in climate patterns. • **Acute Risk:** Refers to event-driven events, including increased severity of extreme weather events, such as cyclones, hurricanes, or floods. • **Chronic Risk:** Refers to longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause in sea level rise or chronic heat waves.
Radiative forcing	Change in the net flux of radiative energy to the Earth's surface measured at the upper edge of the troposphere (about 12,000m above sea level) as a result of internal changes in the composition of the atmosphere, or changes in the external contribution of solar energy.

Term	Definition
Risk profile	Quantitative and qualitative description of the different risks to which GFNorte is exposed at any given time.
Risk exposure Limits	Permissible magnitude of exposure to different types of risk by business unit, risk factor, cause or origin.
Runoff	Currents of water produced by rainfall, snowmelt or other sources, which flow across the surface of land after the ground's capacity for evaporation and infiltration has been saturated.
Scope 1 GHG emissions	Direct emissions from fuel combustion from fixed or mobile sources, fugitive emissions, farming, forestry, waste generation and changes in land use.
Scope 2 GHG emissions	Indirect emissions resulting from the purchase of electrical, steam or cooling energy.
Scope 3 GHG emissions	Other indirect emissions not under the company's control; products and services purchased, business travel, employee commuting, waste disposal, use of products sold, transportation and distribution (upstream and downstream), investments, leased assets, and franchises. For financial institutions, scope 3 emissions from investment are the most significant category.
Top-down	Method of analysis that is performed from the general to the particular, or from the global to the local. It starts with the more global variables and progressively descends to more specific variables.

Glossary

Term	Definition
Transition risk	Risks stemming from the transition to a low-emission economy, including extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Transition risks may pose varying financial and reputational risk levels to organizations depending on these changes' nature, speed, and focus. • **Legal risk:** Potential losses from default with the applicable legal and administrative provisions, administrative or court rulings against the organization, and sanctions, regarding the operations Banorte engages in. • **Market risk:** Potential losses from changes in risk factors that affect the valuation or expected results of borrowing, lending, or contingent transaction. • **Regulation risk:** Potential loss due to inspections, examination, investigation, and regulatory audits that may result in sanctions or the imposition of corrective measures. • **Emerging regulation risk:** Potential losses due to frequent reviews and changes in government regulation. • **Reputational risk:** Potential losses from the operations of each of the group's entities caused by diminished perceptions among internal and external stakeholders regarding its solvency and viability. • **Technological risk:** Potential losses due to the inability to promptly improve or effectively upgrade our information technology infrastructure and data management systems.

Term	Definition
Water safety	A society's capacity to obtain water in an amount and of a quality acceptable for survival and the performance of its various activities. Also implies an acceptable level of water-related risk, including droughts, flooding or pollution.
Water stress	One of the most immediate and serious effects of climate change, defined as a lack of community access to sufficient and safe potable water. Refers to scarcity, drought, flooding, water pollution and other water-related issues.

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Credit and Climate Risk

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Jorge Luis Reyes García

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Omar Odilón González Mondragón

Sustainability

Beatriz Sánchez Covarrubias

Britzia Silva Enciso

Diana Jiménez Márquez

Fernando Puente Flores

Gabriela Mercedes Ramírez Barrón

José Luis Muñoz

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