Principles for Responsible Banking

Reporting and Self-Assessment Template

The following table sets out the reporting and self-assessment requirements for Signatories of the Principles for Responsible Banking. Signatory banks need to report on their implementation of the Principles the first time within latest 18 months after signing and annually thereafter (in line with their annual reporting cycle).
<table>
<thead>
<tr>
<th>Reporting and Self-Assessment Requirements</th>
<th>High-level summary of bank's response (limited assurance required for responses to highlighted items)</th>
<th>Reference(s)/Link(s) to bank’s full response/relevant information</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Principle 1: Alignment</strong></td>
<td>We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.</td>
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<tr>
<td><strong>1.1 Describe</strong> (high-level) your bank's business model, including the main customer segments served, types of products and services provided, the main sectors and types of activities, and where relevant the technologies financed across the main geographies in which your bank has operations or provides products and services.</td>
<td>Banregio is a multiple banking institution that operates in Mexico. Its main segments are small and medium-sized companies as well as personal banking. Clients have access to specialized products for each segment. In 2020, medium-sized business banking, the main segment, contributed to 37% of the company's revenue while the small business segment contributed to 26%. The current loan portfolio for the medium-sized segment represented 63% and the small business represented 11% of the total portfolio. This information is at the holding level, Regional, therefore includes all financial subsidiaries, Banregio representing the highest activity and income.</td>
<td>Group Profile (Integrated Annual Report, pages 18-20) Financial performance (Integrated Annual Report, page 61)</td>
</tr>
<tr>
<td><strong>1.2 Describe how your bank has aligned and/or is planning to align its strategy to be consistent with and contribute to society's goals, as expressed in the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and relevant national and regional frameworks.</strong></td>
<td>The Sustainability Strategy corresponds to our materiality study, which is updated every 2 years in order to address our stakeholders priorities and the company's context. We are part of the United Nations Global Compact and contribute strategically to the Sustainable Development Goals (SDG). This year we also became TCFD - Task Force on Climate related Financial Disclosures supporters. Our group’s Sustainability Strategy was updated in 2021 in order to include stakeholders priorities and recent commitments. The strategy is divided in three main missions:  - <strong>Trustworthy:</strong> Corporate governance, Ethical conduct and culture, Risk management, Information security and Solid Financial performance.  - <strong>Well-being:</strong> Long term customer relationship, Financial health for our communities, Financial</td>
<td>Materiality (Integrated Annual Report, page 27-29) Upcoming 2021 Annual Report</td>
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<tr>
<td><strong>inclusion, Equal opportunities and diversity within our workforce and Environmental wellness.</strong></td>
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<td><strong>→ Better future:</strong> Climate action related risks and opportunities, Responsible banking, Innovation, Digital transformation and Stakeholder engagement.</td>
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</table>
### Principle 2: Impact and Target Setting

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

#### 2.1 Impact Analysis:

Show that your bank has identified the areas in which it has its most significant (potential) positive and negative impact through an impact analysis that fulfills the following elements:

- **Scope:** The bank's core business areas, products/services across the main geographies that the bank operates in have been as described under 1.1. have been considered in the scope of the analysis.

- **Scale of Exposure:** In identifying its areas of most significant impact the bank has considered where its core business/its major activities lie in terms of industries, technologies and geographies.

- **Context & Relevance:** Your bank has taken into account the most relevant challenges and priorities related to sustainable development in the countries/regions in which it operates.

- **Scale and intensity/salience of impact:** In identifying its areas of most significant impact, the bank has considered the scale and intensity/salience of the (potential) social, economic and financial performance (Integrated Annual Report, page 61)

We are currently working on our impact analysis using the latest UNEP-FI tool. This will allow us to understand our negative and positive impacts through our products and services.

In order to determine which products to consider in the analysis we will focus on the bank's core segments taking into account two main characteristics: highest revenue contributors and those that ensure the sustainability of the business.

In our analysis we will include our main segments: SME loans (63% of total income) where 49% of the portfolio is real estate related and personal banking (28% of total income) where mortgages represent 10% of the current loan portfolio.

For now, consumer credit will not be included since it represents only 2% of the current loan portfolio.

The results of this analysis will be published in our next Contribution to Responsible Banking Report and our Integrated Annual Report, both to be published by April 2022.
environmental impacts resulting from the bank’s activities and provision of products and services.

(your bank should have engaged with relevant stakeholders to help inform your analysis under elements c) and d))

| Show that building on this analysis, the bank has |
| · Identified and disclosed its areas of most significant (potential) positive and negative impact |
| · Identified strategic business opportunities in relation to the increase of positive impacts / reduction of negative impacts |

Please provide your bank’s conclusion/statement if it has fulfilled the requirements regarding Impact Analysis.
| 2.2 Target Setting | The Sustainability department establishes SMART targets that make up the bank's overall sustainability strategy. These goals contribute to international agendas like the UN's Sustainable Development Goals, Women Empowerment Principles, Edge Certificate, among others.

After completing our impact analysis and reviewing our most significant impact areas, we will determine our quantitative short and medium-term (2025) targets.

These targets will be monitored and measured with the rest of the targets set within the sustainability strategy.

Additionally, we are currently working on integrating these ESG targets into the evaluation and variable compensation of C-level directors. | Sustainability (Integrated Annual Report pages 26-37) | Upcoming 2021 Annual Report | Upcoming Principles of Responsible Banking Report |
|---|---|---|---|---|
| Show that the bank has set and published a minimum of two **Specific**, **Measurable** (can be qualitative or quantitative), **Achievable**, **Relevant** and **Time-bound** (SMART) targets, which address at least two of the identified “areas of most significant impact”, resulting from the bank’s activities and provision of products and services.

Show that these targets are linked to and drive alignment with and greater contribution to appropriate Sustainable Development Goals, the goals of the Paris Agreement, and other relevant international, national or regional frameworks. The bank should have identified a baseline (assessed against a particular year) and have set targets against this baseline.

Show that the bank has analysed and acknowledged significant (potential) negative impacts of the set targets on other dimensions of the SDG/climate change/society's goals and that it has set out relevant actions to mitigate those as far as feasible to maximize the net positive impact of the set targets. | Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Target Setting. | | |
2.3 Plans for Target Implementation and Monitoring

Show that your bank has defined actions and milestones to meet the set targets.

Show that your bank has put in place the means to measure and monitor progress against the set targets. Definitions of key performance indicators, any changes in these definitions, and any rebasing of baselines should be transparent.

The actions established in the sustainability strategy are implemented by different areas of the company and are monitored by the Sustainability area which reports to the CFO. Additionally, the Corporate Practices Committee, which reports to the Board of Directors, is responsible for monitoring the bank’s ESG performance.

Within the commercial operation, business loans are approved by the Credit Committee following the bank’s loan policy which excludes certain sectors.

The targets to be set after implementing the analysis tool will be aligned with the rest of the goals and monitored within the sustainability strategy. Each target will have its corresponding action plan.

Please provide your bank’s conclusion/statement if it has fulfilled the requirements regarding Plans for Target Implementation and Monitoring.

2.4 Progress on Implementing Targets

For each target separately:

Show that your bank has implemented the actions it had previously defined to meet the set target.

Or explain why actions could not be implemented / needed to be changed and how your bank is adapting its plan to meet its set target.

Report on your bank’s progress over the last 12 months (up to 18 months in your first reporting after becoming a

Measuring and monitoring our targets for Responsible Banking will be integrated with managing the rest of the bank’s sustainability strategy which is coordinated by the Sustainability department. Additionally, the Corporate Practices Committee, which reports to the Board of Directors, is responsible for monitoring the bank’s ESG performance.

These targets' progress will be published in our next Integrated Annual Reports.
Principle 3: Clients and Customers
We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

3.1 Provide an overview of the policies and practices your bank has in place and/or is planning to put in place to promote responsible relationships with its customers. This should include high-level information on any programmes and actions implemented (and/or planned), their scale and, where possible, the results thereof.

Banregio’s main differentiator is trustworthiness obtained through long term customer relationships and a deep understanding of the customer’s financial needs.

Our policies provide the framework needed to continue operating while following best practices in security, transparency and ethics.

The code of ethics is the foundation of the company’s culture. This code is a guide to follow in relation to our stakeholders (clients, employees, suppliers) in terms of: anti corruption, human rights, money laundering, corporate responsibility and environment.

The loan origination policy has an exclusion list for sectors that could negatively impact the economy, society and environment.

We are currently working on integrating a new policy within the loan process that will add ESG risk indicators. This addition to the policy will be implemented during 2022.

3.2 Describe how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable practices and enable sustainable economic activities. This should include information

Banregio’s purpose is the success of our customers. In order to achieve this we are committed to getting to know our clients and finding the best financial solution for them.

We are focused on creating long term customer relationships measured by customer satisfaction through Net Promoter Score. Our NPS, one of the highest in Mexico’s financial system, is reported each year in our Integrated Annual Report.

Code of Conduct
Customer experience
(Integrated Annual Report, page 47)

Risk Intelligence
(Integrated Annual Report, page 137)

Ethics and transparency
(Integrated Annual Report, pages 126-128)

Clara Banregio
(Financial education program, Integrated Annual Report, pages 103-104)

Mentoria Banregio
(Mentoring program, Integrated Annual Report, pages 101-102)
| on actions planned/implemented, products and services developed, and, where possible, the impacts achieved. | Additionally Banregio offers non-financial services: a mentoring program to micro and small business owners and a financial education program with a gender lens. Both of these programs are offered to the community (clients and non clients). In 2022, we will include ESG risk factors to our loan origination process for our medium size business portfolio. | Customer experience (Integrated Annual Report, page 48-49) |
### Principle 4: Stakeholders
We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society’s goals.

#### 4.1 Describe which stakeholders (or groups/types of stakeholders) your bank has consulted, engaged, collaborated or partnered with for the purpose of implementing these Principles and improving your bank’s impacts.

<table>
<thead>
<tr>
<th>Stakeholder engagement is part of our sustainability strategy.</th>
<th>Materiality (Integrated Annual Report, page 27-29)</th>
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<tbody>
<tr>
<td>The company has a whistleblower phone line and an online transparency mailbox. Both channels are: anonymous, independent, secure and open to all stakeholders.</td>
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<tr>
<td>In order for the company to broaden communication with its stakeholders, every two years we conduct a materiality analysis. The following stakeholders participated in last year’s analysis: investors, clients, employees and engaged community members (participants from our non financial programs).</td>
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<tr>
<td>As part of our commercial operations we keep an open dialogue with local chambers of commerce and regulatory authorities. And through our corporate responsibility programs work with non profit organizations and educational institutions.</td>
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<td>Additionally we are constantly working with international and national organizations that contribute to solving global challenges.</td>
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### Principle 5: Governance & Culture
We will implement our commitment to these Principles through effective governance and a culture of responsible banking.

#### 5.1 Describe the relevant governance structures, policies and procedures your bank has in place/is planning to put in place to manage significant positive and negative (potential) impacts and support effective implementation of the Principles.

<table>
<thead>
<tr>
<th>Responsible banking commitments and targets (which form a specific strategy) will be integrated into the Sustainability Strategy and its governance.</th>
<th>Sustainability (Integrated Annual Report, page 26)</th>
</tr>
</thead>
<tbody>
<tr>
<td>These targets will be implemented and monitored by the corresponding areas and coordinated with the Sustainability department. The Corporate Practices Committee will overview ESG performance.</td>
<td>Governance (Integrated Annual Report, page 123)</td>
</tr>
</tbody>
</table>
5.2 **Describe the initiatives and measures your bank has implemented or is planning to implement to foster a culture of responsible banking among its employees. This should include a high-level overview of capacity building, inclusion in remuneration structures and performance management and leadership communication, amongst others.**

Progress in sustainability and responsible banking is the result of active participation throughout different areas of the institution. This commitment is already part of the company's culture which is centered on creating value for customers through financial services.

Financial health for our customers, employees and community is embedded in our culture and defined in the company’s code of conduct which is signed by employees of all levels and board members.

Yearly training on this code of conduct is required for all level employees and an optional course on ESG was launched in 2021.

| Group Profile (Integrated Annual Report, page 15) |
| Sustainability (Integrated Annual Report, page 26) |
| Community (Integrated Annual Report, page 114) |
| Ethics and transparency (Integrated Annual Report, pages 126-128) |

5.3 **Governance Structure for Implementation of the Principles**

Show that your bank has a governance structure in place for the implementation of the PRB, including:

a) target-setting and actions to achieve targets set
b) remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected.

Monitoring targets set after analyzing positive and negative impacts will be added to the Sustainability Strategy governance structure.

| Sustainability (Integrated Annual Report, page 26) |
| Governance (Integrated Annual Report, page 123) |
### Principle 6: Transparency & Accountability

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society’s goals.

<table>
<thead>
<tr>
<th>6.1 Progress on Implementing the Principles</th>
<th>In our next Integrated Annual Report 2021 we will report how we have implemented the Principles of Responsible banking since our signatory. Additionally we will complete our report with the impact analysis and targets.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Show that your bank has progressed on implementing the six Principles over the last 12 months (up to 18 months in your first reporting after becoming a signatory) in addition to the setting and implementation of targets in minimum two areas (see 2.1-2.4).</td>
<td>Our Annual Reports follow the GRI (Global Reporting Initiative) Standards since 2016 and the Sustainability Accounting Standards Board (SASB) since 2020. ESG indicators are validated by an external consultant and the assurance statement is based on the international ISAE 3000 standard. The targets set after completing our impact analysis will be added to the list of indicators to be validated yearly by an independent party.</td>
</tr>
</tbody>
</table>
| Show that your bank has considered existing and emerging international/regional good practices relevant for the implementation of the six Principles for Responsible Banking. Based on this, it has defined priorities and ambitions to align with good practice. | Upcoming 2021 Annual Report
Upcoming Principles of Responsible Banking Report |
| Show that your bank has implemented/is working on implementing changes in existing practices to reflect and be in line with existing and emerging international/regional good practices and has made progress on its implementation of these Principles. | |

Our Annual Reports follow the GRI (Global Reporting Initiative) Standards since 2016 and the Sustainability Accounting Standards Board (SASB) since 2020. ESG indicators are validated by an external consultant and the assurance statement is based on the international ISAE 3000 standard. The targets set after completing our impact analysis will be added to the list of indicators to be validated yearly by an independent party.
Annex: Definitions

a. Impact: An impact is commonly understood as being a change in outcome for a stakeholder. In the context of these Principles this means (aligned with GRI definition) the effect a bank has on people/the society, the economy and the environment and with that on sustainable development. Impacts may be positive or negative, direct or indirect, actual or potential, intended or unintended, short-term or long-term.

b. Significant Impact: Impact that in terms of scale and/or intensity/salience results in a particularly strong/relevant change in outcome for a stakeholder. In the context of these Principles, the concept of significant impact is used to ensure banks focus where their actions/business (can) matter most for people, economy and environment and to provide a reasonable and practical threshold for what issues need to be considered/included, similar to the concept of “materiality”.

References:
- Regional (Banregio’s holding) website: [www.regional.mx](http://www.regional.mx)