

PNM RESOURCES, INC.

CORPORATE GOVERNANCE PRINCIPLES

**Approved by the Board of Directors
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INTRODUCTION

The Corporate Governance Principles (the “Principles”) have been adopted by the Board of Directors (the “Board”) of PNM Resources, Inc. (“PNM Resources” or the “Company”) to guide the Board in its oversight role. The Nominating and Governance Committee (“Nominating Committee”) of the Board has been charged with reviewing the Principles at least annually (or more often as the Nominating Committee deems necessary) and to recommend any necessary changes to the Board to facilitate incorporating evolving best corporate governance practices.

I. BOARD OF DIRECTORS: GENERAL

A. Responsibilities

The primary responsibility of the Board is to oversee the management of the Company to optimize its long-term value for its shareholders. The management of the Company is conducted on a daily basis under the direction of the Chief Executive Officer (“CEO”) selected by the Board. The Board and management agree that shareholder value is optimized by operating the Company in an ethical and forthright manner and responsibly addressing the concerns of its various constituencies, including investors, employees, customers, government officials, suppliers, the communities it serves and the public at large. Board members oversee the management of the Company and advise and counsel the CEO and the executive management team relative to matters of policy, business affairs, and overall strategy. The Board seeks to assure that the Company’s business is conducted with the highest standards of ethical conduct and in conformity with applicable laws and regulations. Except for matters requiring shareholder action, the Board is the ultimate decision-making body of the Company.

The Board’s responsibilities include the election, evaluation and compensation of the Company’s CEO and the other members of the executive management team. The Board’s independent Directors make all decisions with regard to CEO compensation. In addition the Board oversees the process of succession planning for the CEO and other members of senior management; reviews, approves and monitors fundamental financial and business strategies and major corporate actions; assesses major risks facing the Company and reviews options for their mitigation; assures processes are in place for sustaining the integrity of the Company, including the integrity of its financial statements, its compliance with law and its Code of Conduct and its relationships with customers, regulators, other government officials, employees and its other constituencies.

To oversee the processes established to identify, assess, mitigate and monitor risk, including cyber risk, the Board directly, and through its Committees, will periodically review, with management, the most significant risks facing the Company and assess the effectiveness of the Company’s measures to address these risks. The Board reviews and discusses reports by management on the Company’s performance, its plans and prospects and immediate issues facing the Company.

In accordance with the Company’s Bylaws, the Board determines the requirements for service as a Director and the fees for the Board. Directors will act with integrity and demonstrate a commitment to the Company and its strategies, and to building shareholder value. Although the Board exercises vigorous and diligent oversight over the Company’s affairs, it does not perform or duplicate the role of management, which is to operate the Company on a daily basis.

B. Board Meetings

The number of scheduled Board meetings will vary with circumstances; however, a minimum of five meetings are held annually. Special meetings are called as necessary in accordance with the Company’s Bylaws. The independent directors meet in executive session at each regular meeting of the Board, or as

they determine is necessary, to review the performance of senior management and discuss other matters. Directors are responsible for attending all meetings and for reviewing materials provided in advance of each meeting. The Board and its Committees review calendars of responsibilities for each Committee that align with the respective Committee charters and identify issues to be addressed over the course of the year. Directors are expected to actively participate in Board and committee meetings. In consultation with the Chair and CEO, the Lead Director shall approve agendas for Board meetings. Any director has the right to submit items to be heard at any Board meeting.

C. Board Size

The Board will set the number of Directors within the range allowed by the Company's Articles of Incorporation (between 5 and 12 members). The Board determines, from time to time, by resolution, the appropriate size of the Board (within the limits established by the Articles of Incorporation) on the basis of the needs and best interests of the Company, including facilitating the orderly addition and development of new Board members to replace departing Directors.

D. Director Elections; Voting Requirements

Directors are elected to serve one-year terms. To be elected, a Director must receive the affirmative vote of a majority of the shares of the Company's common stock represented at the Annual Shareholders Meeting ("Annual Meeting") and entitled to vote in the election. Abstentions by those represented at the meeting and entitled to vote have the effect of a vote against the nominee. "Broker non-votes" are not counted. Any nominee in an uncontested election who does not receive the affirmative vote of a majority of the shares represented at the meeting and entitled to vote must promptly submit his or her resignation for consideration by the Nominating Committee, which shall make a recommendation to the full Board within a reasonable period of time. The Director whose resignation is under consideration will abstain from participating in the Nominating Committee's recommendation and the Board's decision on this matter. If a resignation is not accepted the Director may continue to serve. A quorum for purposes of holding a valid meeting at which Directors are elected is at least a majority of the Company's outstanding common stock entitled to vote, represented at the meeting either in person or by proxy. Directors added to the Board during the course of the year will stand for election at the next Annual Meeting.

In addition to the annual election of directors, the Board's accountability to shareholders is enhanced by:

- the rigorous nomination process conducted by the Nominating Committee (which includes consideration of director candidates proposed by shareholders); and
- the Board's policy that a majority of the Board be independent.

E. Process for Director Nominations

The Board is responsible for recommending Director nominees for election by the shareholders and for selecting Directors to fill vacancies until voted upon by the shareholders. The Board has delegated the Director screening process to the Nominating Committee, which has the responsibility to recommend candidates to the Board. The Nominating Committee will consider suggestions from current Directors, officers and employees of the Company, shareholders, industry associations, special interest groups, recruiting firms, and others.

Any shareholder may recommend potential nominees to the Nominating Committee for consideration for membership on the Board. Director candidates recommended by shareholders will be evaluated against the same criteria as other candidates, and so should reflect the General Board Attributes and Director Qualifications set forth below and in the Company's Bylaws. Shareholders can provide suggestions for nominees by submitting their suggestions together with a description of the potential nominee's qualifications, appropriate biographical information and signed consent to serve to the Corporate Secretary. Any shareholder (or group of no more than 20 shareholders) owning three percent or more of our common stock continuously for at least three years may nominate up to an aggregate limit of one candidate or 20 percent of our board (whichever is greater) for inclusion in the proxy statement.

F. Nominations Policy

The Board of Directors recognizes that the contribution of the Board depends not only on the character and capabilities of the Directors individually, but also on their collective strengths. It further recognizes the importance of a well-balanced board, which reflects the interests of the Company's shareholders, customers, employees, regulators and the communities it serves. It is the intent of this Board to fill vacancies by thoroughly reviewing the current strengths and weaknesses of the Board, the size of the Board, the potential future service of current members, and the diversity of the Board, including age, ethnicity, geographic representation, gender, experience, and education. The Board recognizes the need to be flexible and responsive to the needs of all the Company's constituencies in order to optimize the long-term value of the Company for its shareholders.

The Nominating Committee is responsible for seeking out possible candidates and otherwise aiding in attracting highly qualified, willing, and interested, candidates as Directors. In identifying possible candidates for the Board, the Nominating Committee will not consider persons who provide professional services for the Company such as legal counsel, investment bankers and accountants.

G. General Board Attributes

Recognizing that the contribution of the Board will depend not only on the character and capabilities of the Directors taken individually but also on their collective strengths, the Board should be composed of:

- (a) Directors chosen with a view toward bringing to the Board a variety of experience and background relevant to the Company's business;
- (b) Directors who will form a balanced core of business executives with varied expertise including having accounting or related financial management expertise;
- (c) Directors who have substantial experience outside the business community -- in the public, academic or scientific communities, for example;
- (d) Directors who are financially literate and who satisfy the definition of audit committee financial expert promulgated by the New York Stock Exchange;
- (e) Directors who will represent the balanced, best interests of the shareholders as a whole rather than special interest groups or constituencies; and
- (f) a majority of Directors who are independent according to criteria established by the New York Stock Exchange.

H. Director Qualifications

In addition to conformance with the general board attributes described above, candidates for election as Directors should possess the following qualifications:

- (a) each Director should be an individual of the highest character and integrity and have an inquiring mind, vision and the ability to work well with others and exercise good judgment;
- (b) each Director should be free of any conflict of interest which would violate any applicable law or regulation or interfere with the proper performance of the responsibilities of a Director;
- (c) each Director should possess substantial and significant experience which would be of particular importance to the Company in the performance of the duties of a Director;
- (d) each Director should have sufficient time available to devote to the affairs of the Company in order to carry out the responsibilities of a Director;
- (e) each Director should have the capacity and desire to represent the balanced, best interests of the shareholders as a whole and not primarily a special interest group or constituency; and
- (f) each Director should have an equity ownership interest in the Company consistent with the approved director stock ownership guidelines.

I. Orientation for New Directors; Continuing Education

New Directors participate in an orientation program including visits to Company facilities and discussions with key executives. New Directors are provided a Director Reference Manual during orientation. Continuing education will include periodic presentations at Board or Committee meetings by management (to provide insights into aspects of the Company's business) or by the general counsel or outside counsel (on any new material corporate governance, legal or regulatory requirements that affect the business). Directors may periodically attend seminars conducted by outside organizations that relate to director responsibilities, governance or industry matters. In addition, Directors shall tour company facilities when practicable.

J. Board Evaluation

In assessing the strengths and weaknesses of the Board, an annual evaluation is performed to determine: (1) how well its members' talents and expertise are suited to guiding the Company into the future; (2) areas of focus for development of current Directors, potential future candidates, and the Board in general; (3) the effectiveness of Board processes in assisting the Directors in fulfilling their duties; and (4) in general, whether the Board and its committees are functioning effectively. The Board evaluation process may include individual Director evaluations. The Nominating Committee administers the evaluation process and recommends the frequency and format of the individual Director evaluations.

K. Limits on Number of Board Memberships

Service on other corporate boards often broadens and deepens the knowledge and experience of our Directors. In addition, officers of the Company who serve on other boards frequently gain valuable insight and experience, which proves beneficial to the Company. However, service on too many boards can interfere with an individual's ability to perform his or her responsibilities. Before accepting an additional board position, a Director is expected to consult with the Chair of the Nominating Committee and the Chair of the Board to determine whether or not a conflict of interest exists. In addition, a Director will consider whether the acceptance of a new directorship would compromise his or her ability to perform present responsibilities. No Director may serve on more than four boards of public companies. No Director serving on the Audit and Ethics Committee may serve on the audit committees of more than two other public companies. An officer of the Company may not serve on a board of a public company without the prior approval of the Chief Executive Officer.

L. Communication with the Board

Shareholders wishing to communicate with the Board, or with a specific Director, may do so by writing to the Board, or to the particular Director, and delivering the communication in person or mailing it to: Board of Directors, c/o Corporate Secretary, PNM Resources, Inc., Corporate Headquarters, 414 Silver Avenue SW, MS-1245, Albuquerque, New Mexico 87102-3289. All shareholder communications will be relayed to the Board or an appropriate committee of the Board. If the shareholder desires to communicate a concern directly with the Board without initial review by the Corporate Secretary, the concern should be submitted in writing, in a sealed envelope addressed to the Board, in care of the Corporate Secretary, with a notation indicating that it is to be opened only by the Board. The Corporate Secretary shall promptly forward the unopened envelope to the Board. From time to time, the Board may change the process for shareholder communications with the Board or its members. Please refer to the Company's website www.pnmresources.com/corporate-governance.aspx for any changes in this process.

Shareholders and other interested parties wishing to communicate directly with the Lead Director or with the non-management or independent Directors as a group may do so by writing to Lead Director, c/o Corporate Secretary, PNM Resources, Inc., 414 Silver Avenue SW, MS-1245, Albuquerque, New Mexico 87102-3289.

II. INDEPENDENCE AND COMMITTEES

A. Majority of Independent Directors/Definition of Director Independence

The Board has and will have a majority of independent Directors. At most, two members of management, including the CEO, may serve as Directors. The definition of independence follows applicable law and regulations, including the requirements of the New York Stock Exchange Corporate Governance Listing Standards. The Board annually reviews the relationships each Director has with the Company. For a Director to qualify as independent, the Board must affirmatively determine, taking into account all the relevant facts and circumstances, that the Director has no material relationship with the Company, either directly or indirectly. PNM Resources will disclose in the Company's annual proxy statement those determinations and the basis for a Board determination that a relationship is not material.

B. Committee Composition

Each of the Audit and Ethics Committee, the Compensation and Human Capital Committee, the Nominating Committee is composed entirely of independent Directors. The Finance Committee has a majority of independent Directors and is composed entirely of non-employee (non-management) Directors. Each committee has a written charter that complies with the requirements of applicable law and stock exchange listing standards. In general, committees of the Board are used to focus on issues that may require more in-depth scrutiny. The specific duties of each committee are detailed in the committee charters and are approved by the Board. Charters are available on the Company website and will be mailed to shareholders upon request. Each committee reviews its charter on an annual basis, or more frequently if necessary, and recommends any amendments to the full Board.

The membership of each committee is recommended to the Board by the Nominating Committee and is rotated based on the following principles: (1) rotation of committee chairs every three-to-seven years, and (2) rotation of other committee members every three-to-five years. The committees themselves select committee chairs from their membership, giving due consideration to the Nominating Committee's recommendations for Committee Chairs. Each of the committees shall meet as often as it deems appropriate, but not less frequently than three times a year. In addition, the Audit and Ethics Committee meets every quarter to review the Company's 10-K and 10-Q filings with the Securities and Exchange Commission.

C. Leadership Structure

The Board retains the right to exercise its discretion in combining or separating the offices of Chair of the Board and CEO, as well as to determine whether, if the positions are separated, the Chair may be an employee, non-employee, or an independent Director. This determination is made depending on what is best for the Company in light of all circumstances prevailing at the time. Currently, the Board believes it to be in the best interests of the Company to combine the two positions. The Board has separated the two offices on four different occasions since the late 1980s.

D. Lead Director Position

In the event the positions of Chair of the Board and CEO are held by the same individual, the Board shall select a Lead Director. The Lead Director must be independent and is elected by the independent directors, who review the role and functions of the Lead Director on an annual basis. The position of Lead Director and role of the committees are designed to promote strong, independent oversight of the Company's management and affairs. The Lead Director:

- approves Board meeting agendas and information sent to the Board;
- approves meeting schedules to ensure sufficient time for discussion of all agenda items;
- chairs all meetings of the independent directors, including executive sessions of the independent directors, and presides at all meetings of the Board in the absence of the Chair;
- works with committee chairs to ensure coordinated coverage of Board responsibilities;

- ensures the Board is organized properly and functions effectively, independent of management;
- in consultation with the Board, retains independent advisors and consultants on behalf of the Board;
- facilitates the annual self-evaluation of the Board and Board committees;
- serves as a liaison for communications between (1) management and the independent directors, and (2) the Board and our shareholders and other interested parties; and
- performs such other duties as the Board may from time to time delegate.

III. PLANNING / OVERSIGHT FUNCTIONS

A. Directors Have Direct Access to Management

Directors are encouraged to have contact with members of executive management and to familiarize themselves with the Company's operations. Members of management are assigned as committee coordinators to assist the committee chairs and members with various committee duties. Members of executive management attend Board meetings and employees are routinely called upon to make Board presentations. Sound judgment is used in striking the balance of engagement with management and avoiding inappropriate involvement in the daily operations of the Company.

B. Independent Directors Formally Review CEO Performance

The independent Directors annually review CEO performance and communicate the results to the CEO. The evaluation is based upon objective criteria including performance of the business, accomplishment of long-term strategic objectives, development of management, and other criteria established by the Board. This evaluation is used by the Compensation and Human Capital Committee in establishing the CEO's compensation program and in determining the appropriate compensation level for the CEO to recommend to the Board.

C. Succession Planning

At least annually the CEO must review management development and succession planning with the Board to assure the effectiveness of the process and identify areas of need. The Board focuses specifically upon succession planning for the CEO and reviews the CEO's plans for other members of executive management.

D. Ethics and Conflicts of Interest

The Company is committed to the highest standards of ethical behavior. Directors, officers, employees and all other agents and representatives of the Company are expected to observe both the letter and spirit of the law in every transaction and make their own personal commitment to ethical behavior and must act in conformity with its Principles of Business Conduct expressed in its *Do the Right Thing: Principles of Business Conduct* guidebook. The Principles of Business Conduct are grounded in our shared values of Safety, Caring and Personal Integrity. The Board has authorized the Nominating Committee to consider requests for waivers of the Company's Principles of Business Conduct for a Director or Executive Officer. There is a strong presumption against providing any waivers. Any waivers granted must be accompanied by terms and conditions sufficient to protect the Company under the circumstances. Any waiver of the principles for any Director or Executive Officer will be referred to the full Board for ratification and, if upheld, will promptly be disclosed to shareholders. The Board has not permitted any waiver of any ethics policy for any Director or Executive Officer.

The Directors and Officers complete a Directors and Officers Questionnaire annually that includes an assessment of conflict of interest. The Nominating Committee has oversight responsibility regarding conflicts of interest. If an actual or potential conflict of interest arises for a Director, the Nominating Committee will address the matter with the Director and promptly inform the CEO and the Board. If a significant conflict exists and cannot be resolved, the Director is expected to resign. A Director is required to disclose to the full Board when any matter under consideration involves a conflict of interest, whether direct or indirect. Directors are recused from any discussion or decision affecting their personal, business

or professional interests. The Board resolves any conflict of interest issue involving the CEO. The CEO resolves any conflict of interest issue involving any other officer of the Company.

Concerns relating to financial statement disclosures, accounting, internal accounting controls, auditing matters, or other matters involving violations of law are handled in accordance with the complaint procedures adopted by the Audit Committee that are posted on the Company's website at <http://www.pnmresources.com/corporate-governance.aspx>.

E. Board Advisors

The Board and its committees have the right to communicate directly with the Company's principal external and internal advisors and to retain at the Company's expense independent legal counsel, investment bankers, accountants and other consultants.

IV. COMPENSATION OF DIRECTORS

A. Directors Paid Partially in Stock

The general policy of the Board is to provide a reasonable director compensation package that will attract and retain highly qualified directors. Only non-employee Directors are compensated for their service as Directors. Director compensation is a mix of cash and stock-based compensation. The latter is intended to align the interests of the Directors with those of the shareholders. The Company has no retirement program for Directors. Director compensation is established and reviewed by the Board. The Nominating Committee is responsible for making recommendations to the Board concerning Director compensation on an annual basis.

B. Stock Ownership Guidelines for Directors/Officers

The Board believes that Directors should be stockholders and have a financial stake in the Company. The Board requires that newly elected Directors attain a significant level of Company stock ownership over a reasonable period of time. The Nominating Committee establishes and recommends to the Board minimum stock ownership guidelines for Directors. The Compensation and Human Capital Committee establishes stock ownership guidelines and holdings requirements for officers. The guidelines are reviewed periodically for any appropriate changes.

V. DIRECTOR SERVICE

A. Term Limits for Directors

A Director is not eligible for nomination for another term if election for that term would result in the Director serving for more than twelve (12) years, except: (1) under extraordinary circumstances where the Board in its discretion deems it to be in the best interest of the Company for the Director to continue serving on the Board for more than twelve (12) years; or (2) the service beyond twelve (12) years is due to the Director having been selected to fill a vacancy resulting in serving for a portion of an unexpired term. A nominee for Director for a term which would result in service in excess of twelve (12) years is required to submit a written resignation to the Board for acceptance at such time as the Board, in its discretion, deems advisable.

B. Inside Directors

A Director who is also an employee of the Company is required to submit a written resignation to the Board on the date of his or her leaving the Company, for acceptance at such time as the Board, in its discretion, deems advisable.

C. Periodic Review

The establishment of term limits does not mean that a Director will be nominated to serve additional terms up to the maximum number of terms allowable. Nominations for successive terms are not routine, it being understood that an evaluation process is used to determine that each nomination is in the best interest of the Company.

D. Change In Employment and Health Condition

Directors are chosen based on their overall qualifications and the particular skill sets needed by the Board at the particular point in time. Key to the selection is the Director's professional and community achievements and the Director having the ability to devote to the substantial duties of a Board member. Directors who undergo a significant change in their business or professional career are required to submit a letter of resignation to the Chair of the Nominating Committee. A Director who experiences a change, such as a disabling health condition, that prevents the proper performance of the duties of a Director is required to submit a letter of resignation. The determination as to whether a change warrants resignation shall be made by the Chair of the Nominating Committee. The Board, in its discretion, will determine acceptance of a resignation submitted pursuant to this section.

E. Chief Executive Officer

By virtue of the position, the CEO of the Company is a Director and the Board's policy regarding term limits does not apply to the CEO as a Director. When the Director no longer holds the position of CEO of the Company: (1) he or she is required to submit a written resignation as a Director to the Board for acceptance at such time as the Board, in its discretion, deems advisable; (2) the provisions of the Board's policy regarding service as an Inside Director and term limits apply to the Director; and, (3) any service on the Board by the Director, including the time served on the Board as CEO, is counted for purposes of determinations under this policy.

F. Policy Changes

The adoption of this policy does not mean a contract exists with any individual Director. The Board fully reserves the absolute right to change any policy with respect to service on the Board or nomination of a person for service on the Board at any time.