Annual Report 2021

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V.
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This Annual Report was prepared in accordance with regulations applicable to companies issuing securities as well as other participants in the market with information for the fiscal year ending December 31st, 2021.

The 2,883,456,594 "O" series shares of Grupo Financiero Banorte, S.A.B. de C.V. in circulation as of December 31st, 2021 are traded in the Bolsa Mexicana de Valores (Mexican Stock Exchange) under the symbol "GFNORTE O" and are registered in the National Securities Registry ("RNV").

The second to last paragraph of Article 86 of the Stock Market Law states that:

Issuing companies with registered securities, must display in the prospectus, supplement or informative brochure, a legend that explicitly states that such registration does not imply a certification of the attractiveness of those securities, solvency of the issuer or the accuracy or truthfulness of the information contained in the prospectus, nor does it authenticate acts that, if the case, have been conducted in breach of these laws.

This report is available to the public at www.investor.banorte.com ,in the route "Financial Information / Annual Reports / Circular Unica CNBV 2021 Annual Report - GFNorte".

San Pedro Garza García, N.L. April 30th, 2022.

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1. GENERAL INFORMATION

a) GLOSSARY OF TERMS AND DEFINITIONS

Unless the context suggests otherwise, for purposes of this Annual Report, the following terms have the meanings ascribed to them below and can be used interchangeably in singular or plural.

TERM	DEFINITION
ADR's:	American Depositary Receipts
Afores:	Retirement Saving Funds Managers.
Afore Bancomer:	Administradora de Fondos para el Retiro Bancomer, S.A. de C.V.
Afore Banorte:	Banorte Generali, S. A. de C. V., AFORE (prior its merger with Afore XXI).
Afore XXI Banorte:	Afore XXI Banorte, S.A. de C.V. (corporate identity after the Afore Banorte and Afore XXI merger).
Almacenadora Banorte	Almacenadora Banorte, Organizacion Auxiliar del Credito, Grupo Financiero Banorte
Arrendadora y Factor Banorte:	Arrendadora y Factor Banorte, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte.
ATM's:	Automated Teller Machine.
Bancen:	Banco del Centro, S. A.
Bancrecer:	Bancrecer, S. A.
Banking Subsidiaries:	Banorte and subsidiaries
Banorte:	Banco Mercantil del Norte, S. A., Institucion de Banca Multiple, Grupo Financiero Banorte.
Banorte Ahorro y Previsión	Banorte Ahorro y Previsión, S.A. de C.V.
Banorte Futuro	Banorte Futuro, S.A. de C.V.,
Banorte-Ixe Tarjetas:	Banorte-Ixe Tarjetas, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada (Formerly Ixe Tarjetas). Subsidiary of Banorte.
Banorte USA:	Banorte USA Corp., subsidiary of Banco Mercantil del Norte, S. A.
Banxico:	Bank of Mexico (Mexican Central Bank).
BIVA	Bolsa Institucional de Valores (Mexican Stock Exchange)
BMV:	Bolsa Mexicana de Valores, S.A.B. de C.V. (Mexican Stock Exchange).
bp	Basis points
Capitalization requirements:	Capital requirements for credit institutions established in the LIC and Circular Unica de Bancos
Casa de Bolsa Banorte:	Casa de Bolsa Banorte, S.A. de C.V., Grupo Financiero Banorte (merged entity with Ixe Casa de Bolsa).
Casa de Bolsa Banorte Ixe:	Casa de Bolsa Banorte Ixe, S.A. de C.V., Grupo Financiero Banorte.
CAPS:	Comité de Auditoria y Prácticas Societarias (Audit & Corporate Practices Committe).
CC:	Credit letters.
CDP:	Not-for-profit organization which provides the major environmental divulgation system in the world.
CEBUR:	Certificado Bursátil (Stock Certificate).
CEDES:	Certificados de Depósito a Plazo Fijo (Fixed term Certificate of Deposit).
CETES:	Certificados de la Tesorería de la Federación (Mexican Federal Treasury Certificates).
Circular Unica de Bancos (CUB):	General provisions applicable to credit institutions, published in the Official Gazette on December 2nd, 2005, as they have been modified.

TERM	DEFINITION
Circular Única de Emisoras (CUE):	General provisions applicable to issuers and other market participants, published in the Official Gazette on March 19, 2003, as they have been modified.
CMPC	Código de Mejores Prácticas Corporativas (Best Corporate Practices Code).
CNBV:	Comisión Nacional Bancaria y de Valores (National Banking and Securities Commission).
CNSF:	Comisión Nacional de Seguros y Fianzas (National Insurance and Bonding Commission).
COFECO/ COFECE:	Comisión Federal de Competencia Económica (Federal Commission of Economic Competion).
CONDUSEF:	Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros (National Comission for the Protection and Defense of Financial Services users).
CONSAR:	Comisión Nacional del Sistema de Ahorro para el Retiro (National Comission of the Retirement Saving Funds System).
CPO's:	Certificados de Participación Ordinarios (Ordinary Participation Certificates).
CPR	Comité de Politicas de Riesgo (Risk Policies Committee).
CR:	Capitalization ratio.
Creditos Pronegocio:	Créditos Pronegocio, S.A. de C.V., Sociedad Financiera de Objeto Limitado, Grupo Financiero Banorte
CUSF:	General provisions applicable to Insurance and Bonding Insitutions.
D:	Director.
DMD:	Deputy Managing Director.
DOF:	Diario Oficial de la Federacion (Official Gazette).
ED	Executive Director
EMISNET:	Electronic Communications System with Securities Issuers.
EPS:	Employee Profit Sharing Agreement.
FCICK 16-1	Conversion Trust FCICK 16-1
Fincasa Hipotecaria:	Fincasa Hipotecaria, S.A. de C.V. Sociedad Financiera de Objeto Múltiple, Entidad Regulada, Grupo Financiero Banorte (merged in Banco Mercantil del Norte).
Fintech	Financial Technology Entities
Forward:	Non-standardized private contract to buy or sell a specific asset at a certain price level whose liquidation will be carried out at a future date.
Generali:	Assicurazioni Generali, S.P.A. Italian company and strategic partner of GFNorte until 2013.
GFInter	Grupo Financiero Interacciones, S.A.B. de C.V
GFNorte, the Company, the Issuer:	Grupo Financiero Banorte, S. A. B. de C. V.
GEO:	Corporación GEO, S.A.B. de C.V.
Holding:	Holding company.
Homex:	Desarrolladora Homex, S.A.B. de C.V.
IFC:	International Finance Corporation.
IMSS:	Instituto Mexicano del Seguro Social. (Mexican Social Security Institute)
INB:	Inter National Bank.
Indeval:	S. D. Indeval, Institucion para el Depósito de Valores, S. A. de C. V. (Institute for Deposit of Securities).
IPAB:	Instituto para la Protección al Ahorro Bancario (Institute for the Protection of Bank Savings).
ISR:	Income Tax.

TERM	DEFINITION
Ixe Automotriz:	Ixe Automotriz, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte (merged in Arrendadora y Factor Banorte).
Ixe Banco:	Ixe Banco, S. A., Institucion de Banca Multiple, Grupo Financiero Banorte (merged in Banco Mercantil del Norte).
Ixe Casa de Bolsa:	Ixe Casa de Bolsa, S.A. de C.V., Grupo Financiero Banorte (changed its corporate identity to Casa de Bolsa Banorte)
Ixe Fondos:	Ixe Fondos, S.A. de C.V., Sociedad Operadora de Sociedades de Inversion, Grupo Financiero Banorte (changed its corporate identity to Operadora de Fondos Banorte Ixe).
Ixe GF:	Ixe Grupo Financiero, S.A.B. de C.V. (merged in GFNorte).
Ixe Servicios	Ixe Servicios, S.A. de C.V.
Ixe Soluciones:	Ixe Soluciones, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte (merged in May 2013 with Solida which changed its name to Sólida Administradora de Portafolios)
Ixe Tarjetas:	Ixe Tarjetas, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada (changed its corporate identity to Banorte-Ixe Tarjetas).
LFI:	Ley de Fondos de Inversión (Mutual Funds Law)
LIC:	Ley de Instituciones de Credito (Credit Institutions Law).
LISF:	Ley de Instituciones de Seguros y de Fianzas (Insurance and Bonding Institutions Law)
LGOAAC:	Ley General de Organizaciones y Actividades Auxiliares del Credito.
LGSM:	Ley General de Sociedades Mercantiles (General Corporate's Law)
LMV:	Ley del Mercado de Valores (Securities' Market Law).
LRAF:	Ley para Regular las Agrupaciones Financieras (Law Regulating Financial Groups)
LSAR:	Ley del Sistema de Ahorro para el Retiro (Retirement Savings System Law)
MD:	Managing Director
M. E.:	Moneda extranjera (Foreign currency).
M. N.:	Moneda nacional (Local currency, Mexican pesos).
Motran:	Motran Services Incorporated (remittance company based in Los Angeles, California acquired by Banorte and merged with Uniteller in 2014).
Nafin, Nacional Financiera:	Nacional Financiera, S.N.C., Institucion de Banca de Desarrollo.
NII:	Net Interest Income.
NIM:	Net Interest Margin.
NPS	Net Promoter Score, indicator that measures client loyalty and satisfaction.
OTC:	Over The Counter.
Operadora de Fondos Banorte Ixe	Operadora de Fondos Banorte Ixe, S.A. de C.V., Sociedad Operadora de Fondos de Inversion, Grupo Financiero Banorte
Participaciones federales	Federal Contributions
PDL:	Past due loan ratio
Pensiones Banorte	Pensiones Banorte, S.A. de C.V., Grupo Financiero Banorte
Pensiones Banorte Generali	Pensiones Banorte Generali, S.A. de C.V., Grupo Financiero Banorte (changed its corporate identity to Pensiones Banorte)
pp:	Percentage points.
PRLV:	Pagares Bancarios con Rendimiento Liquidable al Vencimiento (Bank notes with yield settlement at maturity).
RNV:	Registro Nacional de Valores (National Securities Registry).
ROA:	Return on Assets.
ROE:	Return on Equity.
ROTE	Return on Tangible Equity
RRWA	Return on Risk Weighted Assets
SAT:	Servicio de Administracion Tributaria (Tax Administration Service).

TERM	DEFINITION
SCI/ICS:	Sistema de Control Interno (Internal Control System).
Seguros Banorte	Seguros Banorte, S.A. de C.V., Grupo Financiero Banorte
Seguros Banorte Generali	Seguros Banorte Generali, S.A. de C.V., Grupo Financiero Banorte (changed its corporate identity to Seguros Banorte)
Shares	Common, nominative shares, with a face value of Ps. 3.50, corresponding to Series "O" Class II shares, which represent the variable portion of equity
SHCP:	Secretaria de Hacienda y Credito Publico (Ministry of Finance and Public Credit).
SIEFORE:	Sociedad de Inversion Especializada en Fondos para el Retiro (Specialized Retirement Savings Fund).
SMEs:	Small and Medium Sized Businesses
SOFOL:	Sociedad Financiera de Objeto Limitado (Restricted Non-Banking Financial Institution).
SOFOM:	Sociedad Financiera de Objeto Multiple (Multi-purpose Non-Banking Financial Institution).
Solida Administradora de Portafolios:	Solida Administradora de Portafolios, S. A. de C. V. which was spun-off from Banco Mercantil del Norte to later merge with Ixe Soluciones in May 2013. Once merged into Ixe Soluciones, Solida change its coporate identity to Solida Administradora de Portafolios.
Swap:	Private contract establishing the bilateral obligation to exchange one stream of cash flow for another for a set period of time on pre-established dates.
Tier 1:	Basic capital.
Tier 2:	Complementary capital.
TIIE:	Tasa de Interes Interbancaria de Equilibrio (Inter-bank Equilibrium Interest Rate).
TPV's/ POS:	Point of Sale.
UAIR:	Unidad para la Administracion Integral de Riesgos (Unit for the Comprehensive Risk Management)
UDIS:	Unidades de inversion (Units of investment indexed to inflation).
UMS:	Bonos Soberanos Mexicanos (Sovereign Bonds).
Uniteller:	Uniteller Financial Services, Inc. (remittance company based in New Jersey).
Urbi	Urbi Desarrollos Urbanos, S.A.B. de C.V.
USA:	United States of America.
USD:	US dollars.
VaR:	Value at Risk.

b) EXECUTIVE SUMMARY

When analyzing the information contained herein is important to take the following into consideration:

- ✓ *The financial information contained in this report is based on GFNorte's Audited Financial Statements for the years ended December 31st, 2021 and 2020, published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited dated February 28th, 2022. For the year ended December 31st, 2019, financial figures are based on GFNorte's Audited Financial Statements published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited, dated February 26, 2021.*
- ✓ *On July 1st, 2020, the merger of Sólida (merging and subsisting entity) and Arrendadora (merged and extinguished entity) took effect. Additionally, Sólida changed its name to Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, E.R., Grupo Financiero Banorte. The Financial Group's share in the capital stock of the merging company is 99.9058%.*
- ✓ *Throughout this document there are references to reported and recurring figures that are specified to the usual activity without the effect of the extraordinary movement of the first quarter of 2019 on income related to the recognition of the liquidation of Banorte USA.*
- ✓ *The financial information presented in this report has been calculated in pesos and the tables display figures in million pesos, thus, differences are the result of rounding effects.*
- ✓ *For comparison purposes, is relevant to consider that GFNorte owns 98.2618% of shares of the Bank, therefore in some cases certain figures may vary when referring to them, both for the Group and the Bank.*

SELECTED FINANCIAL INFORMATION

	2021	2020	2019
Net Income Grupo Financiero Banorte (GFNorte)	$35,048	$30,508	$36,528
Total Assets GFNorte	$1,850,879	$1,787,904	$1,580,010
Total Liabilities GFNorte	$1,613,640	$1,562,800	$1,384,012
Stockholders' Equity GFNorte	$237,239	$225,104	$195,998
INFORMATION PER SHARE			
Net income per share Basic (pesos)	$12.25	$10.70	$12.75
Net income per share Diluted (pesos)	$12.16	$10.58	$12.67
Dividend approved per share (pesos) [1)]	$5.81	$0.00	$5.54
Book value per share (pesos) (excluding minority interest) [2)]	$81.23	$77.07	$67.18
Shares outstanding Basic (millions)	2,860.25	2,851.36	2,865.52
Shares outstanding Diluted (millions)	2,883.46	2,871.72	2,878.96
PROFITABILITY RATIOS			
NIM	4.85%	5.30%	5.62%
NIM adjusted for credit risk	4.16%	3.89%	4.55%
NIM adjusted w/o Insurance & Annuities	5.03%	5.28%	5.56%
NIM from loan portfolio	7.70%	8.01%	8.15%
Return on assets (ROA)	1.94%	1.76%	2.30%
Return on equity (ROE)	15.32%	14.78%	20.06%
OPERATIONS			
Efficiency ratio [3)]	45.43%	41.40%	39.06%
Operating efficiency ratio [4)]	2.54%	2.48%	2.55%

Average Liquidity Coverage Ratio for Banorte and SOFOM - Basel III	201.65%	192.52%	133.49%
ASSET QUALITY INDICATORS			
Past due loan ratio	1.03%	1.10%	1.65%
Coverage Ratio	191.07%	223.98%	137.74%
CAPITALIZATION RATIO			
Banco Mercantil del Norte	24.69%	20.18%	18.54%
INFRASTRUCTURE AND EMPLOYEES			
Bank Branches 5)	1,151	1,193	1,182
ATMs (automated teller machines)	9,668	9,387	8,919
Points of Sale	154,443	159,780	166,505
Full-time employees	31,173	29,916	30,162
Full-time employees and professional services	31,175	29,920	30,167

Million pesos.

1. Dividends approved by the Shareholders' Assemblies in 2019, 2020, and 2021 were: Total dividend decreed in 2019 was Ps 5.54157023974990 per share to be paid in June 2019. During 2020, no dividend payment was made in accordance with the authority's recommendations given the conditions derived from the Covid-19 pandemic. Total dividend decreed in 2021 was Ps 5.81212715547904 per share to be paid in two installments, Ps 3.1670299314214300 per share to be paid in May and Ps 2.645097224057610 per share to be paid in November 2021.
2. The number of issued shares considered for the 2021 period is 2,883,456,594
3. Non-Interest Expense / (Net Interest Income + Non- Interest Income).
4. Non-Interest Expense / Average Total Assets.
5. Includes bank modules and excludes 1 branch in the Cayman Islands.

Grupo Financiero Banorte's Results

In 2021 the contribution by business sector to accumulated profits was as follows:

GFNorte reported a net income of Ps 35.05 billion at the end of 2021, a 15% increase compared to the previous year. During 2020 recurring net income reached Ps 30.50 billion decreasing (16%) against 2019.

Consolidated Bank net income amounted to Ps 25.63 billion in 2021, related to 98.26% subsidiary participation, increasing Ps 5.60 billion or 28% higher compared to 2020, contributing 73.1% of GFNorte's recurring net results. For 2020 with reported figures, net income reached Ps 20.03 billion declined Ps 6.97 billion or (26%) versus the same period of 2019.

Long Term Savings sector, constituted by Seguros Banorte, Afore XXI Banorte (a 50% shared subsidiary), and Pensiones Banorte recorded profits to the Group by Ps 6.03 billion in 2021, (17%) lower than 2020. Accumulated net income of Seguros Banorte without including Afore XXI Banorte amounted to Ps 2.10 billion, (45%) lower than net income reported in 2020. According to the participation in each subsidiary, Seguros Banorte, Afore XXI Banorte (a 50% subsidiary), and Pensiones Banorte recorded profits to the Group for Ps 7.27 billion in 2020, 11% higher compared to 2019. The accumulated profit of Seguros Banorte without including Afore XXI Banorte amounted to Ps 3.84 billion, (2%) lower than in 2019.

In 2021, the Brokerage Sector (Casa de Bolsa Banorte and Operadora de Fondos Banorte) reported a net result of Ps 1.62 billion, 9% higher than 2020. Accumulated profit represented 4.6% of the group's profits. For 2020, it reported a net result of Ps 1.49 million, 18% higher than 2019. Accumulated profit represented 4.9% of the group's profits.

The SOFOM and other Finance Companies' sector constituted by Almacenadora Banorte, Sólida Administradora de Portafolios e Ixe, had a net result of Ps 670 million, 5% higher compared to 2020. It is important to consider that on July 1, 2020 the merger of Sólida (merging and subsisting entity) and Arrendadora (merged and extinguished entity) took effect. Additionally, Sólida changed its name to Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, E.R., Grupo Financiero Banorte. The Financial Group's share in the capital stock of the merging company is 99.9058%. For 2020, the net income was Ps 641 million, compared to Ps 786 million in 2019; reporting an (18%) fall.

The following are the profits registered accordingly to the percentage of GFNorte's participation in each business sector:

Net Income by Segment	**2021**	**2020**	**2019**
Consolidated Bank	$25,633	$20,029	$26,994
Brokerage	$1,621	$1,492	$1,260
Long-Term Savings	$6,056	$7,310	$6,556
Afore XXI Banorte	1,920	1,875	1,609
Seguros Banorte (Insurance)	2,103	3,844	3,918
Pensiones Banorte (Annuities)	2,007	1,551	1,030
Ahorro y Previsión Holding	27	39	0
SOFOM and Other Finance Companies	$670	$641	$786
Almacenadora (Warehouse)	23	37	3
Merged Solida y AyF[1)]	669	605	784
Ixe Servicios*	(22)	(2)	(1)
Holding	$1,068	$1,036	$932
GFNorte	**$35,048**	**$30,508**	**$36,528**

Million pesos.

1) On July 1st, 2020, the merger of Sólida (merging and subsisting entity) and Arrendadora (merged and extinguished entity) took effect. Additionally, Sólida changed its name to Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, E.R., Grupo Financiero Banorte. The Financial Group's share in the capital stock of the merging company is 99.9058%.

* Ixe Servicios is not a SOFOM or an Auxiliary Credit Organization, however it is classified from a business perspective within this Sector.

Comparative analysis: Summary of the years ended December 31, 2021 and 2020.

Net Interest Income (IIN-Financial Margin)

Net Interest Income dropped (3%) annually. **NIM dropped (45bps)** annually, ending at **4.85%,** as reference rate increases during November and December, reaching 5.50%, are yet to be reflected in results.

NII excluding Insurance and Annuities was **down (1%)** in the year, mainly driven by the (111bps) reduction in the average reference rate (TIIE28d) to 4.62% from 5.73%, this was partially offset by lower cost of funds as **interest expenses declined (16%). NIM of the loan portfolio dropped (31bps)** in 2021 to **7.7%** from 8.0%. **NIM excluding Insurance and Annuities**, declined (25bps) to 5.0% in 2021.

NII from Insurance and Annuities dropped (20%), mainly driven by the 101% or Ps 14.98 bn reserves' increase in the annuities business, given business growth, as well as the valuation effect on inflation; in addition to the 36% or Ps 1.05 bn increase in technical reserves from the Insurance business, associated to policies renewals in the quarter. Claims were 13% and 24% higher in the insurance and annuities businesses, respectively, still undermining the bottom line, and which are not offset by better income from premiums in both companies.

Non-Interest Income

Non-Interest Income remained stable vs 2020, mainly due to the recovery in Net Service Fees, driven by a sound presence from Banorte in the e-commerce acquiring business, and the seasonal effect in the quarter resulting from the "Buen Fin" sales, as well as higher trading income.

Non-Interest Expense

Non-Interest Expenses were up 7% -below inflation-, driven by higher personnel expenses derived from operational restructures, the reclassification effect of fees paid to external sales forces into the expense line –as of September 2021–, along with higher Employee Profit Sharing derived from a change in methodology from the labor reform, as well as higher amortization of capitalized projects. Thus, **efficiency ratio** for the year stood at **45.4%,** increasing 403bps.

Net Income

Net Income grew 15%, benefiting from better dynamics at the Bank, Brokerage business, and Annuities. **Taxes increased 5%** compared to 2020, driven by methodology changes derived from the labor reform.

Performing Loans

During the year, **performing loans increased 2.3%.** Consumer loans were boosted by a 7% increase in mortgage and credit card loans, followed by payroll with 6% growth; while auto loans decreased (1%) due to market dynamics. Commercial loans increased 5%, while corporate loans decreased (2%). The government portfolio resulted in a (4%) decline in the year for this book.

Non-Performing Loans

Non-Performing Loans decreased Ps (426) million in the year, with a big improvement in the credit card line of Ps (1.78) million and an important reduction in the corporate line.

Deposits

Deposits reported a slight reduction but with a notorious **13% increase in non-interest-bearing demand deposits** and a **(20%) reduction in interest-bearing deposits**, in line with the strategic efforts to improve the cost of deposits. **Money market operations and securities issued decreased (39%)** annually. Altogether, GFNorte's **Total Bank Deposits dropped (4%)** in the year.

Capital

Shareholders' equity totaled Ps 237.24 billion, up Ps 12.14 million vs. the previous year. The main changes during the quarter were: a Ps 4.54 billion increase in net income, a Ps 1.77 billion decrease in the valuation of cash flow hedging instruments, a Ps 301 million increase for remeasurements of defined benefits to employees, a Ps (2.21) million decrease from valuation of available-for-sale securities, as well as a Ps (199) million decline on reserve release for stock repurchase.

Monthly stock performance for the last 6 months:

Date	Maximum	Minimum	Close	Volume of Shares (Daily Average)	Total Volume Operated
31/10/2021	140.11	130.35	130.35	6,161,512	129,391,754
30/11/2021	137.53	125.2	128.13	6,885,723	137,714,458
31/12/2021	135.42	124.52	133.02	5,726,679	131,713,620
31/01/2022	149.69	129.96	130.74	7,334,248	154,019,204
28/02/2022	139.20	128.17	138.54	7,792,515	148,057,779
31/03/2022	149.59	129.94	149.55	10,904,427	239,897,395

In Section 2. "a) The Company - Development and History of the Company" of this Annual Report are the Material Events of 2021, as well as those which happened during the first quarter of 2022.

c) RISK FACTORS

The risks and uncertainties described below are not the only ones faced by the Company and the importance of the risk attributed to them today may increase in the future. GFNorte's operations may also face unknown risks or risks that currently are considered immaterial. If any of the risks described below occur, they could affect adversely and significantly activities, results of operations, projections and the financial situation of the Company, as well as the price or liquidity of Shares. Unless otherwise stated, when referring to Banorte, only Banorte, our main subsidiary is considered. Unless otherwise indicated, or if in the context is required, the terms "GFNorte", "us" and "our" refer to Grupo Financiero Banorte, S.A.B. de C.V. and its subsidiaries.

a. Risks Related to Our Business

a.1. Our financial results are subject to fluctuations in interest rates and other market risks.

Market and interest rate risks refers to the probability of variations in our net interest income, or in the market value of our assets and liabilities, and / or securities positions, due to changes in interest rate and other market risk factors such as exchange rates and equity market volatility. Changes in the above-mentioned market risk affect the following areas, among others, of our business:

- our net interest income;
- our funding cost;
- the value of our capital;
- the volume of originated loans;
- the market value of financial assets and securities; and
- our gains / losses from sales of loans and securities by our subsidiaries.

Interest rates are sensitive to many factors beyond our control, including increased regulation of the financial sector, monetary policies, domestic and international economic and political conditions and other factors. A significant portion of our assets, including our loans, are long-term assets. At the same time, a significant percentage of our financial borrowings are short-term. Variations in short-term interest rates could affect our net interest income, which comprises the majority of our revenue. When interest rates rise, we may be required to pay higher interest on our borrowings while interest earned on our assets may not rise as quickly, which could cause profits to grow at a reduced rate or decline in some parts of our portfolio. Accordingly, increases in short-term interest rates may reduce our net interest income, which could affect our ability to meet our short-term obligations.

In addition, increases in interest rates may reduce the volume of loans we originate. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and deterioration in asset quality. Increases in interest rates may also reduce the value of our financial assets. We hold a substantial portfolio of loans and debt securities that have both fixed and adjustable interest rates.

We are also exposed to foreign exchange rate risk as a result of mismatches between assets and liabilities denominated in different currencies. Fluctuations in the exchange rate between currencies may negatively affect our ability to repay our foreign currency-denominated liabilities, net interest income, our earnings and the value of our balance sheet.

a.2. We may be unable to effectively control the level of non-performing or low credit quality loans in our loan portfolio, and our loan loss reserves may be insufficient to cover future loan losses.

GFNorte complies with current regulations for rating loans, and considers that loans loss provisions provide coverage for expected loan portfolios losses for the next twelve months; nevertheless, we cannot assure that we will be able to control and reduce effectively the level of the impaired loans in our loan portfolio. Particularly, the amount of our reported non-performing loans may increase in the future as a result of growth in our loan portfolio or factors beyond our control, e.g. the impact of Covid19 Pandemic, global financial crisis, macroeconomic trends, political events in Mexico or unexpected events. Such scenarios could negatively affect our operations' results.

As of December 31, 2021 and December 31, 2020, the aggregate outstanding principal amount and accrued interest of loans for Banorte's 15 largest clients (including corporate and Mexican government loans) represented 16.4% and 17.0%, respectively, of its total loan portfolio. If the financial stability of any of these clients were to be negatively impacted by health, political, economic or industry-related events or any other factor, it could lead to an increase in Banorte's non-performing loans or low credit quality loans.

In addition, current loan loss reserves may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of Banorte's or any other subsidiary's loan portfolio. Our loan loss reserves, which are calculated in accordance with CNBV regulations, are based on our current assessment of, and expectations concerning, various factors affecting us, including the quality of our loan portfolio. These factors include, among others, our borrowers' financial condition, repayment abilities and repayment intentions, the realizable value of any collateral, the prospects for guarantor support, government macroeconomic policies, interest rates and the legal and regulatory environment.

As a result, if Banorte's or any other subsidiary's loan portfolio deteriorates it may be required to increase their loan loss reserves, which may adversely affect our financial position and results of operations. Moreover, there is no precise method for predicting credit losses, and we cannot assure that Banorte's or any other subsidiary's loan loss reserves are sufficient to cover effectively incurred losses. If Banorte or any other subsidiary is unable to control or reduce the level of its non-performing or poor credit quality loans, their financial position and results of operations could be adversely affected.

a.3. The rules applicable to loan loss provisions have been modified throughout time.

The Mexican government, in an effort to adapt its resolutions to Basel Committee's recommendations, since 2009 has implemented new regulations regarding the way in which Mexican banks should classify loans and determine the required loan loss reserves. These regulations changed from an incurred loss perspective to an expected loss perspective.

In 2009, the credit card loan book methodology was implemented, in 2010 the one for consumer loan book and mortgages, in 2011 for the government book, in 2013 for commercial loans, and in 2014 for the financial institutions' book. For further information regarding preventive loan loss reserves, please refer to section 8 "Annex, section c)Audited Financial Statements – Note 11 Preventive Loan Loss Reserve Estimation" in the Annual Report.

Moreover, CNBV (The National Banking and Stock Market Commission) adjusted the rating methodology for revolving consumer loans, in place since April 2016, as well as the rating methodology for non-revolving credit and mortgages, in place since June 2017, with the objective of incorporating the external credit behavior and leverage levels of our customers as reported by Credit Information Entities.

Starting in January 2018, the CNBV authorized Banorte to use its internal methodology with an advance rating focus for Loan Loss Reserve and Capital Requirements calculation by credit risk for consumer revolving loans.

Likewise, since January, 2019, the CNBV authorized Banorte to use the Basic Internal Methodology for a Commercial Portfolio, to estimate provisions and capital requirements for legal entities (other than federal entities, municipalities and financial entities). and individuals with business activities, both with annual sales greater than or equal to 14 million IDUs.

In addition, as of January 2020, the CNBV authorized the use of Internal Models in the rating of auto Individuals, for the constitution of regulatory capital and reserves for credit risk with an advanced approach.

These internal models improve the integral management of credit risk, estimating the risk parameters through the experience of the Institution, such rating methodology is calibrated with the historic credit behavior of our customers with Banorte and also with other financial institutions.

In the future, CNBV could modify the accounting criteria to determine loan loss subsidies, and may continue modifying methodologies to measure credit risk and/or preventive loan loss reserves requirements for the rest of the portfolios. This could negatively affect the operating results and financial performance of GFNorte and any of its subsidiaries.

a.4. Banorte has experienced asset quality problems, including collaterals, and has reported relatively large loan losses.

As is the case with many Mexican banks, the asset quality of Banorte's loan portfolio, including collaterals, has been negatively affected by the unfavorable financial and economic conditions prevailing in Mexico due to global financial crisis that commenced in September 2008. Mexican regulatory authorities and the Banking System responded to this situation in several ways, even amending Mexican Banking GAAP to include the possibility of reclassification for certain "available for sale securities" into "held to maturity securities" and broadening the types of securities available for repurchase. Other regulatory responses have included imposing more rigorous loan loss reserve requirements and capitalization standards, as well as adopting a number of programs designed to provide relief to Mexican borrowers through the granting and restructuring of performing loans. Unfavorable financial and economic conditions in Mexico and these regulatory initiatives have caused the Mexican banking sector to experience asset quality problems and to record relatively large loan loss provisions. We also believe that recoveries from those non-performing loans as a percentage of the non-performing loan portfolio are likely to decline over time as a consequence of the aging of such non-performing loan portfolio, as well as the decreased value of the collateral supporting these loans.

Future changes on reserve requirements could have an adverse impact on our financial results, which could affect our ability to pay dividends to our shareholders. Unfavorable financial and economic conditions in Mexico may deteriorate Banorte and cause asset quality problems, which would increase loan loss provisions, leading to potential negative impacts on its financial results.

In Mexico, foreclosure procedures may be subject to delays and administrative requirements that may result in lower levels of recovery on collateral compared to its original value, even though the financial reform aims to make these processes more diligent. In addition, other factors such as defects in Banorte's collaterals fulfillment, fraudulent transfers by borrowers or a reduction in the value or liquidity of the collateral may impair its ability to recover on its collateral. Accordingly, there cannot be assurance that we will be able to realize the full value of our collateral. As a result, lower recovery rates, asset quality deterioration, decreased value of collateral and lower levels of recovery on collateral compared to its value, could have a material and adverse effect on our business, financial condition and results of operations.

a.5. We may be unable to successfully implement and continue to improve our credit risk management system, which could substantially and adversely affect our results of operations and financial position.

One of the main risks Banorte faces as a credit institution is credit risk. Therefore, the Bank is always seeking to have state of the art tools and adequate models to value the impact from unfavorable scenarios for the portfolio. However, it is possible that we may not be able to develop a credit risk management system that functions effectively. For example, an important element of Banorte's credit risk management system is the usage of an internal credit rating system to assess the particular risk profile of customers. As this process involves detailed analyses of customer's credit risk, considering both quantitative and qualitative factors, it involves judgments by our management team and employees and, therefore, it is subject to human error. In exercising their judgment, Banorte's employees may not always be able to assign an accurate credit rating or to identify a customer's credit risk, which may result in exposure to higher credit risks than those indicated by Banorte's risk rating system. In addition, Banorte has been trying to refine and strengthen its credit policies and guidelines to address potential risks associated with particular industries or customers, such as affiliated entities. However, Banorte may not be able to timely detect these risks before related losses occur, or due to limited resources or tools available, its employees may not be able to implement effectively the risk identification and management system, which may increase its credit risk. As a result, failure to implement effectively, monitor consistently or revise continuously Banorte's risk management system may result in an inappropriate measurement of risk exposure, which could materially and adversely affect our results of operations and financial position.

In assessing customers' creditworthiness, we rely largely on the credit information available from our own internal databases, the Mexican Credit Bureaus and other sources. Due to limitations in the availability of information and the developing information infrastructure in Mexico, our assessment of credit risk associated with a particular customer may not be based on complete, accurate or reliable information. We cannot assure you that our credit scoring systems collect complete or accurate information reflecting the actual behavior of customers or that their credit risk can be assessed correctly. Without complete, accurate and reliable information, we have to rely on other publicly available resources and our internal resources, which may not be effective. As a result, our ability to effectively manage our credit risk and subsequently our impairment losses and allowance for impairment losses may be materially adversely affected.

a.6. The credit card industry is highly competitive and entails risks.

The credit card industry in Mexico is highly competitive, and is subject to a number of risks and uncertainties, including the possibility of over-indebtedness of the customers, their economic condition and level of employment and income. Part of our current growth strategy is to increase volume in the credit card portfolio, at the same or a slightly faster rate than the market, which may increase our exposure to risk in our loan portfolio.

Our current strategy leverages the relationship with the Financial Group's clients that do not have a credit card through cross-sale efforts and focuses in already known low-risk and highly profitable segments, aiming to maintain the same profile and level of risk.

However, we cannot assure that adverse or material effects may arise as a result of higher risk exposure derived from such growth as there are risks attached to the willingness and creditworthiness of our customers, for instance, credit offer in the market and economic conditions.

Furthermore, credit card products are characterized by higher consumer default than other consumer credit products, and defaults are highly correlated with macroeconomic indicators that are beyond our control, and that could increase in the future as a result of external factors, such as the impact of the Covid19 pandemic, financial crises in other parts of the world, macroeconomic variables, political events in Mexico or other unexpected events. If Mexican economic growth slows or declines, or if we fail to effectively analyze the creditworthiness of our customers, we may be faced with unexpected losses that could have a material adverse effect on us, including our financial condition and results from operations.

a.7. The retail banking market is exposed to macroeconomic shocks that may negatively impact household income and a downturn in the economy could result in increased loan losses.

One of our main strategies is to focus on the retail banking sector so we can expand our loan portfolio. The recovery of these loans in particular, as well as our ability to increase the amount of performing loans and our results of operations and financial condition in general, may become increasingly vulnerable to macroeconomic shocks that could negatively impact the household income of our retail customers and result in increased loan losses, which in turn could have a material adverse effect on us, and in addition to the fact that the future negative impacts on the economy derived from the Covid-19 pandemic are still unknown. Although Mexican GDP has grown since 2010, the Mexican economy has historically experienced cycles of growth followed by slowdowns. We can provide no assurance that previously observed GDP growth rates will continue.

Furthermore, because of the historically low penetration of banking loan products in the Mexican retail sector, there is little evidence on which to estimate retail sector's performance in the event of an economic crisis, such as a recession or a significant devaluation, among others. Consequently, our historical loan loss experience may not be indicative of the performance of our loan portfolio in the future.

a.8. Banorte maintains lower levels of capital or reserves in connection with loans to the Mexican Federal, State and Municipal governments.

The Mexican regulation regarding capitalization and constitution of reserves for loan losses in credit institutions generally require significantly lower capitalization levels or reserves formation regarding to loans granted to the Mexican Federal, State or Municipal governments (together, the "***Governmental Loans***").

Recently, Banorte has constituted sufficient capital and reserves pursuant to new regulations in Mexico which require provisions according to expected losses for governmental loans, and these reserves represent a lower percentage of the total portfolio of its corresponding loans compared to the percentage of reserves established in portfolios for other segments; nonetheless, this situation is inherent to the risk profile of the portfolio. As of December 31, 2021 Governmental loans amounted to Ps. 147.9 billion, or 18.2% of Banorte's total loan portfolio. As a result, if the credit quality of Governmental Loans were to deteriorate, either specifically or at a generalized level, this could result in an adverse impact on our financial position and results of operations, and this impact would be in function of the size of the exposures to these entities, the extent of the deterioration in their risk level assigned according to the methodology approved by the CNBV, and the guarantees of these loans, among other factors. As of December 31, 2021, Ps. 154 million of non-performing loan balances were registered in Banorte's government sector.

It is important to highlight that loans are granted to a State or a Municipal government through a decree, which authorizes funding under specific conditions (amount, term, rate, etc.), and are not granted to a specific governor or municipal president, for that reason, subsequent administrations have to recognize prior operations.

a.9. Some of GFNorte's loans to Mexican States and Municipalities may be restructured.

State and Municipal governments and credit institutions, including Banorte, have, from time to time, agreed to refund or restructure Governmental Loans. In this process, modifications in terms and reductions in interest rates have been made. As of December 31, 2021, GFNorte has restructured Ps. 25.41 billion pesos of current governmental loans. Therefore, it may be the case that current restructured loans or future loans may be subject to further restructures, considering the disposition of the Financial Discipline Law.

In May 26, 2015 the Constitutional Reform through which provisions regarding Financial Discipline were amended and added was published, this aims to establish limits on indebtedness for States and Municipalities, as well as diverse control and transparency measures.

Derived from the aforementioned, the Law on Financial Discipline for the States and Municipalities was published on April 27, 2016; consequently, restructuring or refinancing activities as of this date they´ll have to adopt measurements on financial discipline, indebtedness limits and transparency –to be published in the corresponding governmental websites, and must be registered in the SHCP's Unique Public Registry.

a.10. The credits to the state and municipal governments of Mexico are guaranteed by the right they have to participate in the tax collection of the Mexican federal government.

Most of our loans to Mexican State and Municipal governments are secured by such entities' that is, for the part of the federal tax collection that by law corresponds to the states and municipalities, respectively.

Furthermore, since federal participations are a function of the condition of the Mexican economy y, the structure of our loans is affected by 2x or 3x the monthly amount of the amortization and interests we receive, this is a protective measure facing the adverse economic factor that could lead to a reduction of this source of payment

a.11. The future of lending to the government sector in Mexico is uncertain.

Our business is subject to a continuously evolving regulatory and legislative regime of financial service laws, regulations, administrative actions and policies in each jurisdiction in which we operate. Furthermore, due to certain high profile restructurings of Mexican State and Municipal that was observed prior to the publication of the legal amendments debt in April 2016 the Mexican Congress approved changes on this subject. Consequently, State and Municipal governments now will have to comply with the Law on Financial Discipline for the States and Municipalities which seeks to organize and align budgetary and financial instruments of the States, Municipalities and agencies to ensure a sustainable administration of local public finance. This Law established general principles on financial discipline including among others, rules to incur and register debt –applicable to states and municipalities, as well as rules to participate in competitive processes or public tenders for granting credit. Nevertheless, we expect that these measures lead to sounder public finance and transparency in debt allocation, the implementation of these provisions will be gradual and the benefits of such new standards will materialize within the next one to six years; therefore, we cannot forecast the impact on our business.

Additionally, although State and Municipal public debt is regulated by Mexican regulation, there are certain provisions and limitations set forth in the Mexican Federal Constitution, in local constitutions, and other Federal and State laws (especially in connection with using *participaciones federales* as a source of payment and the use of *participaciones federales* as a public funding investment). In the past, there have been inconsistencies between State law and Federal law which have been subject to resolution by the Mexican Supreme Court. Some of these judgments have had an adverse effect on the manner in which Governmental Loans have been granted. We cannot ensure that future judicial interpretations or resolutions will not have an adverse effect on our Governmental Loans.

a.12. Exposure to Mexican Federal government debt could have a material adverse effect on us.

Like many other Mexican financial groups, we invest in debt securities of the Mexican government. As of December 31, 2021, approximately 27.3% of GFNorte's total gobernment loan portfolio were comprised of debt securities issued by the Mexican government.

Any failure by the Mexican government to fulfil timely payments under the terms of these securities, or a significant decrease in their market value, will have a material adverse effect on us.

a.13. Our borrowers that are Mexican Federal, State or Municipal governments or agencies may claim privileges under Mexican law, and our ability to sue and recover may be limited.

Article 9 of the Fiscal Coordination Law (*Ley de Coordinacion Fiscal*) provides that *participaciones federales* corresponding to States and Municipalities may not be subject to attachment or liens, may not be assigned for specific objectives or subject to retention or withholding, except that they may be used to satisfy payment obligations of such states and municipalities whenever, previously and according to the regulation, they comply with the following conditions:

- have the authorization of the local congress;
- be in the Registry of State Debt;
- be in the Unique Public Registry of the SHCP;
- be registered in the Management Trust used that serves as vehicle of payment;
- have a positive legal opinion by which the modifications of the *participaciones federales* be confirmed.

The risk that any of the three levels of government may claim privileges, reducing our capacity to sue or recover debts is limited to the constitutional provisions that state the non-retroactivity of laws.

In addition, it is worth noting that article 4 of the Mexican Federal Code for Civil Procedures (*Código Federal de Procedimientos Civiles*) does not allow attachment prior to judgment or attachment in and of execution upon a judgment by a Mexican court upon any of the assets of the Federal, State or Municipal governments or their agencies, so sentences would not be executed against such governments or agencies if tax burden or public goods be constituted as guarantee of our loans. The aforementioned, could adversely affect our financial situation or results of operations of our business; therefore, in such cases, our guarantees must always be private goods.

a.14. Loan loss reserves in Mexico differ from those applicable to banks in the United States and other countries.

Except for Government Loans and loans to certain Mexican development banks guaranteed by the federal government and Banco de México, GFNorte is required to classify each loan type according to a risk assessment based on criteria established by Mexican banking regulations and to constitute corresponding reserves. The criterion to establish reserves includes both qualitative and quantitative factors. Mexican banking regulations related to loan classification and determination of loan loss reserves are generally different than those applicable to banks in the United States and certain other countries.

We may be required or deem it necessary to increase our allowances for loan losses in the future, as a result of changes in CNBV rules or for other reasons. Moreover, the CNBV could further change accounting regulations for determination of allowance for loan losses or the methodology to measure credit risk of government institutions, which could require a substantial increase in our allowances, and could result in an adverse effect to our business, financial condition and results of operations.

a.15. The short-term nature of Banorte's funding sources may imply a liquidity risk.

We anticipate that in the near future, customers in Mexico will continue to demand short-term deposits and that Banorte will maintain a core of stable deposits based on the trust of the depositors of the Institutions. Regardless that the short term nature of this source of funding may cause a liquidity problem, a statistical analysis has shown that term and demand deposits have shown a stable long term behavior that guarantees this source of funding. However, if a substantial number of customers fail to roll over their deposits at maturity or withdraw them, Banorte's liquidity position could be affected, and more expensive funding sources may be required, affecting then our financial condition and results of operations.

a.16. Liquidity and funding risks are inherent to our business.

Liquidity risk is the risk that we either do not have available sufficient financial resources to meet our obligations as they fall due or can secure them only at excessive cost. This risk can be heightened by a number of company-specific factors, including over- reliance on a particular source of funding, changes in credit ratings or market-wide phenomena such as market dislocation.

Considering the nature of the traditional banking operations, it is acknowledged that institutions' funding needs increase on par of the credit portfolio, then with the aim of having a sustained growth on the credit portfolio an equivalent growth of the stable funding sources is required. The ongoing availability of this type of funding is sensitive to a variety of factors outside our control, such as general economic conditions and the confidence of customer depositors in the economy, in general, and the financial services industry in particular, the availability and extent of deposit guarantees, and competition between banks for deposits. Any of these factors could significantly increase the amount of customer deposit withdrawals in a short period of time, thereby reducing our ability to access customer deposit funding on appropriate terms, or at all, in the future. If these circumstances were to arise, this could have a material adverse effect on our operating results, financial condition and prospects.

For the purpose of providing an accurate measurement of the liquidity risk and funding needs, a series of metrics have been implemented such as liquidity gaps and survival horizon, both identifying liquidity and funding mismatches originated by the operational flows of the institution, thus helping to detect funding needs and the institutions capabilities to cover its short and medium term funding needs, securing then Banorte's liquidity rate. Additionally, the institution analyses its liquidity and funding needs under adverse economic scenarios with Stress Testing and Liquidity Coverage Ratio, where the latter is a regulatory measurement that enables a consistent comparison of the liquidity positions of the institutions across the financial system.

Furthermore, and in line with the current regulation and industry best practices, Banorte has implemented a Contingency Funding Plan and a Solvency and Liquidity Contingency Plan, both of which establish recovery strategies under adverse events based on monitoring liquidity indicators and early warning alerts.

a.17. We engage in transactions with our subsidiaries and affiliates on terms that others may not consider to be on an arm's length basis.

We have entered into certain service agreements with subsidiaries and affiliates, allowing them to offer their products and services within Banorte's branch network in exchange of certain fees. In addition, we and our subsidiaries and affiliates have entered into a number of agreements to share revenues or expenses in connection with the performance of certain activities, including loan recovery.

Mexican law applicable to public companies and financial groups and institutions and our by-laws provide for several procedures designed to ensure that the transactions entered into with or among our financial subsidiaries do not deviate materially from prevailing market conditions for those types of transactions, including the approval by our Board of Directors and the receipt of an independent expert's opinion.

We are likely to continue to engage in transactions with our subsidiaries and affiliates, and our subsidiaries and affiliates are likely to continue to engage in transactions among themselves, and no assurance can be given that the terms that we or our subsidiaries consider to be "substantially on market conditions" will be considered as such by third parties. In addition, future conflicts of interest between us and any of our subsidiaries or affiliates, and among these, may arise, which may or may not be resolved in our favor. (*See section 4 "Administration, subsection b)Operations with Related Parties and Conflicts of Interest" of this Annual Report.)*

a.18. We are exposed to volatility in Peso exchange rates and interest rates in Mexico.

We are exposed to currency risk any time we hold an open position in a currency other than Pesos and to interest rate risk when we have an interest rate re-pricing gap or carry interest-earning securities having fixed real or nominal interest rates. A sustained increase in interest rates may cause losses in the assets or securities portfolio, increasing our funding costs and may reduce GFNorte's loan demand, especially on retail banking products.

Although the majority of our loan portfolio is subject to revisable rates, increases on interest rates may therefore require us to re-balance our asset portfolio and our liabilities in order to minimize the risk of potential mismatches and maintain our profitability.

a.20. We are subject to market and counterparty risks associated with derivative transactions, as well as structuring risks and the risk that documentation does not incorporate accurately the terms and conditions of derivative transactions.

Banorte performs financial derivative transactions primarily for hedging purposes, trading and, to a lesser extent, on behalf of its customers. Accordingly, we are subject to market risk by unfavorable fluctuations in risk factors and operational risks associated with these transactions, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedging cost) and counterparty or default risk (the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder). Likewise, the counterparty risk associated with margin calls to our main counterparts.

Market and counterparty risk monitoring is carried out using robust risk systems and on a daily basis. Our ability to adequately monitor, analyze and report derivative transactions continues to depend, to a great extent, on our IT systems and our ability to hire and retain qualified personnel, which further increases the risks associated with these transactions and could have a material adverse effect on us.

As of December 31, 2021, the Expected Shortfall in the Bank associated with our financial instruments sensitive to interest rates was Ps 16.5 million. Although we follow various risk management procedures in connection with our trading and treasury activities, there can be no assurance that we will not experience losses with respect to these positions in the future, any of which could have a material adverse effect on our results of operations and financial position. In addition, our foreign currency liabilities are subject to regulation by the Mexican Central Bank, which imposes liquidity requirements in matching currencies, depending upon the maturities of such liabilities.

a.20. Our growth strategy is in part dependent on our ability to acquire other financial institutions and we may not be successful in integrating the operations of those financial institutions.

Our ability to continue to grow by acquisitions is dependent upon, and may be limited by, the availability of suitable acquisition candidates, our ability to negotiate acceptable acquisition terms and our assessment of the characteristics of potential acquisition targets such as:

- financial condition and results of operations;
- attractiveness of products and services;
- suitability of distribution channels;
- management ability; and
- the degree to which the acquired operations can be integrated with our operations and systems.

Furthermore, the completion of these acquisitions is subject to a number of risks, including the following:

- access to capital and financing sources;
- restrictions contained in our debt instruments;
- the uncertainty of the legal environment related to mergers and acquisitions; and
- ability to integrate successfully the operations of the acquired entity with ours.

Growth through acquisitions involves risks that could have a material and adverse effect on our results of operations, including:

- difficulties in integrating the operations;
- undisclosed liabilities and other hidden asset quality problems which could significantly impact the capital requirements or applicable reserves;
- failure of the acquired entities to achieve expected results;

- non-qualified personnel of the acquired companies;
- diversion of management attention from the operation of the existing businesses;
- possible inability to achieve expected synergies and/or economies of scale; and
- the potential loss of key personnel and customers of acquired companies.

We cannot assure that we will be able to identify suitable acquisition candidates, complete the acquisitions on satisfactory terms or, if any such acquisitions are consummated, satisfactorily integrate the acquired businesses.

We acquired Bancentro in 1996, Banpaís in 1997, Bancrecer in December 2001, INB (sold as of March 31, 2017) and Uniteller in 2006, Motran in 2007 (merged with Uniteller in 2014) and Ixe Afore, Afore Ahorra Ahora and Afore Argos in 2009. Furthermore, in 2011 we significantly expanded through our merger with Ixe GF, in 2012 we merged our Afore with Afore XXI. In January 2013, we acquired Afore Bancomer, thereby creating the largest pension fund management company in Mexico. Moreover, in October 2013 we acquired the stake Generali held in the Seguros Banorte Generali (Insurance) and Pensiones Banorte Generali (Annuities).

In 2016 Banorte-Ixe Tarjetas merged with Banorte, as a merger or that subsists. Furthermore in 2016, the Subcontrolling Company called Banorte Ahorro y Previsión was established in terms of the LRAF. GFNorte contributed in kind the shares of Seguros Banorte and Pensiones Banorte, which it owns, in favor of Banorte Ahorro y Previsión due to a variable capital increase. In October 2016, the spin-off of Banorte took effect, creating the spin-off company Banorte Futuro, to which the shares representing the share capital of Afore XXI Banorte, owned by Banorte, were transferred as an asset. GFNorte contributed in kind the shares of Banorte Futuro, owned by it, in favor of Banorte Ahorro y Previsión due to the increase in share capital in its variable part. In addition, Banorte Ahorro y Previsión, provided in their shares of Banorte Futuro, owned by it, in favor of Seguros Banorte, due to the increase in share capital in its fixed part.

On December 5, 2017, the Extraordinary General Shareholders' Meeting of GFNorte approved the merger of the Company as a merger or that subsists, with Grupo Financiero Interacciones, S.A.B. of C.V., as merged or that is extinguished, obtaining authorization from the SHCP, with the prior opinion of the CNBV and Banxico. The merger was official on July 13, 2018, the financial entities that are members of both Financial Groups is included in the transaction.

On November 16, 2018, Banorte Financial Services, Inc. was created as a spin-off company, derived from the spin-off of Banorte USA Corporation as a spin-off company, transferring to the spin-off company, among others, all the shares representing the share capital of Banorte. INB Financial Corporation and Uniteller Financial Services, Inc .; Subsequently, on January 18, 2019, the company Banorte USA Corporation was liquidated, extinguishing the same.

In June 2019, an alliance was made through the minority investment of Banorte in the share capital of Payclip, Inc., which is expected to bring important innovations in payment methods.

On March 26, 2020, the Extraordinary General Shareholders' Meetings of Sólida Administradora de Portafolios, S.A. de C.V., SOFOM, E.R., Grupo Financiero Banorte ("Sólida") and Arrendadora y Factor Banorte, S.A. de CV, SOFOM, ER, Grupo Financiero Banorte ("Arrendadora") agreed to the merger of both companies, Solid being the merging or subsisting company and Arrendadora being the merged or extinguishing company, as well as the change of name of the merging company to Arrendadora y Factor Banorte, SA de C.V., SOFOM, E.R., Grupo Financiero Banorte. The merger took effect on July 1, 2020.

On March 26, 2020, the Extraordinary General Shareholders' Meetings of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte ("Banorte"), Inmobiliaria Interdiseño, S.A. de C.V., Inmobiliaria Interin, S.A. de C.V., Inmobiliaria Interorbe, S.A. de C.V. and Inmobiliaria Mobinter, S.A. de C.V. (the

“Real Estate Companies”) agreed to the merger of Banorte as the merging or subsisting company and the Real Estate Companies as the merged or extinct companies. The merger took effect on September 1, 2020.

The merger with some of these companies has resulted in and may continue to result in labor termination payments, contingent liabilities and certain penalties. We cannot predict if these events will continue or, if they continue, whether they will materially and adversely affect our business and operations. Furthermore, we could face similar problems in integrating any other merger, acquisition or business combination in the future.

If we are unable to implement and manage our growth strategy, our financial results, operations and business could be materially and adversely affected.

On June 22, 2020, Grupo Financiero Banorte signed a strategic alliance agreement with Rappi through which both companies, subject to obtaining the applicable regulatory authorizations from the financial and economic competition authorities, will be shareholders (50% - 50%) of, and will participate in the same proportions on the board of directors of, a newly created company that will initially offer digital financial services, mainly aimed at Rappi's clients. Through this agreement, GFNorte undertook to make available to the new company, up to Ps 4,000 million in a period of 18 months, provided that the option to deliver Ps 3,000 million is subject to certain performance metrics having been achieved in the established deadlines.

On April 23, 2021, the Extraordinary General Shareholders' Meeting of GFNorte approved to modify the Article Second of its bylaws, in order: i) to update names of its financial entities and ii) to agree the “Convenio Único de Responsabilidades”.

The merger with some of these companies has resulted in and may continue to result in labor termination payments, contingent liabilities and certain penalties. We cannot predict if these events will continue or, if they continue, whether they will materially and adversely affect our business and operations. Furthermore, we could face similar problems in integrating any other merger, acquisition or business combination in the future.

If we are unable to implement and manage our growth strategy, our financial results, operations and business could be materially and adversely affected.

a.21. We may need additional capital in the future, and may not be able to obtain it on acceptable terms, or at all.

In order for us to grow, remain competitive, enter into new businesses, or meet regulatory capital adequacy requirements, we may require new capital in the future. Likewise, we may need to raise additional capital in the event of large losses derived from any of our activities that result in a reduction of our stockholders’ equity. Our ability to obtain additional capital in the future is subject to a variety of uncertainties, including:

- our future financial position, results of operations and cash flows;
- any government regulatory or corporate approvals;
- general market conditions for capital raising activities by commercial banks and other financial institutions;
- any reduction in our credit rating or the credit rating of our subsidiaries; and
- social, economic, political and other conditions in Mexico and elsewhere.

Banorte complies with the current regulation by monitoring its capital requirements on timely basis and revising its future capital need through financial projections under ordinary and stress scenarios, including in the latter category, the Capital Adequacy Assessment, indicating that capital adequacy in the institution is strong even under adverse economic conditions.

We may not be able to obtain needed capital in a timely manner or on acceptable terms or at all.

a.22. We are subject to capital adequacy requirements. Any failure by us to maintain this ratio will result in administrative actions or sanctions which may affect our ability to fulfill our obligations, including losing our banking license.

In order to sustain Banorte's operations, and with the aim of anticipating future capital needs, a Capital Plan has been implemented based on the balance growth expectations under normal and stress conditions, while including contingent events that could have an impact on the capital requirements or in the available capital during the planning period.

Our Capital Plan is related to the Capital Adequacy Assessment established in local regulation and encompasses both regulatory and internal stress scenarios, as well as the institution's Solvency and Liquidity Contingency Plan, which lays down recovery strategies based on monitoring risk measurements and an early warning system.

A new rule issued by the CNBV establishes that our Tier 1 and Tier 2 capital instruments cannot be considered above the 50% of our Common Equity Tier 1 Capital if our CET1 is below 10.0%. As of December 31, 2021 the CET1 was 15.3%.

Moreover, in 2021 Banorte endorsed as a Level II - Domestic Systemically Important Financial Institution by the CNBV; therefore, Banorte must maintain a capital buffer of 0.90 bps, to be constituted progressively in up to four years starting on December 31, 2016. Minimum Capitalization Ratio ("CR") stood at 11.40% at the end of 2021 (corresponding to the minimum regulatory of 10.5% plus supplementary capital constituted as of that period).

Additionally, as of December 2022, Multiple Banking Institutions of Local Systemic Importance must also maintain a Supplement to Net Capital, which must be additional capital to that necessary to comply with the minimum Capitalization Ratio. This Supplement to Net Capital corresponds to 6.5% of the Total ASR and must be constituted in a period of 4 years from December 31, 2022 to December 31, 2025 in accordance with the following:

	Commencing December 31,			
	2022	**2023**	**2024**	**2025**
Minimum Capital Ratios				
Total Net Capital (*capital neto*)	13.025%	14.650%	16.275%	17.900%

a.23. Reductions in our credit ratings or those of any of our subsidiaries would increase our cost of borrowing and negatively impact our ability to raise new funds, attract deposits or renew maturing debt.

Our credit ratings are an important component of our liquidity profile. Our clients, creditors and counterparties in financial derivative transactions (and those of our subsidiaries) are sensitive to the risk of a rating downgrade. Changes in our credit ratings or those of any of our subsidiaries would increase the cost of raising funds in the capital markets or of borrowing funds or could restrict our participation in certain activities. In addition, our ability to renew maturing debt may be more difficult and expensive.

The ability of Banorte, our banking subsidiary, to compete successfully in the marketplace for funding depends on various factors, including its financial stability reflected by its credit ratings. A downgrade in Banorte's credit ratings may adversely affect perception of GFNorte's or any other subsidiaries' financial stability, which could significantly affect our business, financial conditions and results of operations.

a.24. We are exposed to risks faced by other financial institutions.

We routinely transact with counterparties in the financial services industry, including brokers, dealers, commercial banks, investment banks, mutual funds, hedge funds and other institutional clients. Defaults by, and even rumors or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by other institutions. Many of the routine transactions we engaged, expose us to significant credit risk in the event of default by one of our counterparties. Concerns relating to the financial soundness of a number of European governments, the European sovereign debt crisis, the deceleration of economic growth in major economies and emerging markets, oscillation in oil prices and commodities. the uncertainty regarding the new economic, political and commercial environment derived from the actual government in the United States, and new trends in trade protectionism have, contributed to volatility of the equity and credit markets. Furthermore, the risk of contagion throughout the European financial system (in which some of our most important competitors' headquarters operate) and beyond Eurozone remains, as a significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by nations which are under considerable financial pressure. These liquidity concerns have had, and may continue to have, an adverse effect on interbank financial transactions in general. Should any of these nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilized. A default by a significant financial counterparty, or liquidity problems in the financial services industry generally, could have a material adverse effect on our business, financial position and results of operation.

a.25. We are subject to significant competition from other financial groups in providing financial services.

We face strong competition in all sectors of our business, including our banking business. The competition comes principally from Mexican and foreign banks, mortgage banking companies, consumer finance companies, insurance companies, other credit institutions, brokerage houses and financial advisory institutions. We anticipate that we will encounter greater competition as we continue expanding our operations in Mexico. A number of institutions with which we compete have significantly greater assets and capital, name recognition and other resources. Besides traditional banking services, specialized entities exist such as non-regulated multiple purpose financial companies (*Sociedades Financieras de Objeto Multiple*), which if not part of a financial group, are not subject to the extensive Mexican banking regulations to which Banorte and its subsidiaries are subject, including for example, maintaining certain levels of capital and reserves for loan losses. As a result, certain of our competitors may have advantages in conducting certain businesses and providing loans and other financial services.

Competition is also likely to increase as a result of the entry of new participants into the financial services sector derived from the financial reform, which aims to strengthen development banks in order to complement services offered by commercial banks, as well modify legal framework of the later and promote more and cheaper loans offered by credit institutions. Mexican financial authorities continue granting licenses for the establishment and operation of several new financial institutions.

Also, the publication of the Law to Regulate Financial Technology Institutions that establishes the rules applicable to this type of company, is likely to increase the number of competitors in products and services we offer to customers.

Therefore, Banorte could experience greater competition in certain sectors of its business as the CNBV issues authorizations for this type of institution. We believe that the commitment of the Mexican government to implement reforms to accelerate and liberalize the financial industry in Mexico translates into greater competition among financial institutions in Mexico. As long as the financial sector reform continues in this regard, foreign financial institutions, many of which have more resources than us, will continue to enter the Mexican market to compete with us, either by themselves or in collaboration with institutions. Mexican financial companies. There can be no assurance that we will be able to successfully compete with domestic or foreign financial institutions or that increased competition will not have a material adverse effect on our financial condition or results of operations.

An increase in competition or a more aggressive competition strategy by our competitors may force GFNorte to decrease certain active rates or pay higher interest rates on deposits and operating creditors, to avoid losing clients preferring more attractive rates offered by other banks, which would increase our interest expenses and reduce our net interest income and, consequently, adversely impact our financial position or operating results.

In addition, if our customer service levels were perceived by the market to be materially below those of our competitor financial institutions, we could lose existing and potential business. If we are not successful in retaining and strengthening customer relationships, we may lose market share, incur losses on some or all of our activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on us.

a.26. Our ability to maintain our competitive position depends, in part, on the success of new products and services we offer our clients and to our ability to continue offering products and services from third parties.

The success of our operations and our profitability depends, in part, on the success of new products and services we offer our clients and to our ability to continue offering products and services from third parties. However, we cannot guarantee that our new products and services will be successfully responsive to clients' demands, or that they will be successful in the future or that we will have the information systems, personnel or innovative capacity sufficient to offer our clients the products and services they demand. In addition, our clients' needs or desires may change over time, and such changes may render our products and services obsolete, outdated or unattractive and we may not be able to develop new products that meet our clients' changing needs. If we cannot respond in a timely fashion to the changing needs of our clients, we may lose them, which could in turn materially and adversely affect our business, financial position and results of operation.

As we expand the range of our products and services, some of which may be at an early stage of development in the Mexican market, we will be exposed to new and potentially increasingly complex risks and development expenses, with respect to which our experience and our partners' may not be helpful. Our employees and our risk management systems may not be adequate to handle such risks. In addition, the cost of developing products that have not been launched is likely to affect our results of operations. Any or all of these factors, individually or collectively, could have a material adverse effect on our business, financial position and results of operation.

a.27. Banorte's increasing focus on individuals and SMEs could lead to higher levels of non-performing loans and subsequent charge-offs.

Part of Banorte's business strategy, seeks to increase lending and other services to individuals and SMEs. Individuals and SMEs are, however, more likely to be adversely affected by downturns in the Mexican economy than large corporations and high income individuals are. Consequently, GFNorte may experience higher levels of non-performing loans, and also derived from the effects on the economy caused by the Covid-19 pandemic, which could result in higher provisions for loan losses.

Approximately 40.4% of the value of our total gross loan portfolio as of December 31, 2021 consisted of exposure to individuals, while SMEs comprised approximately 4.7% of the value of the total gross loan portfolio. As part of our business strategy, we are seeking to further increase lending and other services to individuals and SMEs, which are more likely to be adversely affected by downturns in the Mexican economy. Consequently, we may experience higher levels of non-performing loans, which could result in higher provisions for loan loss reserves, which in turn would negatively affect us.

For December 31, 2021, non-performing loans were Ps. 7,836 million and total charge-offs against our allowance for loan losses were Ps. 15,145 million. Non-performing loans related to individuals and SMEs represented 65.0% and 8.8%, respectively, compared to 74.2% and 9.1% respectively for the period ended December 31, 2020.

We cannot provide assurance that the levels of non-performing loans and subsequent charge offs will not be materially higher in the future and affect our financial condition and results of operations.

a.28. We are subject to extensive Mexican governmental regulation, which is subject to frequent revisions and changes.

We are subject to extensive regulation by Mexican governmental authorities regarding our organization, operations, capitalization, corporate governance, transactions with related parties and other matters. These laws and regulations impose numerous requirements on us and our subsidiaries, including the maintenance of minimum risk based capital levels and loan loss reserves, regulation of our business practices, diversification of our investments, maintenance of liquidity ratios, regulation of loan granting policies and interest rates charged, other terms contained within loan agreements, as well as application of required accounting regulations. Amendments to financial laws could result in additional capital requirements and give financial authorities discretion to impose capital requirements or modify the usage of our net income.

Many of the applicable laws and regulations have been subject to extensive changes in recent years, some of which have had a material effect on our and our subsidiaries' financial and capitalization position and results of operations. For example, several laws were enacted during 2008 and 2009 by the Mexican Congress requiring the elimination of certain fees for credit cards, deposit accounts, and the use of ATMs, as well as granting the Mexican Central Bank the authority to approve, reject or limit account management and general fees that banks, including Banorte, charge to their customers and also granting the ability to impose penalties if in its judgment banking institutions are limiting competition among themselves. Moreover, Mexican financial regulatory authorities possess significant powers to enforce applicable regulatory requirements in the event of our or our subsidiaries' failure to comply with such regulatory requirements, including imposing fines, requiring that new capital be contributed, prohibiting the payment of dividends to shareholders or the payment of bonuses to employees, imposing sanctions or revoking our licenses and permits to operate our businesses; moreover, the 2014 financial reform aims to further strengthen these powers and grant greater discretion to authorities. In case we or our subsidiaries face significant financial problems or become insolvent or in danger of so, Mexican financial regulatory authorities have the power to take over our management and operations.

Given the current environment of frequent changes to laws and regulations affecting the financial services sector, there may be future changes in the regulatory system or in the enforcement of the laws and regulations that could adversely affect us and our subsidiaries. (See Section 2 "The Company, subsection b) Business Description – Applicable Legislation and Tax Situation – Applicable Law and Supervision" in this Annual Report.)

In particular, on July 26, 2010, the Group of Governors and Supervision Chiefs, the supervision body of the Basel Committee on Banking Supervision, reached broad agreement on the overall design of a capital and liquidity reform package for internationally active banking organizations around the world (known as Basel III), which includes, among others, the definition of capital, the treatment of counterparty credit risk, the leverage ratio and the global liquidity standard. On September 12, 2010, the Basel Committee announced a substantial strengthening of existing capital requirements in connection with Basel III. The full text of the Basel III rules and the results of a quantitative impact study to determine the effects of the reforms on banking organizations were published on December 16, 2010. These rules include, among others, the gradual elimination of securities that count as basic capital (Tier 1) and complementary capital (Tier 2) with prepayment provisions, based on incentives or the implementation of leverage ratios applicable to institutions, in addition to the capital requirements in effect based on risk over assets.

In order to strengthen the net capital of the banking sector, in accordance with the guidelines established by the Capital Accord issued by the Basel Committee , the SHCP published on November 28, 2012 an amendment to the Mexican Banking Regulations that aims to, among others: (i) strengthen the composition of the net capital of banking institutions under Basel III guidelines, and (ii) allow certain securities issued by commercial banks to absorb losses incurred by these institutions when submitting a detriment in their capital, either through a conversion into their shares or by the loss of the agreed value at the time of issuance in order to be recognized as part of the net capital of such institutions. The regulations from this amendment were implemented on January 1, 2013 and are in force. (See Section 2 "The Company, subsection b) Applicable Legislation and Tax Situation – Applicable Law and Supervision - Adoption of New Rules in Mexico in accordance with Basel III" in this Annual Report.)

In April 2016, the CNBV determined the Banks of Local Systemic Importance, which must constitute an additional capital supplement of the Minimum Capitalization Index required, in a maximum period of four years (2016-2019), and must constitute 25% of the capital increase. on an annual basis Banorte was classified as grade II, so the additional supplement is 0.90 percentage points. In 2020 and 2021 Banorte was ratified with the same grade II.

The application of provisions changing the methodology, calculation or compliance of Capital Ratios of banking institutions or the adoption of changes to the minimum requirements for Tier 1 and Tier 2 capital of banking institutions, overviewed by Mexican authorities, may have a material adverse effect on our business and results of operations.

On December 31, 2014, the CNBV published the General Provisions on Liquidity Requirements for Multiple Banking Institutions that include the guidelines for the calculation of the Liquidity Coverage Ratio, which aims to provide that the institutions of Multiple banks keep liquid assets freely available and of high credit quality, as defined in the applicable general provisions, to meet their obligations and liquidity needs for 30 days, these rules entered into force in January 2015. In In line with the foregoing, it is expected that during 2020, the CNBV will publish the guidelines for calculating the Net Stable Funding Coefficient, which is a metric complementary to the Liquidity Coverage Ratio and which aims to ensure that the congruence of the funding of the balance, analyzing that long-term assets are funded with financing stable.

We cannot provide assurance whether the reform packages regarding terms and conditions of government lending or the financial reform enacted on January 9, 2014, will not have a materially adverse effect on our business, financial condition or results of operations.

On December 31, 2014, the SHCP published the General Rules for Financial Groups, which stipulate March 31, 2016 as the deadline to adequate the Bylaws of the Holding Company on the resolution of conflicts of interest among the financial institutions integrating the Financial Group. Consequently, on November 19, 2015 GFNorte held an Extraordinary General Shareholders' Assembly, in which it was agreed to amend its Bylaws in order to adapt them to the regulations, subject to the authorization of competent authorities.

On November 26, 2013, the Mexican Congress approved a financial reform package that granted broader authority to financial authorities and ordered the Mexican competition authorities to initiate an investigation into the fairness of trade practices in the Mexican financial system.

One of the main aspects of the changes in recent years in the Mexican Banking Law approved by Congress consists of the authority granted to the SHCP to conduct evaluations of Mexican banks. The guidelines for such evaluations were published in the Official Gazette on December 31, 2014, and the final results of the first evaluation for 2015 were published on July 31, 2016, in which we received a positive evaluation, and no corrective measures were ordered. Negative or deficient results of evaluations may result in corrective measures being ordered, including a requirement that the bank present a plan to correct such deficiencies. In the event that we receive a negative or deficient evaluation in the future, it is uncertain what corrective measures may be ordered by the SHCP and whether the imposition of such measures may have a material adverse effect on our business.

In June 2014, the Mexican Supreme Court of Justice decided that federal judges have discretion to determine whether or not an interest rate agreed in a promissory note is evidently excessive, violating an individual’s human rights, and consequently establishing a reduced rate. The elements the judge should take into account to determine if a rate is evidently excessive are:

- the type of relationship between the parties;
- the qualification of the persons intervening in the subscription of the note and if the activity of the creditor is regulated;
- the purpose of the credit;

- the amount of the loan;
- the term of the loan;
- the existence of guaranties for the payment of the loan;
- the interest rates applied by financial institutions in transactions similar to the one under analysis, as a mere reference;
- the variation of the national inflation index during the term of the loan;
- market conditions; and
- other issues that may be considered relevant by the judge.

The mandatory and partly discretionary application of such criteria in the lawsuits affecting our portfolio could have a material adverse effect on the interest rates we charge and on our operating results.

Changes in regulations may also cause us to face increased compliance costs and limitations on our ability to pursue certain business opportunities and provide certain products and services. As some of the banking laws and regulations have been recently adopted, such as the regulations implementing Basel III in Mexico, the manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. No assurance can be given generally that laws or regulations will be adopted, enforced or interpreted in a manner that will not have a material adverse effect on our business and results of operations.

On November 27, 2018, an amendment to the Single Banking Circular (CUB) was published, which describes various requirements that Financial Entities must comply with in order to implement and monitor the Internal Control System in terms of information security. The foregoing, has important challenges for the Financial Institutions that come into force as of August 2019, such as; permanently evaluate the internal control system, carry out an annual vulnerability scanning plan with scope to all the components of the technological infrastructure of critical applications, perform 2 Ethical Hacking tests per year through third parties, designate an Officer in Head of Information Security and generate annually a Safety Master Plan which must contain the projects that address the findings derived from the aforementioned revisions. Also begins the measurement of 30 risk indicators (KRI) in the field of Information Security, establishing the obligation to have certifications in the debit and credit card industry, such as PCI-DSS, PA-DSS, PTS and EMV, and raises a whole process for the management of security incidents. It is important to comply in a timely manner with each of the aspects mentioned, as from August 2019, several monthly reports are being prepared for the Bank's General Director, various corporate governance bodies and the CNBV with the results of the evaluations. and diagnosis of the internal control system in terms of information security.

BANXICO also published Circular 15/2018 where it establishes the operation of the “Credits associated with Payroll accounts”, this measure will apply a debt limit of the Clients of 40% of their average monthly salary, and will provide the Financial Entities with the guarantee of collection of the credits assigned in this category, since a system will be put into operation that will allow to centrally identify the level of indebtedness of each Client and the possibility of processing direct debits with a charge in the ordering account of another bank. Said regulation indicates that if as of March 26, 2019 the Financial Institutions do not implement said functionality, they will not be able to grant credits charged to payroll accounts, however there is a draft modification to said rule that was published during the 1st quarter of 2018, where it is resolved to extend the term until November 1, 2019.

As of March 26, 2019, Financial Institutions that have an Issuer and/or Acquirer role must allow the use of a second authentication factor as an authorization requirement in debit card and credit card transactions (present and not present)), the foregoing is established in Circulars 8/2018 and 9/2018 issued by BANXICO. If this functionality is not implemented within the established term, the Issuer or Acquirer must assume the risk and immediately pay the claims for unrecognized charges issued by the Clients, which could lead to multiple losses that can be avoided if properly implement the functionality in Banorte.

a.29. We are subject to Mexican and U.S. regulatory inspections, examinations, inquiries and audits that could result in sanctions or the imposition of corrective measures*.*

We are subject to exhaustive regulation and supervision by the Mexican regulatory authorities. We are subject to comprehensive regulation and supervision by U.S. and Mexican regulatory authorities. The Mexican regulatory authorities include the Mexican Central Bank, CNBV, SHCP, CONSAR and CNSF. (See Section 2 “The Company, subsection b) Applicable Legislation and Tax Situation – The Mexican Financial System” in this Annual Report). These regulatory authorities have broad powers to adopt regulations and other requirements that affect all aspects of our capitalization, organization and operations, including changes to capital adequacy and reserve requirements, compliance with rules relating to secrecy, the imposition of anti-money laundering measures and the authority to regulate the terms of products, including the interest rates we charge and the fees we collect in exchange for services.

Moreover, Mexican and U.S. financial regulatory authorities possess significant powers to enforce applicable regulatory requirements, including the imposition of fines, requiring that new capital be contributed, inhibiting us from paying dividends to shareholders or paying bonuses to employees, or the revocation of licenses to operate our business (including our banking or broker-dealer licenses).

In the event we encounter significant financial problems or become insolvent or in danger of becoming insolvent, Mexican banking authorities would have the power to take over our management and operations. (See Section 2 “The Company, subsection b) Applicable Legislation and Tax Situation – Applicable Law and Supervision” in this Annual Report).

As noted above, our business and operations are subject to rules and regulations that are required to conduct banking and financial services business. These affect our financial returns and include reserve and reporting requirements. The regulators seek to maintain the safety and soundness of Mexican financial institutions with the aim of strengthening the protection of customers and the financial system. The continuing supervision of financial institutions is conducted through a variety of regulatory tools, reports, visits to firms and regular meetings with management to discuss issues such as performance, risk management and strategy. In general, regulators in Mexico have a more outcome-focused approach that involves more proactive enforcement and more punitive penalties for infringement, including intervening in institutions and restricting dividends or bonuses to employees. As a result, we face significant high levels of supervisory scrutiny (resulting in increasing internal compliance costs and supervision fees) and in the event of a breach of our regulatory obligations we may face significant regulatory fines.

Some of the regulators focus primarily on consumer protection, including a focus on the design and operation of products, the behavior of customers and the operation of markets. Applicable regulations may prevent institutions such as ours from providing products to customers until changes are made to address the regulators’ views on potential detriment to consumers. Regulations require us to be in compliance across all aspects of our business, including the training, authorization and supervision of personnel, systems, processes and documentation. If we fail to comply with the relevant regulations, we may face adverse impacts on our business from sanctions, fines or other actions imposed by the regulatory authorities, including the revocation of our authorization and the intervention in our operations.

Furthermore, customers of financial services institutions, including our customers, may seek redress if they have suffered loss as a result of an offered product, or through incorrect application of the terms and conditions of a particular product.

Given the inherent unpredictability of litigation and judgments by the relevant authorities, it is possible that an adverse outcome in some matters could harm our reputation or have a material adverse effect on our operating results, financial condition and prospects arising from any penalties imposed or compensation awarded, together with the costs of defending such an action, thereby reducing our profitability.

a.30. Banorte's banking license may be revoked by the CNBV.

Under the Mexican Banking Law, the CNBV may revoke Banorte's banking license upon the occurrence of certain events, including - without limitation - if Banorte does not:

- comply with minimum corrective measures ordered by the CNBV, if the case;
- comply with the minimum Capitalization Ratio required under the Mexican Banking Law and the Mexican Capitalization Rules;
- pay certain of its debts or fails to comply with its obligations with one or more participants in clearing systems or with its depositors; and
- comply with restrictions on certain types of transactions prohibited by the Mexican Banking Law.

If the CNBV were to revoke Banorte's banking license, our business, results of operations and financial condition would be materially and adversely affected. (See Section 2 "The Company, subsection b) Applicable Legislation and Tax Situation – Applicable Law and Supervision - Banking Regulation" in this Annual Report).

a.31. Our success depends, in part, on our retention of certain key personnel, our ability to hire additional key personnel, and the maintenance of good labor relations.

We depend on our executive officers and key employees. Our senior management has significant experience in the banking, financial services and pension fund management businesses, therefore, the loss of any of our executive officers, key employees or senior managers could negatively affect our ability to execute our business strategy.

Our future success also depends on our continuing ability to identify, hire, train and retain other qualified sales, marketing and managerial personnel. Competition for such qualified personnel is intense and we may be unable to attract, integrate or retain qualified personnel at levels of experience or compensation that are necessary to sustain or expand our operations. Our businesses could be materially and adversely affected if we cannot attract these necessary personnel.

As of December 31, 2021, approximately 66% of GFNorte's employees were unionized, and we could incur higher ongoing labor costs and disruptions in our operations in the event of a strike or other work stoppage.

a.32. We are subject to litigation proceedings.

We are regularly party to litigation and other legal proceedings related to claims resulting from our operations in the normal course of business. Litigation is subject to inherent uncertainties, and unfavorable rulings may occur. We cannot assure that these or other legal proceedings will not materially and adversely affect our ability to conduct our business in the manner that we expect or otherwise adversely affect our results of operations and financial position should an unfavorable ruling occur.

We face various issues that may give rise to risk of loss from legal and regulatory proceedings, including tax litigation. These issues, including appropriately dealing with potential conflicts of interest, and legal and regulatory requirements, could increase the amount of damages asserted against us or subject us to regulatory enforcement actions, fines and penalties. The current regulatory environment, has resulted in an increased supervisory focus on enforcement, combined with uncertainty about the evolution of the regulatory regime, may lead to material compliance costs.

a.33. Our businesses rely heavily on data collection, processing and storage systems in order for our internal control systems and other operating to function properly.

At a time when transaction processes have become increasingly complex, with increasing volume, our principal businesses are highly dependent on the ability to timely collect and process a large amount of financial and other information across numerous and diverse markets and products at our various locations and channels. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our business and to our ability to compete effectively. A partial or complete failure of any of these primary systems could materially and adversely affect our decision making process and our risk management and internal control systems, as well as our timely response to changing market conditions. If we cannot maintain an effective data collection and management system, our business operations, financial position and results of operations could be materially and adversely affected.

Furthermore, we are dependent on information systems to operate our website, process transactions, respond to customer inquiries on a timely basis and maintain cost efficient operations. We may experience operational problems with our information systems as a result of system failures, viruses, computer "hackers" or other causes. Any material disruption or slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our clients with delays or errors, which could reduce demand for our services and products and could materially and adversely affect our financial position and results of operations.

a.34. We depend on our ability to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner.

Our ability to remain competitive in the markets in which we operate depends partially on our ability to upgrade our information technology infrastructure on a timely and profitable basis, through continuous investment. The opening of new offices and branches requires us to improve our information technology infrastructure, and to maintain and upgrade our software and hardware systems and back office operations.

Additionally, any failure or interruption in the improvement, development and expansion of our information systems could result in a delay in our ability to respond to the demands of our customers, our ability to manage risk, or defects in our service. This could adversely affect our customers or our reputation for reliability.

Any failure to improve effectively or upgrade our information technology infrastructure and management information systems in a timely manner could materially and adversely affect our competitiveness, financial position and results of operations, and result in losses for our customers, resulting in liabilities for us.

a.35. We may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose us to liability and damage our business.

We and our subsidiaries are required to comply with applicable anti-money laundering and anti-terrorism laws. These laws require us, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. These laws and regulations have become increasingly complex and detailed, require improved systems and sophisticated monitoring and compliance personnel and have become the subject of enhanced government supervision.

While our subsidiaries have adopted policies and procedures aimed at detecting and preventing the use of our banking network for money laundering activities, terrorisms financing and other illegal, inappropriate or inadequate activities, through organizations and people related to terrorism, such policies and procedures may not effectively detect all the activities related to money laundering and other illegal inappropriate or inadequate activities. To the extent we fail to fully comply with applicable laws and regulations, the relevant government agencies to which we report have the power and authority to impose fines and other penalties on us. In addition, our business and reputation could suffer if our infrastructure or our subsidiaries are used for money laundering or illegal, improper or inadequate purposes. Any of these situations could have a materially adverse effect on our business, financial position or results of operations.

In addition, while we review our relevant counterparties' internal policies and procedures with respect to such matters, we, to a large degree, rely upon our relevant counterparties to maintain and properly apply their own appropriate anti-money laundering procedures. Such measures, procedures and compliance may not be completely effective in preventing third parties from using our (and our relevant counterparties') operations as a conduit for money laundering (including illegal cash operations) without our (and our relevant counterparties') knowledge. If we are associated with, or even accused of being associated with, or become a party to, money laundering, then our reputation could suffer and/or we could become subject to fines, sanctions and/or legal enforcement (including being added to any "blacklists" that would prohibit certain parties from engaging in transactions with us), any one of which could have a material adverse effect on our reputation, business, financial condition or results of operations.

a.36. We are a holding company and depend upon dividends and other funds from subsidiaries to pay dividends, debts and other obligations.

We are a holding company and our operations are conducted through our subsidiaries. As a result, our ability to, pay dividends, pay our own debts, and have the resources to fund our operations primarily depends on the ability of our subsidiaries to generate earnings and to pay dividends to us or otherwise provide us with resources. Banorte may be restricted from paying dividends to us if it does not meet its required regulatory Capital Ratios. Additionally, distribution of profit by our subsidiaries is subject to the income effectively generated by those subsidiaries and their financial and business situations. Our right to receive any amount from any of our subsidiaries upon their liquidation or reorganization will be effectively subordinated to the claims of our subsidiaries' creditors, including trade creditors. (See Section 3 "Financial Information, subsection d) Management Analysis and Comments on Operating Results and the Company's Financial Situation" and Section 2 "The Company, subsection b) Business Description – Dividends" in this Annual Report.)

It is worth mentioning that the Extraordinary Shareholders' Meeting held on April 30, 2019 agreed to modify GFNorte's Dividend Policy to be between 16% and up to 50% of the net income of the prior year.

a.37. Under the Statutory Responsibility Agreement, we are responsible secondarily and without limitation for the performance of the obligations incurred by our subsidiaries.

Under the Statutory Responsibility Agreement that we entered into with our financial subsidiaries, pursuant to the Law Regulating Financial Groups, we are responsible secondarily and without limitation for performance of the obligations incurred by our subsidiaries as a result of the authorized activities of such subsidiaries, and we are fully responsible for certain losses of such, up to the total amount of our assets. For such purposes, a subsidiary is deemed to have losses if:

- its stockholders' equity is less than the amount the subsidiary is required to have as minimum capital under applicable law;
- its capital and reserves are less than the subsidiary is required to have under applicable law; or
- in the judgment of the regulatory authority supervising the subsidiary's activities, the subsidiary is insolvent and cannot fulfill its obligations.

Furthermore, if Banorte is deemed to have losses we will not be allowed to pay any dividends or transfer any monetary benefit to our shareholders as of the date on which IPAB determines that Banorte has losses extending to the date on which we pay those. Moreover, we would be required, among other things, to guarantee to IPAB the payment of such losses. Pursuant to the Law Regulating Financial Groups, our shares or the shares of our subsidiaries could be posted as collateral to guarantee the payment of Banorte's losses in favor of IPAB. Pursuant to Article 120 of the Law Regulating Financial Groups, our shareholders, by virtue of their holding of our shares, accept that their shares could be posted as a guarantee in favor of IPAB, and that such shares will be transferred to the Institute if we are unable to pay for any amounts due to IPAB as a result of Banorte's losses.

We cannot assure that in the future, Banorte or any of our other subsidiaries will not be deemed to have losses, and if so, that we will have sufficient assets to cover such losses. (See Section 2 "The Company, subsection b) Applicable Legislation and Tax Situation – Applicable Law and Supervision - Financial Groups' Statutory Responsibility" in this Annual Report.)

a.38. We are subject to the Federal Anticorruption Law in Public Contracting, the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.

In July 2016, as part of the historic constitutional reform which created the National Anticorruption System (*Sistema Nacional Anticorrupción*) ("SNA"), the Mexican Congress approved a group of laws that comprises the legal framework that will ensure the implementation of the public strategies and policies for fighting corruption and impunity. The objective of this reform is to achieve full coordination of efforts from the federal, state and municipal governments, and the government of Mexico City, in order to prevent, investigate and punish administrative violations and corrupt practices by public officers, companies and individuals.

For the operation of the SNA, the Mexican Congress approved the General Law on the National Anticorruption System (*Ley General del Sistema Nacional Anticorrupción*), the Federal Anticorruption Law on Public Contracts (*Ley Federal Anticorrupción en Contrataciones Públicas*), the General Law on Administrative Accountability (*Ley General de Responsabilidades Administrativas*) and the Organic Law of the Federal Tribunal of the Administrative Justice (*Ley Orgánica del Tribunal Federal de Justicia Administrativa*). In addition, it approved the Law on Auditing and Accountability of the Federation (*Ley de Fiscalización y Rendición de Cuentas de la Federación*), and amendments on internal controls of the federal executive branch to the Organic Law of the Public Administration (*Ley Orgánica de la Administración Pública Federal)*, to the Fiscal Coordination Law (*Ley de Coordinación Fiscal*) and to the General Law for Governmental Accounting (*Ley General de Contabilidad Gubernamental*).

The Federal Anticorruption Law on Public Contracts, the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to government officials and other persons for the purpose of obtaining or retaining business.

Banorte has an Anti-corruption policy approved by its Board of Directors, which is reviewed annually to ensure that it is kept updated based on changes in the regulatory context. However, it cannot be guaranteed that our internal control policies and procedures will protect us from imprudent acts or committed crimes by our employees or agents. Violations of these laws, or allegations of such violations, could disrupt our business and could have a material adverse effect on our reputation, business, financial condition or results of operations.

a.39. COVID-19 pandemic

Derived from the COVID-19 pandemic confirmed in Mexico by publication made in the Official Gazette of the Federation on March 23, 2020 with the title "Agreement by which the General Security Council recognizes the epidemic due to the SARS-CoV2 virus (COVID -19) in Mexico, as a serious disease of priority attention, as well as the activities of preparation and response to said epidemic are established ", negative impacts are being generated in the economy at the international and national levels, with socioeconomic effects in the country between those that highlight temporary or total closure of companies, unemployment, limitation of international trade, suspension of flights and mobility as well as changes in financial markets, exchange rate volatility, among others.

The duration of the pandemic and therefore also the depth of the negative impact on our results, asset quality, liquidity and available capital are still unknown. It is important to note that there may be other impacts that are not considered here and are unpredictable given that the pandemic is still present, and it is possible that there will be new similar events in the future.

Along the same lines, the Bank of Mexico subscribed a series of measures to promote an orderly behavior of the financial markets, strengthen the credit issuance channels and to promote market liquidity for the healthy development of the financial system. Among such measures, the Bank of Mexico included the diminishment of the regulatory monetary deposit, an increase of available liquidity during operating hours, exchange programs for governmental issued debt and an exchange rate hedge program.

a.40. Our loan and investment portfolios are subject to prepayment risk, which could negatively affect our net interest income.

Our loan portfolio and our subsidiaries' loan and investment portfolios are subject to prepayment risk, which results from the ability of a borrower or issuer to pay a debt obligation prior to maturity. Generally, in a declining interest rate scenario, prepayment activity increases, reducing the weighted average lives of our interest earning assets and therefore our expected results relating to these assets. If prepayment activity were to increase, we would also be required to amortize net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and net interest income. Prepayment risk also might have a significant adverse impact on credit card portfolio and collateralized mortgage obligations, since prepayments could shorten the weighted average life of these portfolios, which would negatively impact our business, financial condition and results of operation.

a.42. Future Mexican government restrictions on interest rates, banking fees or reserves could negatively affect GFNorte's profitability.

A significant portion of our revenues and operating cash flow is generated by Banorte's consumer loans and any such limitations or additional informational requirements could materially and adversely affect our results of operations and financial position. In Mexico, the Financial Services Users Protection and Defense Act (Ley Federal de Protección y Defensa al Usuario de Servicios Financieros) currently does not impose any limit on the interest rate or in the banking fees, subject to certain exceptions, that a bank may charge.

However, under the Law for the Transparency and Ordering of Financial Services (Ley para la Transparencia y Ordenamiento de los Servicios Financieros), the Mexican Central Bank has broad authority to determine that reasonable competitive conditions do not exist and to issue temporary regulations in respect of credit and debit cards, checks, fund transfers and other means of payment, as a means to ensure competition, free access, no discrimination and protection of the interest of users.

Currently, the Congress and regulators have not yet proposed any specific limit on the interest rates we may charge. We cannot predict what impact the issuance of any such regulations may have on our business and results of operations,

In addition, if Mexican governmental authorities require banks and other financial institutions to increase their reserve requirements for loan losses or change the manner in which such loan reserves are calculated, it may adversely affect our results of operations and financial position.

a.42. Banorte may be required to make significant contributions to IPAB.

Under Mexican law, banks are required to make monthly contributions to support the operations to the Mexican Institute for the Protection of Banking Savings (Instituto para la Protección al Ahorro Bancario), or IPAB, in an amount equal to one-twelfth of 0.4% (the annual rate) multiplied by the average of certain liabilities minus the average of certain assets. IPAB was created in January 1999 to manage the bank savings protection system and regulate the financial support granted to banks in Mexico. Mexican authorities impose regular assessments on banking institutions covered by IPAB for funding. Banorte contributed Ps 3.60 billion and Ps 3.63 billion to IPAB during 2021 and 2020 respectively. In the event that IPAB's reserves are insufficient to manage the bank savings protection system and provide the necessary financial support granted to troubled banking institutions, IPAB maintains the discretionary right to require extraordinary contributions to participants in the system. Any such requirement can be a result of a multitude circumstances, cannot be predicted and could adversely affect our business, financial condition or results of operations.

a.43 Risk factors derived from cyber-attacks and other security breaches

One of the main risks faced by Banorte and most companies for supporting their business processes through information technologies is to be exposed to attacks from the Internet to affect the availability of the services they offer. In recent years there has been a significant growth in this type of attacks and in some cases materialized in the financial industry with significant losses for institutions Another of the risk factors to which we are exposed is attacks by malware which arrive by different vectors and can mean a threat to the continuity of the operation in the institution. Derived from the fact that this type of attacks can reach the last link (end user) depends a lot on the awareness and practices of internal control, as well as on the technologies implemented in the perimeter of the institution to reduce the probability of occurrence of this type of attacks.

In addition to the foregoing, the awareness of cybersecurity issues of regulatory bodies has grown beyond fully updating the sections on security in current regulations, therefore it is expected that there will be greater scrutiny in their reviews and may entail from deviations to fines that at the moment have not been foreseen or dimensioned. In recent years Banorte has strengthened the security of the information systems that support the operation and has allocated budget and resources according to the needs of the industry, with this we hope to protect the confidentiality, integrity and availability of information, and thus be prepared for the new challenges in cybersecurity.

b. Risks Related to Mexico

b.1. Economic and financial risks in Mexico.

During the last nine years, the global economy has undergone a period of slowdown and unprecedented volatility and has been adversely affected by a significant lack of liquidity, loss of confidence in the financial sector, disruptions in the credit markets, changes in the global geopolitical environment, reduced business activity, increase in unemployment, reduction in interest rates, deterioration in consumer confidence. The global economic slowdown has negatively impacted the Mexican economy and our business. There cannot be assurance whether such conditions will improve. In addition, future economic conditions may deteriorate even further.

In particular, we may face, among others, the following risks related to international market and economic conditions:

- Increased regulation of the financial industry, whose compliance may increase our costs and limit our ability to pursue business opportunities. The Financial Reform has different impacts in GFNorte and its subsidiaries, as it involves adjustments to the bylaws, procedures, operations, policies and contracts. Groups of specialists in each field have been formed to identify and implement such impacts. Regarding the Financial Reform, formerly mentioned, there are many secondary provisions already effective and others pending to be issued by diverse public administration entities; therefore, short and long term effects are still uncertain.

The Financial Reform is based on 6 fundamental pillars:

- Creation of new incentives for banks to grant more loans;
- Encourage competition in the banking and financial system in order to reduce interest rates;
- Strengthening the financial and banking system to achieve sustained long-term growth;
- Establishing a new mandate for development banks to foster growth in the financial sector;
- Strengthening legal faculties of financial authorities to impose fines; and
- Additional legal faculties to authorities to assure an equitable relation between creditors and debtors.

- The global economic slowdown could result in reduced demand for financial products and services;

- The process we use to estimate losses inherent in credit exposure requires complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of borrowers to repay their loans as well as the operational risks we face. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of these estimates, which may, in turn, impact the reliability of the process;

- The derivatives markets and similar operations could impact financial systems and the solvency of its participants; and

- The value of our portfolio of investment securities may be adversely affected.

A worsening of any of the foregoing risks and conditions may delay the recovery of the financial industry as a whole, thereby negatively impacting our financial condition.

b.2. We are subject to economic and political developments in Mexico that could affect domestic economic policy and our business.

Most of our operations and assets are located in Mexico. As a result, our business, financial condition and results of operations may be affected by the general condition of the Mexican economy, changes in national GDP, unemployment rate, increase of formal labor market, the devaluation of the peso compared to the U.S. dollar, price instability, inflation, changes in oil prices, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico over which we have no control. Decreases in the growth rate of the Mexican economy, periods of negative growth or reductions in disposable income may result in lower demand for our services and products. In 2016 Mexican government cut spending in response to a downward trend in international crude oil prices, and it may further cut spending in the future. These cuts could adversely affect the Mexican economy and, consequently, our business, financial condition, operating results and prospects.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Mexican government actions concerning the economy and regulation of certain industries, including the banking sector, could have a significant effect on Mexican private sector entities in general, and on us and our subsidiaries in particular, and on market conditions, prices and returns on Mexican securities, including ours.

The Mexican government can implement significant changes in the law, public policies and/or regulations that can affect the political and economic situation of Mexico, negatively affecting our business. *(See Section 2 "The Company, subsection b) Applicable Legislation and Tax Situation" in this Annual Report).*

In recent years, there has been an increasing amount of social instability in Mexico derived from violent crime carried out by organized cartels and others involved in drug trafficking, which has particularly affected the areas of northern Mexico that border the United States. The continuation or escalation of such crime could have negative consequences for the Mexican economy or destabilize its political system, which could adversely affect our business.

We cannot provide any assurance that future economic or political developments in Mexico, over which we have no control, will not have an unfavorable impact on our financial position or operating results.

b.3. We may be subject to adverse economic conditions in Mexico.

Most of our operations are dependent upon the performance of the Mexican economy, mainly on matters such as the peso-dollar exchange rate, volatility in financial markets, inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico, over which we have no control.

The impact of an economic slowdown could affect our operations to the extent that we are unable to reduce our costs and expenses in response to falling demand. Likewise, our subsidiaries' loan portfolio could deteriorate as a result of higher delinquency rates. These factors could result in a decrease in our subsidiaries' loan portfolio as well as in their revenues and net income, affecting negatively and materially our business, financial condition or results of operation.

b.4. We are subject to the risk of depreciation or fluctuation of the peso with respect to the dollar and other currencies, which could adversely affect our results of operations and financial situation.

A severe depreciation of the peso vs. the dollar could limit our capacity to transfer or convert pesos to dollars or other currencies, which could have an adverse effect on our financial situation, operational results and cash flows in the future, increasing the amounts of our foreign-denominated obligations in peso terms.

A severe depreciation of the peso could also result in governmental intervention Monetary Policy of increase in interest rates), as has occurred in other countries, or alterations in the international currency markets. The devaluation or depreciation of the peso vs. the dollar could also adversely affect our business, financial position or results of operation.

b.5. The increase in violence in Mexico has adversely impacted, and may continue to adversely impact, the Mexican economy.

Mexico has experienced a significant increase over the past few years in violence related to illegal drug trafficking, particularly in Mexico's northern states near the U.S. border. This increase in violence has had an adverse impact on the economic activity in Mexico, in general terms. Furthermore, social instability in Mexico and adverse social or political developments in Mexico or that affect the country could adversely affect us, our ability to conduct our business and offer our services, as well as our ability to obtain financing. We cannot assure that the levels of violence in Mexico, over which we have no control, will not increase or decrease and will have no further adverse effects on Mexico's economy or on our business, financial position or results of operation.

Furthermore, illegal activities have originated more detailed anti-money laundering and terrorism financing rules and increased supervision of such activities by Mexican regulators, which have impacted the way in which we conduct our foreign-currency cash business and have resulted in an enhancement of our systems and the reinforcement of our compliance measures. Our failure to detect and report anti-money laundering and terrorism financing activities may result in fines and may have an impact on our business and results of operations.

b.6. Developments in other countries may adversely affect our operations and the prices of our securities.

Economic and market conditions in other countries may, to varying degrees, affect the market value of securities of Mexican companies. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in other countries may have an adverse effect on the market value of securities of Mexican companies.

b.7. Our corporate disclosures may be different or less substantial than those of issuers in other countries.

In Mexico issuers of securities are required to publicly disclose information, in terms that are different and that may be less detailed than disclosures required in countries with more developed capital markets. In addition, accounting and other reporting principles and standards applicable to credit and other financial institutions in Mexico and the financial results reported using such principles and standards may result in material differences between our results and those results that would have been obtained using other principles and standards, such as U.S. GAAP.

c. Risks Related to the Securities Markets and Ownership of Common Shares

c.1. An active and liquid market for common shares may not develop.

Although they are traded on the BMV, our shares could change in the amount traded and liquidity. Since 2018 the BMV is no longer the only stock market in Mexico, with the integration of the Stock Market Institutional, (BIVA), we see ourselves in the need to adapt to the new regulations and changes in the way of reporting stock information. Despite this, we know that compared to international markets, Mexico is less liquid, more volatile and with a lower base of institutional investors. Such market characteristics could affect the ability of the holders of our ordinary shares to buy them, or to sell them at a certain time, having an effect on the price of our ordinary shares.

c.2. Non-compliance with requirements for maintaining our shares listed in the BMV or of their registration with the CNBV may have an adverse effect on the price or liquidity of our shares.

We are subject to certain requirements set forth by the CNBV and the BMV, such as those of disclosure, to maintain our registration with the CNBV and through the National Registry of Securities (RNV) and our shares listed on the BMV. If we are not able to comply with such requirements, the listing of our shares in the BMV may be suspended or cancelled.

c.3. The market price of our common shares may fluctuate significantly, and investors could lose all or part of their investment.

The market price and liquidity for our common shares may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, among others:

- significant volatility in the market price and trading volume of securities of companies in our sectors or those of our subsidiaries, which are not necessarily related to the operating performance of these companies;
- performance of the banking sector in Mexico;
- changes in earnings or variations in operating results;

- future equity offerings by other financial groups, banks or financial institutions in Mexico;
- changes in the financial recommendation of the fundamental analysts that cover us and our sector;
- new laws, regulations or new interpretations of these, including tax guidelines or others applicable to our business or that of our subsidiaries; and
- economic trends in the Mexican, U.S. or global economies or financial markets, including those resulting from wars, incidents or terrorism or violence or responses to such events; and political conditions or events.
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c.4. Future issues of our common shares may result in a decrease of their market price and could have a dilutive effect.

In the event we seek to raise capital by issuing shares or market's perception that we could issue new shares, could result in a reduction in the price of our common shares or create volatility in the market price of our common shares. Furthermore, future capital increases could cause a dilution of shareholders' investment in common shares, if they do not, or are not able to exercise their preemptive rights in subscribing to any such issuance.

c.5. There cannot be assurance that we will be able to pay or maintain cash dividends, and our dividend policies are subject to change.

The amount of cash available for dividends, if any, will be affected by many factors, including our future operating results, financial condition and capital requirements, legal restrictions, including capital adequacy requirements, and contractual restrictions in our current and future debt instruments, and those of our subsidiaries, as well as our ability to obtain funds from our subsidiaries, among other variables. Cash currently available for dividend payments may vary significantly from estimates. We cannot assure that we will be able to pay or maintain dividends or that they will increase over time. Our actual results may differ significantly from the assumptions used by our Board of Directors in recommending dividends to shareholders or in adjusting our dividend policy. Also, there cannot be assurance that our Board of Directors will recommend the payment of dividends to our Shareholders' Meeting or that, if recommended, our shareholders will approve disbursing such dividends. Dividend policies adopted by our Board of Directors, are subject to change at any time.

It is worth mentioning that the GFNorte's Ordinary Shareholders' Meeting held on April 30, 2019 agreed to modify the Dividend Policy of the Financial Group so the dividend payment be between 16% and up to 50% of the net income of the prior year. For a description of the factors that can affect the availability and timing of cash dividends to shareholders, see section 2 *"The Company, subsection b) Business Description - Applicable Legislation and Tax Situation – Applicable Law*

c.6. Certain provisions of our by-laws and applicable law may delay or limit a change of control.

Pursuant to the LRAF, the LMV and the Bylaws no person or entity, or group thereof, may, directly or indirectly, in one or more transactions:

- acquire or transfer more than 2% of our shares without informing the SHCP (Article 26 LRAF and Article 9 of our Bylaws);
- acquire 5% or more of our shares, except with prior authorization from the SHCP, who can grant this at its discretion after hearing the Bank of Mexico's opinion and, as appropriate, the opinion of the CNBV, CNSF or CONSAR (Article 28 LRAF and Article 9 of our Bylaws);
- acquire 20% or more of our shares, except with prior authorization from the SHCP, who can grant this at its discretion after hearing the Bank of Mexico's opinion and, as appropriate,

- acquire 10% or more, but less than 30% of our shares, unless the transaction is reported, revealing individual holding in the case of a group of individuals, as well as informing the intention or not to acquire significant influence in the Institution. (Article 109 LRAF and Article 9 of our Bylaws)
- acquire 30% or more of our shares, except with prior authorization from the CNBV and undertake a public offer to purchase up to 100% of our shares (Articles 98 and 99 LMV and Article 18 of our Bylaws).

Notwithstanding the aforementioned, the public must be informed of such simultaneous or successive operations which directly or indirectly, involve people related to the Institution seeking to increase or decrease their participation by 5%, as well as inform of their intention to influence or significantly increase influence in such Institution, and inform of the intention to acquire, increase or not acquire significant influence in such Institution. (Article 110 LMV and Article 9 of our Bylaws).

Sales and acquisitions made by Board members, relevant Directors, a group of people or an individual who holds, either directly or indirectly, 10% or more of shares must inform the CNBV and the public where appropriate. (Article 111 LMV and Article 9 of our Bylaws).

Furthermore, under the Mexican Financial Groups Law, foreign entities with governmental authority and Mexican financial entities, including those that form part of a financial group, unless such entities are institutional investors as defined in the Law Regulating Financial Groups, cannot purchase our shares. Additionally, our Bylaws provide that any person or entity, or group thereof, that plans to acquire more than 5% of our shares, requires the authorization of our Board of Directors, this prior approval must be requested again when any of the following ownership percentages is reached or exceeded: 10%, 15%, 20%, 25% and up to 30% less one share, of the total outstanding shares of the capital stock. As previously mentioned, to acquire 30% or more of our shares, a public tender offer to purchase up to 100% of such shares must be made; if the public tender offer manages to acquire only a percentage equal to or less than 50% of the offered shares, the Purchaser must request the Board of Directors' approval for this acquisition. Moreover, shareholders representing the following percentages, or if the case, exceed them, must notify the company within a period of 30 business days after the date of the acquisition, when reaching or exceeding ownership of 4%, 8%, 16% and 24%, respectively. (Article 18 of our Bylaws). The Securities Market Law also requires that any person or entity, or group thereof, that plans to acquire a controlling stake in our company, make a public tender offer for 100% of the shares at the same price.

Such provisions may delay or limit a change of control or a change in our management. The existence of such provisions may limit the price that investors would be willing to pay for the shares in the future.

c.7. The rights afforded to minority shareholders in Mexico are not as comprehensive as those in the United States and certain other jurisdictions.

Under Mexican law, the protections afforded to minority shareholders and the fiduciary duties of loyalty, diligence, and others of Board members and officers are, in some respects, distinct or less clear than those applicable in the United States and in other jurisdictions. In particular, Mexican law concerning fiduciary duties of Board members and directors is not as comprehensive as in other markets and the criteria applied to ascertain the independence of corporate directors is different from the criteria applicable under corresponding Mexican laws and regulations.

Although Mexico has enacted rules permitting class actions, there is limited experience in respect of such actions, and the requirements to proceed with and the potential outcomes of such actions are not predictable. As a result, in practice it may be more difficult for our minority shareholders to enforce their rights against us and our Board members and directors than it would be for shareholders of a U.S. or other non-Mexican company. Additionally, even when such rights are exercised, the response time and the consequences may be different than those expected in other markets.

c.8. Our bylaws restrict the ability of non-Mexican shareholders to invoke the protection of their governments with respect to their rights as shareholders.

As required by Mexican law, our bylaws provide that non Mexican shareholders are treated like Mexican shareholders with respect to their ownership interests and are deemed to have agreed not to invoke the protection of their governments. Our corporate documents also provide that any legal action relating to the execution, interpretation or performance of our bylaws is governed by Mexican law and may be brought only in Mexican courts. As a result, it could be difficult for our non-Mexican shareholders to enforce their rights as shareholders under our bylaws before courts other than Mexican courts or obtain protection from their governments regarding acts or events affecting their shares.

c.9. According to Mexican laws, shareholders' rights could be more limited, different or less clear than in other jurisdictions.

Our corporate matters are regulated by our by-laws provisions and Mexican law (including special laws applicable to Financial Groups), which differ from those legal provisions applicable if we were a company constituted in any U.S. jurisdiction or in other than Mexico.

The shareholders' rights protecting their interests from acts of our Board of Directors or any of its members or main officers that do not comply with their duties of loyalty, could be limited or less clear than those granted in other jurisdictions. Particularly, any action against our officers and Board members can be initiated by the Company, the affected financial entity or by shareholders with at least 15% stake in capital stock, and not by a single shareholder or group of shareholders, and these actions are derived in benefit of The Company and not of the affected shareholders. Furthermore, rules and guidelines related to operations with related parties and conflicts of interest could be less defined in Mexico than in the United States, therefore shareholders would be in disadvantage.

The duties of loyalty and diligence of Board members and officers are properly defined in the Securities Market Law and Law Regulating Financial Groups and have not been interpreted or defined by courts at the present moment, consequently, legal interpretation of the meaning and scope of such duties is still uncertain. Recently diverse reforms allowing collective actions have been published in Mexico; nevertheless, procedures to implement such actions have been developed recently, but experience regarding the practical implications is still inexistent. At the present moment, there are not significant and enough complaints related to the non-compliance of fiduciary duties, through *collective* or derived actions, in order to motivate judicial complaints based on the non-compliance of fiduciary duties that help to predict the possible outcome of a possible complaint.

As a result, for our minority shareholders is more difficult to enforce their rights against us or our Board members, officers or controlling shareholders, that it would be in a company constituted in the U.S.

c.10. We are not subject to the control of a principal shareholder group.

There is no principal shareholder of our capital stock. Consequently, there is no principal shareholder or group of shareholders that exercises control over us and this could delay our ability to make strategic decisions if no agreement is reached by a majority of our shareholders at a Shareholders' Meeting. In particular, our bylaws provide that certain decisions, including entering into transactions representing 20% or more of our consolidated assets, certain transactions with related parties (Material Asset Acquisition) that imply the acquisition of assets during the fiscal year equal to or above 5% of our consolidated assets (based on figures of the previous quarter) carried out by GFNorte or any of the companies it controls -directly or indirectly-, the appointment or removal of Board members, and increases or decreases in our capital, must be approved by a majority of shareholders at a Shareholders' Meeting. The inability of our shareholders to agree on a matter that could be material to our operations could result in a material adverse effect on our financial condition and results of operations.

c.11. We or other intermediaries may be subject to certain U.S. withholding tax requirements under FATCA, including a requirement to withhold U.S. tax on payments made on our shares to certain non-U.S. financial institutions.

Under certain provisions of the US Internal Revenue Code and the US Internal Revenue Service Guidance Tax Circular, commonly referred to as "FATCA", entities may be subject to withholding taxes at a rate of 30% on certain payments received by them, unless certain audit, reporting and withholding procedures determined by the US Internal Revenue Service are met. IRS") or that such payments are eligible for exemption, in accordance with the " Intergovernmental Agreement" signed between the United States and Mexico on November 19, 2012. However, Grupo Financiero Banorte and its subsidiaries subject to this regulation (Banco Mercantil del Norte, Banco Mercantil del Norte, Fiduciary Division, Banco Mercantil del Norte, Cayman Islands Branch, Banorte Stock Exchange, Banorte Insurance , Operator of Banorte Funds, Investment Funds administered by the latter) continue to be duly registered with the IRS as Participating Foreign Financial Institutions, each of the aforementioned companies are assigned a GIIN (Global Intermediary Identification Number) granted by the IRS, with which, the payments that these companies receive from a source located in the USA are not subject to 30% withholding.

Pursuant to FATCA and other regulations issued pursuant to these, any payment made with respect to our shares as of December 31, 2016, may be subject to withholding tax at a rate of 30%, to the extent that such payment is consider as a "payment transferred abroad," but only if said payment is made through a foreign financial institution that does not comply or is deemed not to comply with FATCA. The holders of our shares should consult with their tax advisors regarding the consequences of the application of FATCA to an investment in our shares and their ability to obtain a refund of any amount retained in accordance with FATCA.

c.12. As from June 30, 2017, we will be required to report, as well as other intermediaries, on compliance with the Common Reporting Standards (CRS), contained in Annex 25 Bis of the Fiscal code of the federation (Código Fiscal de la Federación - CFF).

In accordance with the recommendation adopted by the Board of the Organization for Economic Cooperation and Development (OECD) on July 15, 2014 and in order to comply with the contents of Annex 25 Bis of the CFF published on January 12, 2016 and amended on July 15, 2016, corporations and legal entities - which are financial institutions and residents in Mexico - will be required to effectively implement and comply with the CRS standard. To this purpose, they must implement procedures to identify foreign accounts and reportable accounts among new, existing, high and low value accounts, as well as implement a special register of the application of procedures for their identification.

The same fines for offences provided for in Articles 81, Section I, II and 83, Section II of the CFF will apply to whoever does not present information or presents incomplete information, or with errors or different to that indicated by the standard, as well as to those who do not provide a special register of the application of procedures to identify the aforementioned accounts.

d) OTHER SECURITIES

Banorte has the following registered and existing financial instruments:

Subordinated Preferred Tier 2 capital notes, D2 BANOC36 (in US dollars):

Issuance of subordinated preferred preferential capital obligations by Banorte for an amount of USD 500 million, with a maturity date of October 4, 2031, and callable in October 4, 2026. Currently amount of this issuance is USD 294 million

Interests are paid bi-annually at a fixed rate of 5.75% on April 4 and October 4, each year. The capital amortization will be at the end of the 14 years, with the option to be prepaid in the tenth year.

At the moment of issuance, ratings granted by Moody's and Fitch were Ba1 and BB+, respectively.

Subordinated Obligations Q Banorte 08U (preferred and non-convertible, in UDIS):

Subordinated preferred non-convertible obligations of Banorte, issued on March 11, 2008 for a term of 20 years and maturing on February 15, 2028. The amount placed was 94.5 million UDIS.

Interest is payable every 182 days. The interest rate is real annual and fixed at 4.95%.

In the event of liquidation or bankruptcy, payment of the obligations shall be made pro rata after covering all debts of the institution, but prior to distributing equity to shareholders.

The issuer reserves the right to prepay the obligations.

Common representative of bondholders: Banco Invex, S. A., Institucion de Banca Multiple, Invex Grupo Financiero, Fiduciario.

At the moment of issuance, this instrument was rated by Moody's de Mexico as Aaa.mx the most credit worthy and with the least probability of loss with respect to other locally issued securities.

Taxation of the instrument is in adherence to provisions of Article 160 and other applicable laws of the existing Income Tax Law for individuals and corporations in Mexico, and in adherence to the provisions of Article 195 and other applicable laws of the Income Tax Law for foreign individuals and corporations.

Non-preferential, non-cumulative, perpetual subordinated capital notes, callable to 5 years D2_BANOD19_999999

Issuance of non-preferential, non-cumulative perpetual capital notes, callable to 5 years, for an amount of USD 350 million and callable in July 6, 2022.

At the time of the issue, Moody's and S & P granted the ratings Ba2 and BB, respectively.

Interest is payable quarterly, taking place on January 6, April 6, July 6 and October 6, of each year at a fixed rate of 6.875%.

Non-preferential, non-cumulative, perpetual subordinated capital notes callable to 10 years D2_BANOE91_999999

Issuance of non-preferential, non-cummulative, subordinated capital notes, callable to 10 years, for an amount of USD $ 550 million, and callable in January 10, 2028.

Interest is payable quarterly, taking place on January 6, April 6, July 6 and October 6, of each year at a fixed rate of 7.625%.

At the time of the issue, Moody's and S&P granted the ratings Ba2 and BB, respectively.

Stock Market Certificate 94_BINTER_16U in UDIS

Bank Stock Certificate for an amount of 365.2 million UDIs with a term of 3,640 days (10 years), maturing in October 01, 2026.

Payment periodicity every 182 days, fixed rate of 4.97%.

At the time of issuance, HR Ratings and Fitch granted HR ratings AA- and A + (Mex), respectively.

Eurobond in Swiss Francs 2019 Series: D2_BANO343_231218

Bond issue in Swiss francs, with 4.3 year term, in the amount of CHF 160 million maturing in December 18, 2023.

Interest is payable annually, at a fixed rate of 0.45%.

At the time of issuance, Moody's / Fitch rated A3 / BBB+.

Eurobond in Swiss Francs 2019 Series: D2_BANO397_221011

Bond issue in Swiss francs, with 3.5 years term, in the amount of CHF 250 million maturing in October 11, 2022.

Interest is payable annually, at a fixed rate of 1.55%.

At the time of issuance, Moody's / Fitch rated A3 (stable) / BBB respectively.

Non-preferred, non-cumulative, perpetual subordinate capital notes D2_BANOA64_999999

Issuance of non-preferred, non-cumulative perpetual subordinated Capital Notes, in the amount of USD 600 million callable in September 27, 2024.

Interest is payable quarterly, at a fixed rate of 6.75%.

At the time of issuance, Moody's / S&P rated Ba2 / BB respectively.

Non-preferred, non-cumulative, perpetual subordinate capital notes callable D2_BANOB48_999999

Issuance of non-preferred, non-cumulative perpetual subordinated Capital Notes in the amount of USD $ 500 million callable in June 27, 2029.

Interest is payable quarterly, at a fixed rate of 7.5%.

At the time of issuance, Moody's / S & P rated Ba2 / BB respectively.

Bank Stock Certificate 94_BANORTE_19 in (MXN):

Bank Stock Certificate for an amount of Ps 5,400 million with a term of 3 years, maturing in May 13, 2022.

Payment frequency every 28 days. Yield linked to the 28-day Interbank Interest Rate of Equilibrium published by Banco de México (TIIE) plus surcharge 0.13%.

At the time of issuance, HR Ratings / S & P granted the HR AAA and mxAAA ratings, respectively.

Bank Stock Certificate 94_BANORTE_19-2 in (MXN)

Bank Stock Certificate for an amount of Ps 1,500 million with a 5-year term maturing in May 10, 2024.

Payment frequency every 28 days. Yield linked to the 28-day Equilibrium Interbank Interest Rate published by Banco de México plus surcharge 0.17%.

At the time of issuance, HR Ratings / S&P granted the HR AAA and mxAAA ratings, respectively.

Eurobond in Swiss Francs 2020 Series: D2_BANO664_241206

Bond issue in Swiss francs, with 4.8 years term, in the amount of CHF 225 million maturing in December 06, 2024.

Interest is payable annually, at a fixed rate of 0.50%.

At the time of issuance, Moody's rated A3.

Stock Market Certificate 94_BANORTE_20U in UDIs:

Bank Stock Certificate for an amount of Ps 107 UDIs with a 10-year term and maturity in September 18, 2030.

Payment frequency every 182 days and a fixed Rate of 2.76%.

At the time of issuance, HR Ratings / Fitch granted the HR AAA and AAA(mex) ratings, respectively.

Subordinated Non-Preferred, Non-cumulative, perpetual notes D2_BANOC21_999999

Issuance of non-preferred subordinated capital notes, non-cumulative perpetual, for an amount of USD 500 million with the call date of October 14, 2030.

Interest is payable quarterly, at a fixed rate of 8.375%.

At the time of issuance, Moody's / S & P rated Ba2 / BB- respectively.

Subordinated Non-Preferred, Non-cumulative, perpetual notes D2_ BANOB72_999999

Issuance of non-preferred subordinated capital notes, non-cumulative perpetual, for an amount of USD 500 million with the call date of January 24, 2032.

Interest is payable quarterly, at a fixed rate of 6.625%.

At the time of issuance, Moody's / S&P rated Ba2 / BB- respectively.

In compliance with Securities Market Law and the Circular Unica de Emisoras, corresponding quarterly and annual information was presented on timely and in due form to the CNBV and BMV, as well as information regarding material events affecting us. Moreover, during the last three years we have completely and timely presented reports that Mexican and foreign laws require.

Furthermore, we have completely and timely presented Banorte's reports required by foreign law, as well as public reports submitted to regulatory authorities and corresponding stock exchanges. This information includes the same annual and quarterly information that must be presented to the CNBV and BMV in English and that is submitted in the next 15 days that these reports are presented to the CNBV.

GFNorte and its subsidiaries have fulfilled their obligations in reporting material events through the Emisnet system of the Mexican Stock Exchange (BMV) and STIV-1 of the CNBV, as well as with the financial and legal information that it are obligated to present periodically in accordance with the law.

e) SIGNIFICANT CHANGES TO REGISTERED SECURITIES' RIGHTS

Issuance of Subordinated Bonds, Stock Market Certificates, and Swiss Franc Bonds

Subordinated Obligation D2 BANOA99 999999.
Issue date: November 24, 2021.
Expiration date: January 24, 2027.
Expiration date: Perpetual.
Amount Placed: USD 500 million dollars.
Coupon rate: 5.875%

Subordinated Obligation D2 BANOB72 999999,
Issue date: November 24, 2021.
Expiration date: January 24, 2032.
Expiration date: Perpetual.
Amount Placed: USD 500 million dollars.
Coupon rate: 6.625%

Stock Certificate 94 BANORTE 20U,
Issue date: September 30, 2020.
Expiration date: September 18, 2030.
Amount Placed: 107 million UDIs.
Coupon Rate: 2.76%

Subordinated Obligation D2 BANOC21 999999,
Issue date: July 14, 2020.
Call date: October 14, 2030.
Expiration date: Perpetual.
Amount Placed: USD 500 million dollars.
Coupon rate: 8.375%.

Bond in Swiss Francs, Issue 2020 (BANO664).
Issue date: March 06, 2020.
Expiration date: December 06, 2024.
Amount Placed: CHF 225 million Swiss francs.
Coupon Rate: 0.50%

Bond in Swiss Francs, Issue 2019 (BANO343).
Issue date: September 18, 2019.
Expiration date: December 18, 2023.
Amount Placed: CHF 160 million Swiss francs.
Coupon Rate: 0.45%

Subordinated Obligation D2 BANOB48 999999,
Issue date: June 27, 2019.
Call date: June 27, 2029.
Expiration date: Perpetual.
Amount Placed: USD 500 million dollars.
Coupon Rate: 7.50%

Subordinated Obligation D2 BANOA64 999999,
Issue date: June 27, 2019.
Call date: September 27, 2024.
Expiration date: Perpetual.
Amount Placed: USD 600 million dollars.
Coupon Rate: 6.75%

Stock Certificate 94 BANORTE 19,
Issue date: May 17, 2019.
Expiration date: May 13, 2022.
Amount Placed: MXN 5,400 million pesos.
Coupon Rate: TIIE + 0.13%

Stock Certificate 94 BANORTE 19-2,
Issue date: May 17, 2019.
Expiration date: May 10, 2024.
Amount Placed: MXN 1,500 million pesos.
Coupon Rate: TIIE + 0.17%

Swiss Franc Bond, Issue 2019 (BANO397)
Issue date: April 11, 2019.
Expiration date: October 11, 2022.
Amount Placed: CHF 250 million Swiss francs.
Coupon Rate: 1.55%

Subordinated Obligation D2 BANOD19 999999,
Issue date: July 06, 2017.
Call date: July 06, 2022.
Expiration date: Perpetual.
Amount Placed: USD 350 million dollars.
Coupon Rate: 6.875%

Subordinated Obligation D2 BANOE91 999999,
Issue date: July 06, 2017.
Call date: January 10, 2028.
Expiration date: Perpetual.
Amount Placed: USD 550 million dollars.
Coupon Rate: 7.625%

Stock Certificate 94 BINTER 16U,
Issue date: October 13, 2016.
Expiration date: October 1, 2026.
Amount Placed: 365 million UDIS.
Coupon Rate: 4.97%

Subordinated Obligation D2 BANOC36 311004,
Issue date: October 04, 2016.
Call date: October 04, 2026.
Expiration date: October 04, 2031.
Amount Placed: USD 500 million.
Current amount: USD 294 million.

Coupon Rate: 5.75%

Subordinated Obligation Q BANORTE 08U.
Issue date: March 11, 2008.
Call date: February 25, 2023.
Expiration date: February 15, 2028.
Amount Placed: 494.5 million UDIS.
Coupon Rate: 4.95%

f) USE OF PROCEEDS

The funds raised by the Bono in Swiss Franc and Certificados Bursátiles issues were used to optimize the cost of funding and strength capital.

g) PUBLIC DOCUMENTS

The Investor Relations, Corporate Development and Sustainability Executive Department, in charge of Tomás Lozano Debez, is the department responsible for assisting analysts and investors. It is located at:

Av. Prolongación Reforma 1230, 14th Floor
Col. Cruz Manca Santa Fe, Delegación Cuajimalpa, Ciudad de México, 05349
Telephone: (5255) 1670-2256
E-mail: tomas.lozano@banorte.com or investor@banorte.com

This Annual report is available for the general public in our web page: **Error! Hyperlink reference not valid.**in the route Financial Information / Annual Reports / “Circular Unica CNBV 2021 Annual Report”.

2. THE COMPANY

a) DEVELOPMENT AND HISTORY OF THE COMPANY

Grupo Financiero Banorte, S.A.B. de C.V. operates under the commercial name of "Banorte" and was constituted on July 21, 1992 in Mexico City for an indefinite period of time.

The main offices are located in:

<u>MEXICO CITY</u>
Ave. Prolongación Reforma 1,230, Col. Cruz Manca Santa Fe, Delegación Cuajimalpa
Zip Code 05349, México, Mexico City (0155) 1103-4000

<u>MONTERREY, N. L.</u>
Ave. Revolución 3000, Col. Primavera
Zip Code 64830 Monterrey, Nuevo León., Mexico 81-8319-7200

<u>SAN PEDRO GARZA GARCÍA, N.L.</u>
David Alfaro Siqueiros 106, Col.Valle Oriente
Zip Code 66278, San Pedro Garza García, Nuevo León, México 81-8173-9000

<u>GFNorte’s most important historical events</u>

GFNorte’s origins date back to the founding of Banco Mercantil de Monterrey in 1899 and Banco Regional del Norte in 1947, both with headquarters in Monterrey, Nuevo Leon, Mexico. These banks merged in January 1986 under the name of Banco Mercantil del Norte, Sociedad Nacional de Crédito. In 1987, under a Mexican government privatization initiative, the government sold to the public approximately 34% of Banorte’s capital stock. In 1990, the Mexican Constitution was amended to permit the re-privatization of Mexican commercial banks; afterwards, the government enacted the LIC which permitted private ownership of Mexican commercial banks. Additionally, in the same year, leasing services were offered, and in 1991 factoring and warehousing services were also available.

The re-privatization of Mexican commercial banks began in 1991. Derived from this process, in July 1992 Afin Grupo Financiero, S.A. de C.V. was incorporated and later on, in September of the same year, the SHCP authorized the operations of the Holding company as a financial services provider under the LRAF, thus originating Grupo Financiero Banorte.

The 1995 Mexican peso crisis and the penetration of foreign institutions in Mexico prompted the consolidation of the Mexican Banking System which resulted in the absorption of many smaller Mexican banks. With the objective of becoming a national financial institution and taking advantage of Banorte’s relative strength in the Mexican banking system, GFNorte completed the acquisition and integrated Bancen in March 1997 in order to gain additional market share, specifically in the central and western regions of Mexico. Additionally in August 1997, 81% of Banpais’ shares were acquired, enabling further expansion of the client base, geographical position and national coverage. Aiming to consolidate banking activities and strengthen Banorte’s capitalization levels, Banpais was merged into Banorte in January 2000, the later one subsisting.

Subsequently, in December 2001, Banorte acquired Bancrecer and on March 31, 2002, Banorte took over its management, initiating its integration. The SHCP authorized the merger, being Bancrecer the merging entity and Banorte the merged institution, changing the name of the merging entity to “Banco Mercantil del Norte, S.A., Institución de Banca Multiple, Grupo Financiero Banorte.”

On August 28, 2006, Bancen merged with Banorte through the resolutions of their respective Extraordinary General Shareholders' Meetings held on August 16 and 17, 2006, thereby concluding the last phase of integration of this bank, as of that date, Bancen extinguished (being the merged company.)

As part of the development strategy in the U.S., in November 2006, Banorte acquired 70% of INB shares, a regional bank based in Texas with its headquarters in McAllen. Banorte finalized the 100% acquisition of Uniteller, a New Jersey-based remittances company, and in the same year acquired 100% of Motran Services, Inc., another remittances company based in California (the latter merged with Uniteller in 2014). Later on, on April 1, 2009, Banorte purchased the remaining 30% of INB Financial Corp. shares.

On March 30, 2007, the Bonding Company was divested from the Financial Group, and as of January 31, 2008, the Leasing and Factoring companies were merged.

Regarding the Long-Term Savings sector, on September 30, 1997, a joint-investment contract was signed with Assicurazioni Generali S.P.A., entitling the Italian institution to 49% of Afore Banorte (until December 2011), Seguros Banorte and Pensiones Banorte, officially integrating the Long-Term Savings sector. In 2009, Afore Banorte Generali (former Afore *joint venture*) acquired Ixe Afore, Afore Ahorra Ahora and Afore Argos pension funds in order to further increase its market share in the Mexican pension fund management sector. On August 16, 2011, GFNorte and the Instituto Mexicano del Seguro Social (IMSS) signed an agreement to merge their respective Afores. On January 16, 2012, the merger of Afore Banorte and Afore XXI, and their respective Siefores (Retirement Savings Funds) became effective after receiving the authorizations from their Shareholders' Assemblies, SHCP and Mexican National Commission for the Retirement Savings System (CONSAR), thereby creating Afore XXI Banorte, Banorte and the IMSS each owning 50% of the entity. In January 2013, Afore XXI Banorte finalized the acquisition of 100% of Afore Bancomer, previously approved by the corresponding authorities, including CONSAR and COFECO, thus becoming the largest retirement savings manager in Mexico. On October 4, 2013, GFNorte finalized the acquisition of the 49% stake in the Seguros Banorte and Pensiones Banorte held by Assicurazioni Generali S.P.A.'s, after receiving the corresponding governmental authorizations from COFECO and SHCP.

Furthermore, as part of the efforts to consolidate as one of the most important financial groups in Mexico, on November 17, 2010, GFNorte and Ixe GF reached a binding merger agreement through a stock-for-stock transaction valued at approximately Ps.16.2 billion (approximately USD 1.3 billion). The merger took effect on April 15, 2011 and originated a process of corporate restructuring.

i. On January 1st, 2012, Casa de Bolsa Banorte merged into Ixe Casa de Bolsa ; thus, originating Casa de Bolsa Banorte Ixe.
ii. On May 7, 2013 came into effect the merger of Ixe Automotriz - as merged entity - into Arrendadora y Factor Banorte, which survived as merging company.
iii. On May 24, 2013 came into effect the merger of Ixe Banco and Fincasa Hipotecaria into Banco Mercantil del Norte – as merging company –, as well as the divestment of Banorte's interest in Solida through a spin-off and the merger of Solida into Ixe Soluciones, the latter as merging entity, which changed its name to Solida Administradora de Portafolios, S.A. de C.V. SOFOM, Entidad Regulada. As a result of this merger Ixe Banco, Fincasa Hipotecaria and Solida ceased to exist.

On November 12, 2009 International Financial Corporation (IFC) invested US 150 million dollars in Banco Mercantil del Norte, which represented 4.48% of the bank's equity. During March, 2013, GFNorte signed an agreement with the IFC in order to finalize the capital investment made in November 2009, which contemplated a 5 year term to cover with a cash payment the investment plus capital gains, or convert Banorte's shares held by the IFC into shares of GFNorte, in order to then sell them through an orderly process. In this sense, and given that the exchange period ended in November 2014, GFNorte made an initial cash payment of Ps 2.14 billion, which was funded through dividends paid by its subsidiaries. Subsequently, on December 6, 2013 the IFC received the payment in order to finalize its participation in GFNorte, equivalent to 54,364,887 shares of the Group. With this payment, the IFC does not longer have any patrimonial interest on GFNorte or its subsidiaries.

During 2016 GFNorte launched a series of efforts to improve the Group's and its subsidiaries' corporate structure, to provide greater flexibility to foster the Group's growth, align business units and subsidiaries to GFNorte's diversification strategy and improve the capital allocation of the entities comprising it.

In May 2016, Banorte merged (merging and existing company) with Banorte-Ixe Tarjetas (merged and extinguished company) and later in October was spun-off creating Banorte Futuro, to which the shares representing Afore XXI Banorte were transferred (previously held by Banorte).

Furthermore, in April the sub holding Banorte Ahorro y Previsión was constituted, GFNorte transferred to the former, the shares of Seguros Banorte and Pensiones Banorte. Moreover, in October, the Financial Group transferred to Banorte Ahorro y Previsión the shares of Banorte Futuro, which later were transferred to Seguros Banorte.

On March 31, 2017, Banco Mercantil del Norte, SA, Institución de Banca Múltiple, Grupo Financiero Banorte ("Banorte"), through INB Financial Corporation (a subsidiary of Banorte), completed the sale of all the shares representatives of the capital stock of Inter National Bank of which it owned, in favor of a group of investors from the United States of America. On that date, the item of long-lived assets available for sale that had been registered in December 2016 was deregistered and the cash received from the sale was entered for an amount of USD 170 million. Prior to the sale, a cash dividend payment was received in the amount of USD 60 million. The foregoing, in relation to the Parent's corporate restructuring program, the terms of which were published in Banorte's consolidated financial statements corresponding to the end of 2016.

On December 5, 2017, the Ordinary and Extraordinary General Shareholders' Meetings approved the merger by acquisition of GFNorte, as a merging company, with Grupo Financiero Interacciones, S.A.B. of C.V. ("GFInter"), as a merged company.

On July 10, 2018, GFNorte and Grupo Financiero Interacciones, S.A.B. of C.V. (GFInter) obtained from the Ministry of Finance and Public Credit, hearing the opinion of the Bank of Mexico and the National Banking and Securities Commissions and Insurance and Bonding, respectively, the necessary authorizations to carry out the merger of: (i)) GFInter, as a merged company, with GFNorte, as a merging company; (ii) Banco Interacciones, S.A., as a merged company, with Banco Mercantil del Norte, S.A., as a merging company; (iii) Interacciones Casa de Bolsa, S.A. de C.V., as a merged company, with Casa de Bolsa Banorte, S.A. of C.V., as a merging company; (iv) Aseguradora Interacciones, S.A. de C.V., as a merged company, with Seguros Banorte, S.A. of C.V., as a merging company; and (v) Interacciones Sociedad Operadora de Fondos de Inversión, S.A. de C.V., as a merged company, with Operadora de Fondos Banorte, S.A. of C.V., as a merging company.

On June 17, 2019 Grupo Financiero Banorte and Payclip, Inc. entered into an alliance through Banorte's investment in Clip's capital stock, in order to strengthen our existing commercial alliance and to reinforce our digital strategy and technological innovation.

On July 1, 2020, the merger of Sólida (merger that subsists) and Arrendadora (merged that is extinguished) took effect. Additionally, Sólida changed its name to become Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, E.R., Grupo Financiero Banorte; the percentage of participation of the Financial Group in the capital stock of the merging company is 99.9058%.

Below it is presented a summary of the main investments that GFNorte or its subsidiaries have conducted in the past 3 years:

Date	Concept	Company
June 17, 2019	Strategic Alliance	Grupo Financiero Banorte and Payclip, Inc. entered into an alliance through Banorte's investment in Clip's capital stock, in order to strengthen our existing commercial alliance and to reinforce our digital strategy and technological innovation.
July 01, 2020	Subsidiary Merger	On July 1, 2020, the merger of Sólida (merger that subsists) and Arrendadora (merged that is extinguished) took effect. Additionally, Sólida changed its name to become Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, E.R., Grupo Financiero Banorte; The percentage of participation of the Financial Group in the capital stock of the merging company is 99.9058%
June 22, 2020	Strategic Alliance	On June 22, 2020, Grupo Financiero Banorte signed a strategic alliance agreement with Rappi through which both companies, subject to obtaining the applicable regulatory authorizations from the financial and economic competition authorities, will be shareholders (50% - 50%) of, and will participate in the same proportions on the board of directors of, a newly created company that will initially offer digital financial services, mainly aimed at Rappi's clients. Through this agreement, GFNorte undertook to make available to the new company, up to Ps 4,000 million in a period of 18 months, provided that the option to deliver Ps 3,000 million is subject to certain performance metrics having been achieved in the established deadlines.
May 13, 2021		On May 13, 2021, Seguros Banorte and Principal Seguros signed an Agreement for the Assignment of the life and accidents, and diseases portfolios, owned by Principal Seguros in favor of Seguros Banorte. On August 20, 2021, the transaction was authorized by the Federal Economic Competition Commission and on November 3, 2021 by the National Insurance and Bonding Commission. The transfer of 100% of the portfolio was carried out on December 1, 2021, at that date, the portfolio was comprised of 6,481 policies and 7,719 insured.
June 29, 2021	Portfolio transfer	Pensiones Banorte S.A. de C.V. Grupo Financiero Banorte has reached an agreement with Pensiones HSBC for the full portfolio transfer from the first in favor of the second entity. Such transaction was not objected by the antitrust regulator (COFECE), and was authorized by the insurance regulator (Comisión Nacional de Seguros y Fianzas). Pensiones HSBC assigns to Pensiones Banorte all of the annuities policies valid as of the date of the transaction. As of June 2020, Pensiones HSBC had 12,481 active policies. With this portfolio transfer, Pensiones Banorte continues to consolidate itself as the largest life annuity company in the country with more than Ps 170 billion in reserves, representing a 45% market share, and the largest in reserves in the Mexican insurer market.

Material Events in 2021 and First Quarter 2022.

Recent Events. First Quarter 2022.

1. BANORTE, THE BEST CONSUMER BANK IN MEXICO IN 2021: WORLD FINANCE.

In January, the international publication World Finance awarded Banorte the "Best Retail Bank" award in Mexico. The prestigious magazine recognized the bank for its growth trajectory, which has led it to become one of the largest institutions in the country in terms of loan portfolio and assets. This recognition is the result of the efforts of each and every one of the Bank's employees to provide the best products and services to our customers.

World Finance also confirmed that Banorte is one of the best positioned banks in Mexico to continue growing and face the challenges of the future.

2. BANORTE SELECTED AS A CONSTITUENT IN THE BLOOMBERG GENDER EQUITY INDEX FOR THE SIXTH CONSECUTIVE YEAR.

Since January, Grupo Financiero Banorte is part of the Bloomberg Gender Equity Index 2022 (GEI), comprised of 418 companies around the world. This prize recognizes transparency to practices and policies related to gender equity in public companies.

Only ten Mexican companies are constituents of the GEI for 2022. The index measures gender equality through five pillars: female leadership and talent pipeline, equal pay and gender pay parity, inclusive culture, anti-sexual harassment policies and pro-women branding. The Bloomberg Gender Equality Index helps bring transparency to practices and policies related to gender equality in companies by increasing the breadth and depth of environmental, social, and governance (ESG) data available to investors.

3. GFNORTE WAS INCLUDED FOR THE FIRST TIME IN THE SUSTAINABILITY YEARBOOK.

In February, Grupo Financiero Banorte was included for the first time in the Sustainability Yearbook, for the 2022 edition, being one out of the 10 Mexican companies comprising this Yearbook. This list is made up of the best evaluated companies in sustainability topics. More than 7,000 companies from 61 industries around the world participating.

4. BANORTE LAUNCHES "AUTOESTRENE VERDE", AN EXCLUSIVE CREDIT FOR HYBRID AND ELECTRIC CARS.

In February, and in line with its sustainability strategy focused on green financing, decarbonization and the fight against climate change, Banorte announced the launch of its new "Autoestrene Verde" loan for the adquisition of hybrid and electric cars. Banorte's Autoestrene Verde loan is one of the most competitive in the market and can be used to purchase both, new and semi new, vehicles

5. AT&T MEXICO TEAMS UP WITH BANORTE AND MASTERCARD TO LAUNCH NEW CREDIT CARDS.

In April, AT&T Mexico, Banorte and Mastercard announced the launch of the new AT&T Elite and AT&T credit cards, to offer customers a new personalized experience, with benefits such as free internet and exclusive product presales.

With this strategic alliance, AT&T Mexico reaffirms its commitment to continue offering its customers new tailored service experiences, with innovative solutions that will change the game in the market and build long-term relationships with its users.

Recent Events of 2021.

1. BANORTE LAUNCHES NTEESG, ITS FIRST SUSTAINABLE INVESTMENT FUND.

On February 8th, Grupo Financiero Banorte launched its first sustainable investment fund NTEESG, in alliance with the prestigious international investment management company Franklin Templeton. The fund screens for companies with the best ESG practices worldwide and seeks to generate superior performance to its market benchmark. Banorte created this fund as part of its commitment to sustainability, and in line with the growing market appetite for this type of investments. To integrate the fund's portfolio, issuers are selected globally through a rigorous process considering ESG factors, as well as the guidelines of the Responsible Investment Policy of Banorte's Mutual Funds.

NTEESG is a global equity fund that will give investors access to the best companies from around the world. The fund will have a diversified portfolio, holding between 100 and 150 companies that comply with the best practices in ESG matters.

2. THE RAPPI-BANORTE ALLIANCE DEBUTS IN THE MARKET WITH THE RAPPICARD VISA CREDIT CARD, OFFERING UNIQUE BENEFITS WITHOUT CHARGING ANNUITY.

On January 25th, the Joint Venture Rappi-Banorte announced the launch of its RappiCard Visa credit card, which can now be requested from Rappi's app. It has many benefits such as cashback of up to 3%, zero annual fee, up to 18 months interest-free installments, 24/7 customer service and discounts of up to 50%. In November of 2020, RappiCard released a waiting list to which more than 125,000 people registered to request the RappiCard Visa card in advance. As of today, the wait is over, since any interested party -and user of the Rappi app- can request it from the application.

"RappiCard breaks paradigms in Mexico, as it does not charge an annual fee and offers incredible benefits. It stands out in terms of user experience and transparency, so our clients get more out of their money. We are very proud to start this journey hand in hand with our allies Banorte and Visa", said Juan Guerra, CEO of RappiPay Mexico.

3. BANORTE WEARS THE SHIRT, BECOMING THE NEW SPONSOR OF THE NATIONAL SOCCER TEAM.

On March 23rd, together with the Mexican Football Federation (FMF), Banorte announced that, the "Banco Fuerte de México" will be the official sponsor of the Mexican National Soccer Team, becoming the only bank that will accompany the national team. With this milestone, Banorte joins the National Soccer Team and more than 120 million Mexicans who wear the shirt to achieve the same dream: to represent and inspire an entire country, making Mexico stronger.

4. BANORTE OFFERS APPLE PAY TO ITS CLIENTS.

On February 23rd, Banorte brought ApplePay to its customers; a more secure, comfortable and private way to pay, which helps customers avoid handing over their credit or debit card to someone else, without touching buttons or exchanging cash — and leveraging on the power of the iPhone to protect every transaction.

Customers simply place their iPhone or Apple Watch near a payment terminal to make a contactless payment. Any purchase with Apple Pay is secure because it is authenticated with "Face ID", "Touch ID", or with the device's password, as well as with a dynamic authentication with a single use code. With their linked Mastercard card, Apple Pay is accepted at supermarkets, pharmacies, and convenience stores, as well as in many other places.

5. GFNORTE BECOMES A CONSTITUENT OF BLOOMBERG'S 2021 GENDER EQUITY INDEX.

On January 27th, GFNorte was included in the Bloomberg Gender Equity Index (GEI), which is composed of 380 companies in the communications, consumer products, energy, finance, utilities and technology sectors in 44 different countries. This index measures gender equality based on the internal statistics of the evaluated companies, employee policies, the support and participation of the external community, and the product offerings with a gender perspective. It also considers the aspect of an inclusive culture, as 69% of companies have a strategy to recruit women and 59% conduct a global gender-based compensation review.

6. BANORTE OBTAINS THE ESR® 2021 DISTINCTIVE AWARDED BY CEMEFI FOR THE 11TH CONSECUTIVE YEAR.

On February 26th, 2021, Banco Mercantil del Norte, S.A. obtained the ESR® 2021 Distinction as a result of its public and voluntary commitment to implement a socially responsible management, based on a vision of continuous improvement towards its stakeholders, increasing its standards in the different areas such as: Quality of Life in the Company, Ethics and Corporate Governance, Community Engagement, and Environmental Care and Preservation.

7. BANORTE COMMITS WITH THE UNITED NATIONS TO ACHIEVE ZERO CARBON EMISSIONS BY 2050

On April 21st , 2021, as part of its sustainability strategy, Banorte became a Founding Signatory of the Net Zero Banking Alliance (NZBA) promoted by the Financial Initiative of the United Nations Environment Program (UNEP FI). Banorte signs this alliance jointly with 43 banks in the world, with the aim of accelerating the transition to a lowcarbon economy and combating climate change. By becoming a signatory, Banorte commits to decarbonize its credit and investment portfolios, promoting the transition to net zero carbon emissions by 2050. Carlos Hank González, Chairman of Grupo Financiero Banorte, mentioned: "Banorte holds sustainability at the core of its business operations. By signing this alliance, we hope to ensure a green and sustainable economy for future generations ".

8. SHAREHOLDERS MEETING

On April 23rd , GFNorte held its Annual Ordinary General Shareholders' Meeting , in which the following resolutions were approved:

FIRST.- Approval, with prior opinion of the Board of Directors, of the Annual Report of the General Director prepared in accordance with the provisions of section XI of article 44 of the Securities Market Law and section X of article 59 of the Law to Regulate Financial Groups, which contains, among other points: (i) the balance sheet; (ii) the income statement; (iii) the statement of changes in stockholders' equity; and (iv) the statement of cash flows of the company as of December 31st , 2020.

SECOND.- Approval of the Annual Report of the Board of Directors , in which the main accounting policies and principles are declared and explained, followed by the preparation of the financial information as of December 31, 2020, in accordance with the aforementioned subsection b) of article 172 of the General Law of Commercial Companies.

THIRD.- Approval of the Annual Report of the Board of Directors on the operations and activities in which it intervened.

FOURTH.- Approval of the Annual Report on the Activities of the Audit and Corporate Practices Committee.

FIFTH.- Approval of each and all of the operations carried out by the Company during the fiscal year ended December 31, 2020, as well as the acts carried out by the Board of Directors, the General Director and the Audit and Practices Committee are ratified during the same period.

SIX.- Of the financial statements of Grupo Financiero Banorte, S.A.B. de CV, it appears that the company obtained profits in the fiscal year of 2020 for the amount of $30,508'092,129.95 (thirty thousand five hundred eight million ninety two thousand one hundred twenty-nine pesos 95/100 national currency), it is approved to apply the whole amount to the "Earnings from Previous Years" account, by virtue of the Company's legal reserve fund being fully established.
Likewise, it is approved to distribute among the shareholders a dividend equivalent to 25% of the net profit for the year 2019, that is, the amount of $ 9,131,993,339.15 (nine thousand one hundred thirty-one million nine hundred ninety three thousand three hundred thirty nine pesos 15/100 currency national), representing $ 3.1670299314214300 pesos per issued share, which will be paid on May 4, 2021, against the delivery of coupon number 1 and charged to the profits of previous years and that for the purposes of the Income Tax Law against the net tax profit account corresponding to December 31, 2013.
The dividend corresponding to fiscal year 2019 will be paid on May 4, 2021 through S.D. Indeval, Institución para el Depósito de Valores, S.A. de C.V., prior notice published by the Secretary of the Board of Directors in one of the newspapers with the largest media coverage in the city of Monterrey, Nuevo León, and through the Electronic System for Sending and Dissemination of Information (SEDI) of the Mexican Stock Exchange.
Regarding the third point of the Agenda, no resolution is taken in this regard. It is only stated that, in compliance with the provisions of section XIX of article 76 of the Income Tax Law, it was distributed among those attending the Shareholders' Meeting and the Report of the External Auditor on the fiscal situation of the Company as of December 31, 2019, and adding a copy of the same to the record of the meeting minutes.

SEVENTH.- It is approved that the Board of Directors of the Company, be constituted by 14 Proprietary members and their respective Alternates, qualifying the independent nature of the directors who have said character, since II. Management's Discussion & Analysis Second Quarter 2021 19 they are not within the restrictions indicated in the Law of the Stock Market and in the Law to Regulate Financial Groups.

Grupo Financiero Banorte			
Proprietary Board Members		**Alternate Board Members**	
Don Carlos Hank González	Chairman of the Board	Doña Graciela González Moreno	
Don Juan Antonio González Moreno		Don Juan Antonio González Marcos	
Don David Juan Villarreal Montemayor		Don Alberto Halabe Hamui	Independent member
Don José Marcos Ramírez Miguel		Don Gerardo Salazar Viezca	
Don Carlos de la Isla Corry		Don Alberto Pérez-Jácome Friscione	
Don Everardo Elizondo Almaguer	Independent member	Don Diego Martínez Rueda-Chapital	Independent member
Doña Carmen Patricia Amendáriz Guerra	Independent member	Don Roberto Kelleher Vales	Independent member
Don Clemente Ismael Reyes Retana Valdés	Independent member	Cecilia Goya de Riviello Meade	Independent member
Don Alfredo Elías Ayub	Independent member	Don Isaac Becker Kabacnik	Independent member
Don Adrián Sada Cueva	Independent member	Don José María Garza Treviño	Independent member
Don David Peñaloza Alanís	Independent member	Don Carlos Césarman Kolteniuk	Independent member
Don José Antonio de Chedraui Eguía	Independent member	Don Humberto Tafolla Núñez	Independent member
Don Alfonso de Angoitia Noriega	Independent member	Don Guadalupe Phillips Margain	Independent member
Don Thomas Stanley Heather Rodríguez	Independent member	Don Ricardo Maldonado Yáñez	Independent member

THIRTY-SIX.- Lic. Héctor Ávila Flores is appointed as Secretary of the Board of Directors, who will not be part of the Board of Directors.

THIRTY-SEVENTH.- Based on Article Forty-Ninth of the Company's bylaws, the Directors of the Board are exempted from the obligation to guarantee the performance of their duties.

THIRTY-EIGHTH.- Two coins of fifty gold pesos, commonly referred to as “centenarios”, are determined as emoluments to be paid to the Proprietary and Alternate Directors, if applicable, for each session they attend payable at market value of the date of each session.

THIRTY-NINTH.- Mr. Thomas Stanley Heather Rodríguez is appointed as Chairman of the Audit and Corporate Practices Committee.

FORTY.- The Report of the Board of Directors on the purchase and sale of treasury shares during the fiscal year 2020 is approved.

FORTY FIRST.- It is approved to allocate the amount of up to $7,500,000,000.00 (seven thousand five hundred million pesos 00/100 national currency), equivalent to 2.37% of the market capitalization value of the Financial Group at the end of 2020, charged to Stockholders' Equity, for the purchase of the Company's own shares, during the fiscal year 2021, and will include those operations carried out during the year 2021 and until April 2022 subject to the Policy for the Acquisition and Issuance of Proprietary Shares.

FORTY SECOND.- Delegates are appointed to carry out all the necessary functions to comply with and formalize the resolutions taken by the Assembly

9. FITCH RATING AGENCY UPGRADES THE RATING FROM SIEFORES BANORTE

On May 10th , Fitch Ratings revised upwards Afore XXI Banorte’s note. The agency explained that, regarding its capacity as investment manager, the qualifications of the Retirement Fund Manager went from strong to excellent. Fitch Ratings acknowledged in a statement, that Afore XXI Banorte has excellence and strength in its ten basic Siefores and also in its 11 additional Siefores, which reflect a robust, disciplined and repeatable investment process. The upgrade of the rating for the Siefores, corresponds to the results of international equities to take advantage of 20 percent of the limit established in the investment regime, achieving more portfolio diversification and a greater stability of the company in its financial indicators.

10. FITCH RATINGS RATES FUND OPERATOR BANORTE AS EXCELLENT WITH A STABLE PERSPECTIVE

On May 13, 2021, Fitch Ratings confirmed the ‘Excellent (mex)’ rating with Stable Outlook for Operadora de Fondos Banorte, S.A. de C.V., Sociedad Operadora de Fondos de Inversión, Grupo Financiero Banorte (OB), in accordance with the Investment Management Quality Ratings methodology. The rating is based on the fact that Operadora Banorte maintains an outstanding investment process, based on in-depth analysis, investment policies and clear and well-documented criteria, models and appropriate risk management. In addition to the above, the rating analysis includes that Operadora Banorte shows good corporate governance, strong organizational structure with segregation of duties, extensive experience of first and second level officials, complementary work teams and adequate supervision (risks, middle and back office, comptroller and audit), robust investment platform and operational framework, superior to the standards applied by institutional managers in Mexico for the class and mix of managed strategies, as well as good security and recovery processes. Finally, a consistent performance revealed by flagship funds, as well as the support provided by Grupo Financiero Banorte (GFNorte) and the vast trajectory that Operadora Banorte has achieved in the fund industry, in the debt and equity segments.

11. BANORTE RANKED 4TH AMONG THE FINANCIAL GROUPS WITH GREATER SOCIAL RESPONSIBILITY

Grupo Financiero Banorte ranks in fourth place in the category "Top 5 of Financial Groups with the highest Social Responsibility" of the Ranking of "The 200 Best Socially Responsible Companies" of 2021 prepared by Tops México.

12. FITCH RATIFIES RATINGS FOR GFNORTE AND SOME OF ITS SUBSIDIARIES

On July 1st , Fitch ratified the long and short-term debt issuer rating of Grupo Financiero Banorte SAB (GFNorte) and its banking subsidiary Banco Mercantil del Norte SA (Banorte) at 'BBB-' and 'F3', respectively, and its Viability Rating (VR) at 'bbb-'. The outlook is negative.

Likewise, Fitch affirms the National Ratings of Banorte, Arrendadora and Factor Banorte, S.A, Casa de Bolsa Banorte, S.A. and Almacenadora Banorte S.A. in 'AAA (mex)' and 'F1 + (mex)'. The rating outlook is stable.

The review reflects the resilient performance that GFNorte and its subsidiaries have shown during this period. Fitch continues with the negative outlook given its analysis of the operating environment in Mexico.

ENTITY	RATINGS			PREVIOUS
Grupo Financiero Banorte, S.A.B. de C.V.	LT IDR	BBB-	Affirmed	BBB-
	ST IDR	F3	Affirmed	F3
Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte	LT IDR	BBB-	Affirmed	BBB-
senior unsecured	LT	BBB-	Affirmed	BBB-
subordinated	LT	BB-	Affirmed	BB-
senior unsecured	Natl LT	AAA(mex)	Affirmed	AAA(mex)
Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, E.R., Grupo Financiero Banorte	Natl LT	AAA(mex)	Affirmed	AAA(mex)
	Natl ST	F1+(mex)	Affirmed	F1+(mex)
Casa de Bolsa Banorte, S. A. de C. V., Grupo Financiero Banorte	Natl LT	AAA(mex)	Affirmed	AAA(mex)
	Natl ST	F1+(mex)	Affirmed	F1+(mex)
Almacenadora Banorte, S.A. de C.V., Organización Auxiliar del Crédito, Grupo Financiero Banorte	Natl LT	AAA(mex)	Affirmed	AAA(mex)
	Natl ST	F1+(mex)	Affirmed	F1+(mex)

13. TRANSFER TRANSACTION OF ANNUITY PORTFOLIO FROM PENSIONES HSBC TO PENSIONES BANORTE.

Pensiones Banorte S.A. de C.V. Grupo Financiero Banorte has reached an agreement with Pensiones HSBC for the full portfolio transfer from the first in favor of the second entity. Such transaction was not objected by the antitrust regulator (COFECE), and was authorized by the insurance regulator (Comisión Nacional de Seguros y Fianzas).

Pensiones HSBC assigns to Pensiones Banorte all of the annuities policies valid as of the date of the transaction. As of June 2020, Pensiones HSBC had 12,481 active policies. With this portfolio transfer, Pensiones Banorte continues to consolidate itself as the largest life annuity company in the country with more than Ps 170 billion in reserves, representing a 45% market share, and the largest in reserves in the Mexican insurer market.

14. GFNORTE WAS INCLUDED FOR THE FOURTH CONSECUTIVE YEAR IN THE FTSE4GOOD EMERGING MARKET SUSTAINABILITY INDEX

In June 2021, GFNorte was once again within the FTSE4Good Index Series, considering itself as a company that meets the highest sustainability standards dictated by the FTSE London Stock Exchange. This index is made up of

557 companies where 15 of them are Mexican companies. The companies were evaluated in areas of climate change, biodiversity, labor standards, health and safety, and risk management and corporate governance. GFNorte is ranked number 5 in market capitalization in the “Emerging Latin America” division, ranking two places above from last year´s rankings.

15. GFNORTE SUCCESSFULLY CONCLUDES THE “BANORTE ADOPTS A COMMUNITY” RECONSTRUCTION PROGRAM AND EXCEEDS THE SET GOALS

On September 20, 2021, Grupo Financiero Banorte (GFNorte) delivered 650 houses to families affected by the earthquakes in 2017, surpassing its original goal of 600 houses. In addition, it developed 9 social infrastructure projects in communities to improve their quality of life: commercial markets, community centers, school equipment, and a water treatment plant. More than 28,000 actions related to health, food, education, and culture were carried out. During the pandemic, 6,500 pantries were delivered. Carlos Hank González stated “We have stood next to the communities affected by the earthquakes over the course of 4 years in order to empower them, providing them with tools to achieve a state of well-being in a sustained way. Our commitment is with Mexico and the Mexican families”

16. GFNORTE IS RECOGNIZED BY THE INSTITUTIONAL INVESTOR MAGAZINE

In July 2021, Grupo Financiero Banorte (GFNorte) was ranked as the best Mexican financial institution and was positioned among the top 3 in the "Executive Team of Latin America 2021" rankings from the prestigious international publication “Institutional Investor”. To prepare the rankings, Institutional Investor conducted a study with 534 portfolio managers and 231 stock market analysts. The evaluation considered factors such as consistency, granularity, market timing, authority and credibility, market knowledge, performance conferences, responsiveness, virtual meetings, and presentations. For the eleventh consecutive year, the GFNorte Executive Team remained on the top positions among a total of 341 nominated companies from the Latin American region, acquiring the following recognitions:

- Best CEO - First place (Sell-side).
- Best CFO - First place.
- Best IRO - Third Place (Sell Side)
- Best IR team - Third place.

Additionally, awards were given to the Group for:

- Best management of the COVID-19 crisis - Second Place.
- Best disclosure of ESG financial information - Second Place.
- Best virtual event - Third Place.

17. GFNORTE WAS RECOGNIZED BY LINKEDIN AS THE “BEST BRAND EMPLOYER OF 2021”.

In November 2021, GFNorte was recognized by LinkedIn in the “Brand Talent Awards” as the “Best Brand Employer with more than 5,000 employees”. The bank competed against big enterprises, such as Coca-Cola FEMSA and Ternium.

18. BANORTE’S AFORE XXI WON THE “SUSTAINABILITY RESEARCH LEADER” AWARD, GRANTED BY ALAS20

In November, Afore XXI Banorte obtained first place in the “Sustainability Research Leader“ award, granted by ALAS20. The prize is an initiative that evaluates, rates, and recognizes practices related to sustainable development, corporate governance, and responsible investments of enterprises and investors; to improve public release standards in countries like Brazil, Chile, Colombia, Spain, Peru, and Mexico.

19. FOR THE FIFTH YEAR IN A ROW, BANORTE IS CONSTITUENT OF THE SUSTAINABILITY INDEX MILA

On November 22, Grupo Financiero Banorte was again selected as a constituent of the Dow Jones MILA Sustainability Index, which measures the performance of leading Mexican, Chilean, Colombian, and Peruvian companies in terms of sustainability. GFNorte is one of the 24 Mexican companies among 71 Institutions comprising the index.

20. BANORTE OFFERS ITS CUSTOMERS CASH WITHDRAWAL WITHOUT PLASTIC IN 7-ELEVEN STORES

In line with its commitment to constantly innovate for its customers, as of November 29, 2021, Banorte offers the option to withdraw cash in 7-Eleven stores without the need of the physical card. Customers only have to generate a reference with a barcode within the Banorte Móvil app, present it in the store to be scanned and dispose of the money. This service is available in the more than 1,800 7-Eleven stores across the country. Moreover, this plastic-less cash withdrawal option adds to the outstanding services that 7-Eleven already offers to Banorte's customers such as deposits to accounts and to Banorte's credit and debit cards, as well as credit card payments, service payments, and debit card reposition.

21. SEGUROS BANORTE ACQUIRES PRINCIPAL'S INSURANCE PORTFOLIO

On May 13, 2021, Seguros Banorte and Principal Seguros signed an Agreement for the Assignment of the life and accidents, and diseases portfolios, owned by Principal Seguros in favor of Seguros Banorte. On August 20, 2021, the transaction was authorized by the Federal Economic Competition Commission and on November 3, 2021 by the National Insurance and Bonding Commission. The transfer of 100% of the portfolio was carried out on December 1, 2021, at that date, the portfolio was comprised of 6,481 policies and 7,719 insured.

22. BANORTE ISSUES PERPETUAL NON-PREFERRED, NON-CUMULATIVE, NON-CONVERTIBLE ADDITIONAL TIER 1 CAPITAL NOTES

On November 24, 2021, Banorte issued Perpetual Callable Subordinated Non-Preferred, Non-Cumulative, Non-Convertible Additional Tier 1 (AT1) Capital Notes for U.S.$1,050 million in the international markets. These Capital Notes were issued in two series: Perp NC10 Notes for U.S.$550 million, callable at the tenth year, carrying a coupon rate of 6.625%, and a series Perp NC5 Notes for U.S.$500 million, callable at the fifth year, carrying a coupon rate of 5.875%. These notes were rated by Moody's and S&P Ba2 and BB-, respectively.

b) BUSINESS DESCRIPTION

i. MAIN ACTIVITIES

GFNorte is authorized by the SHCP to be constituted and operated as a holding company of the companies mentioned later in this report, section 2. ix) "The Company- Corporate Structure", under the form and terms established by the LRAF, subject to the supervision and monitoring of the CNBV.

Its main activity is to acquire and manage shares issued by entities engaged in the financial services industry and participate supervising their operations according to the LRAF. GFNorte and its Subsidiaries are supervised, depending on their activities, by the CNBV, the CNSF and Banxico. Meanwhile, Afore XXI Banorte, subsidiary of Banorte, is regulated by the CONSAR.

The main activity of GFNorte's subsidiaries is to carry out financial transactions such as rendering full-banking services, brokerage activities, leasing, factoring, general warehousing services, annuities and life and damage insurance, as well as the acquisition, disposal, administration, collection and in general negotiation any form of negotiation with credit rights.

GFNorte is divided according to business segments and offers its services through:

- ✓ **Retail Banking:** Serves clients through the Banorte Branches that at the end of December 2021 amounted to 1,151 units, attending on site through digital channels designed to ease the relationship with customers of our business relationship advisors and SMEs executives; furthermore we have alternate channels (POSs, third party correspondents, online and mobile banking) and the Contact Center.

    - Offers services to the segments: individuals, SMEs, preferred and to states and municipalities governments. Among the products and services offered are: checking and deposit accounts, credit and debit cards, mortgages, car loans, payroll and personal loans, SME loans, payroll dispersion accounts, as well as car, home, life and SME insurance.

- ✓ **SME Banking:** Offers financial products and services for small and medium companies constituted as legal entities ("Personas Morales") or as individuals with business activity ("Persona Fisica con Actividad Empresarial or (PFAE)"), as well as those constituted under the tax incorporation regime.

    The comprehensive offer of products and services that Banorte provides thorugh the SME Banking, includes.

    - Checking solutions: investment and debit checking accounts.
    - Financial solutions: loans for SMEs and commercial credit cards.
    - Technological solutions: electronic banking, POS and payroll services.
    - Commercial insurance solutions: auto, home and employee insurance.

    In addition, a 21-day credit approval process has been developed for new customers, and a 12-day expedited credit approval process for top customers.

    Our specialized SME centers are strategically located near our key and potential clients. We have 1,151 traditional branches that offer "Integral Solutions for SMEs", a package of products and services aimed at addressing all the needs of our SME clients in a single contract.

    At Banorte we have the largest customer network in the country and we are committed to continuing to support small and medium-sized companies with quality products and services, because we are convinced that SMEs are the engine of Mexico.

- ✓ **Wholesale Banking:** It is comprised of Middle-market & Corporate Banking, Transactional Banking, Federal Government Banking and International Banking.

- ✓ **Middle-market and Corporate Banking:** This segment specializes in providing comprehensive financial solutions for middle-market and corporate clients through several forms of specialized financing, including structured loans, syndicated loans, financing for acquisitions and investment plans. Other products and services offered to clients in this segment are: cash management, collection, fiduciary, payroll payment, checking accounts and lines of credit. Middle-market & corporate clients generally consist in multi-national Mexican or foreign companies, large Mexican corporations and medium enterprises operating in a wide range of sectors.

We will continue offering a client-centric banking model was launched, which establishes the role of the Relationship Executive as the central axis to attend all of the customers financial needs.

- ✓ **Transactional Banking**: Provides transactional services and solutions in a comprehensive model which includes promotion, implementation and post-sale support to corporate and commercial, financial institutions and federal gobernment bodies. These services include:

  - Electronic Banking
  - Payments and Collections
  - Acquiring business
  - Payroll
  - Cash management and reconciliation services
  - Foreign Currency transactions
  - Excess funds management and liquidity services
  - Financial hedging and Insurance Coverages

The business model of Banorte was built with the purpose of providing a consultative process with a close relationship with our customers, seeking to provide tailor-made solutions that evolve into long-term relationships.

- ✓ **Government Banking:** In this segment specialized financial services are offered to: federal, state and municipal governments, decentralized entities, other entities such as social security institutions, unions, public trusts, etc. Products and services offered include checking accounts, loans, cash management and payroll payment services. Furthermore, we offer comprehensive advisory on public finance in order to increase tax collection and control & manage of expenses; likewise, financial diagnosis are elaborated to design adequate profiles for debt payment through a solid financial and legal structure, aiming to strengthen their finance situation and improve our clients' credit quality.

- ✓ **International Banking:** This bank specializes in offering services and products to our corporate, business, institutional and SME clients with international and foreign trade needs, as well as correspondent services to foreign financial institutions. Banorte International Banking has strategic agreements with the most relevant Banks abroad, which allows us to offer the joint universe of clients highly competitive financial solutions and services locally and anywhere in the world.

Some of the products and services offered to support importers, exporters and other companies with international or risk mitigation needs are: import and export letters of credit, documentary collections, bank guarantees, standby-type letters of credit, financing letters, foreign trade financing for imports and exports, structured financing of foreign trade with the guarantee of export credit agencies and / or multilateral organizations, discounts on letters of exchange, bank guarantees for imports as well as international transfers. Furthermore offers a specialized service is offered to companies of foreign origin that are establishing operations in the country, attending to their local banking needs.

In the United States, Uniteller, our international remittance and payment company, continues its commitment to serve the emigrant market and their families. Uniteller continues to grow its delivery platform positioning itself as one of the most relevant remittance processing companies worldwide. Unitelller has developed a digital platform for sending and processing international payments and remittances, named uLink, which improved accessibility and reduced transaction cost, responding to our objective of extending the benefits of efficient and low-cost remittances through multiple channels to a major number of Mexicans who use this service. During 2021, uLink was recognized as the best platform for sending money to México by the Mexican Federal Government program "*Quién es quién en el Envío de Dinero a México*". Additionally, with ULink platform our compatriots are able to send money, to make contributions to their Afore and to pay water, electricity and phone service from abroad. Today, we have a payment network which allows access to more than 2,300 banks and 150,000 cash payment points with presence in 63 countries.

✓ **Long-term Savings Sector**: Offers insurance, as well as management of retirement savings accounts covering saving, protection and prevision needs through Afore XXI Banorte, Seguros Banorte and Pensiones Banorte.

  ✓ **Afore XXI Banorte:** Is the fund administrator of the largest retirement fund in Mexico which provides advantages in terms of scale with lower operating costs.

  ✓ **Pensiones Banorte:** Company that manages social security pensions, positioned as the main company in the market. In order to support clients through digital channels: ChatBot, biometric registration and authentication projects have been implemented in this company, a process that, in addition to increasing our competitive advantage, improves the experience of our clients.

  ✓ **Seguros Banorte:** The ompany has a range of protection and preventive services such as life insurance, car insurance, home and health insurance, among others. Its products are offered through different distribution channels, for example the branch network and channels composed of agents and brokers.

  ✓ **Brokerage Sector:** Companies comprising this sector are: Casa de Bolsa Banorte and Operadora de Fondos Banorte. These subsidiaries provide products and services to individuals and corporations including brokerage services, financial advisory, portfolio structuring and management, asset management, investment banking and sale of investment funds and equity & debt instruments.

✓ **SOFOM and Other Finance Companies Sector:** Composed of the following subsidiaries: Leasing and factoring and Warehousing.

- **Leasing and Factoring:** Provides leasing and factoring services.
- **Warehousing:** Offers warehousing, inventory management, commercialization and logistics services.

ii. DISTRIBUTION CHANNELS

In Banorte, we work with the firm intention of becoming the best Financial Group of Mexico, our strategy is focused on increasing presence in the national market through multichannel capabilities, strengthening the entire banking infrastructure.

Banorte Branches and Ixe Preferred Centers

Banorte has formal market and population analysis processes at national level, evaluating each opportunity to further develop the branch network within the main urban and semi-urban centers of the country, thus providing all Mexicans with the opportunity to access Banorte's products and services.

Banorte's market share in terms of number of branches is 9.1% as of December 2021, according to the CNBV, raking third in the system, considering only Financial Groups.

Banorte Branches

Banorte ended 2021 with a network of 1,151 of which 87 are attention modules and 1,064 are traditional branches. According to "Branch master plan" that GFNorte management has proposed, during 2021 we began an evaluation with a multidisciplinary approach, to define the service model for each branch with the aim of provide an appropriate experience to the customers according to their necessities.

SME Centers

As of December 2021 there were 9 specialized offices operating for this segment.

ATMs

ATM network grew 3% YoY from 9,387 branches in 2020 to 9,668 branches at the end of 2021. According to CNBV, Banorte's ATM network market share totaled 16.43% as of December 2021, raking second in the system.

An average of over 9.3 million clients are served monthly through our ATM network, representing a 10% YoY vs. previous year, these carried out more than 622 million transactions during the year.

This network of ATM's operates by receiving chip cards, thus complying with mandatory regulations issued by the CNBV. Operating under the Chip standard seeks to grant customers who use electronic means (ATMs and POS terminals) greater confidence and security. Also, in order to guide customers about our coverage, we offer the ATM geolocation service through the portal and Banorte Móvil. It is important to note that through this channel, new services continue to be launched.

Banorte offers a wide variety of debit and credit cards, which can be used in all of our ATMs and, given our participation in the Visa and Plus network, they can be used globally. Furthermore, we continue offering our customers the ATM geo-location service through our website and Banorte Movil.

Some new services have been launched through this channel such as: Boost to the cross-selling of insurance, activation and increase of line of credit in credit card, payroll loans renewals and opening, contracting Banorte mobile and the possibility of carrying out transactions without a physical card. In addition, we have 1,266 multifunctional ATMs that have allowed us to automate operations regularly done at branches, such as cash deposits. We will continue installing cutting edge ATMs that shorten transaction times and processes for customers and promote products to take advantage of the potential contact of this channel.

Telephone Banking - Contact Center "Roberto Gonzalez Barrera"

In 2021, the Contact Center serviced 57.3 million incoming calls, (-20% vs. 2020), and 3.4 million outgoing calls. The main services offered are assistance and information regarding our products and services, cash transactions within our clients' accounts, assistance with any transaction, support to digital channels, cross-selling campaigns and portfolio, insurance hiring and activation, blocking and PIN aassigment for credit card.

Point of Sale Terminals (POSs)

At the end of 2021 there were 154,443 POS terminals, representing a decrease of (4.7%) in the year. This decrease is due to the fact that the number of cancellations was greater than the number of new placements derived from the contingency due to COVID-19. At the end of 2021, we occupied the second position in the market, with a market share of 11.6%, according to figures from the CNBV. During 2021, the number of transactions amounted to 1,105,286,564 and reflected a 35% annual increase and a market share of 36.76%, according to figures from the CNBV; while the amount invoiced reached Ps 580.7 billion which increased 44.1% compared to 2020. This increase is due to the use of digital products such as Electronic Commerce, which, being a Non-Present Card product, had an accelerated growth due to the needs From the market.

Digital Banking and Mobile Banking

Our Digital Banking platform provides 24x7 access to our clients and manage their resources wherever they may be, either through internet or through their mobile devices, from which they can make inquiries, send national or international fund transfers, pay services, invest in funds, and check their account statements, even acquire products like payroll loans, credit cards and long-term investments or funds, among others, safely, easily and quickly.
Banorte's Mobile Banking provides a global, efficient, safe and sustainable solution to our clients, since it is compatible with the main mobile smartphone platforms, and there is no dependency on cell phone service provider companies. At Banorte, we mantain state-of-the-art technology to attend and serve our clients safely.

The year 2020 marked a milestone in the history of banking and the country due to the pandemic caused by COVID 19. Preventive confinement and healthy distance measures undoubtedly promoted an acceleration in the adoption of Digital Banking by part of our clients.

At the end of 2021, we have registered more than 6 million clients in Digital Banking, through which more than 2,895 million total transactions were carried out, an annual growth of +53% vs. the 1,886 million of the previous year, both in individuals and in legal entities.

More than 4.6 million clients used our Mobile App, which represents 34% more clients using it compared to 2020. Our clients made more than 2,078 million total transactions, for an amount greater than Ps 646 billion pesos through this channel, increasing by 34% compared to last year.

In an effort to continue improving our service model, focused on client, in October 2021 we launched the new version of Banorte Móvil, easier, faster and safer, through which we want to continue satisfying our customers information and financial needs

Third-party Correspondents

Through the correspondent offices, we support banking services and provide a service that contributes to the well-being of thousands of Mexicans who do not have access to financial services.

The strategic alliances made by Banorte with different counterparties have allowed us to increase our market share, allowing us to be closer and available to our clients at more convenient hours.

Banorte's clients maintain the high use of the Correspondents channel. In 2021, derived from the contingency, the Correspondents channel became a very important customer service point, providing service and supporting the suspension of activities in some Banorte branches. At the close of 2021, 55% of the monetary transactions, that based on their nature and characteristics, are capable of being carried out through this channel, which were previously operated in the bank's branches. The transactionality of the channel reached 22.09 million total transactions, likewise, the rating that customers have given to the service through the NPS evaluation has been excellent and cotinues improving, reaching levels of 77 NPS in December 2021, compared with the 73 points reached in the month of December 2020.

In 2021, a strategic alliance was made with 7-Eleven and Farmacias del Ahorro to deliver Banorte debit cards at its points of sales. We worked hand in hand with Banxico, to start operations at the end of August, and expanding customer service points under conditions of restricted mobility.

Moreover, in alliance with 7-Elevenit it was possible to expand options to withdraw cash for Banorte clients, launching the cash withdrawal service without physical card.

At the close of 2021, there were 18,425 points of contact through 7-Eleven (1,860), Telecomm-Telégrafos (1,685), Farmacias Guadalajara (2,426), Farmacias del Ahorro (1,453), Tiendas Extra / Círculo K (1,162), Soriana (770), DSW Group (120), La Comer (72), Chedraui (339), Yastás (5,815), Walmart (2,723), representing a growth of 8.48% compared to the 16,984 points of contact that were had at the end of 2020.

iii. LICENSES, BRANDS AND OTHER CONTRACTS

The main registered trademark is *BANORTE*, since it represents the distinctive symbol of GFNorte and its subsidiaries, as well as *GRUPO FINANCIERO BANORTE*, both have a validity of 10 years from the filing date of the application for registration and may be renewed for additional periods of 10 years at the end of their terms. To date they are in use and in full legal effect.

Also, GFNorte and/or its subsidiaries own the trademark of *BANORTEC*, which is relevant as it covers the new app and relationship with Instituto Tecnológico y de Estudios Superiores de Monterey, being valid for 10 years from the filing date of the application for registration and may be renewed for additional 10-year periods at the end of each term. To date they are in use and in full legal effect.

Additionally, GFNorte itself and / or its subsidiaries requested the registration of the following brands: *FUNDACIÓN BANORTE AYUDANDO CONSTRUYENDO MOMENTOS FELICES, TESORERÍA INTELIGENTE BANORTE, AHORRO INMEDIATO BANORTE*, which also cover important financial products offered to the public by GFNorte and / or its subsidiaries, having a validity of 10 years from the date of submission of the registration application and which can be renewed. for additional periods of 10 years at the end of their validity, to date they are in use and in full legal effect.

On the other hand, GFNorte and/or its subsidiaries have requested registration of notices slogans, among others:

BANORTE. EL BANCO FUERTE DE MÉXICO

These notices, even though they are pending registration, are relevant since they are part of a marketing strategy to have a support and a commitment from the Financial Group, they have a duration of 10 years counted from the start date of the procedure. registration, renewable for additional periods of 10 years at the end of its validity. To date are pending registration although in an approximate period of six months they could be obtained providing full legal effects.

Each one of these property rights is protected by the respective authorities.

Relevant Contracts:

Banco Mercantil del Norte (Banorte), the most relevant Financial Group's subsidiary, has celebrated diverse contracts outside of its core business, but necessary for its operation or business strategy, among the most relevant are:

- Agreements with IBM de Mexico, Comercializacion y Servicios, S. de R.L. de C.V.: (i) for the acquisition of products (equipment or software licenses) and services, and (ii) leasing of technological equipment. The first contract was signed on December 5, 2005 for an indefinite period of time.

- The agreement with Sertres del Norte, S.A. de C.V., signed on June 1, 2007 for an indefinite time, for preventive maintenance and corrective services to the infrastructure equipment of the institution, as well as other contracts for the installation of mechanisms and/or infrastructure of uninterrupted energy in order to protect Banorte from possible operational risks. These agreements are made in accordance to the needs of the institution, understanding that some contracts expire as soon as the service or commended task is concluded.

- The agreement with NCR de Mexico, S. de R.L. de C.V., for preventive maintenance and corrective services for ATMs; replacement of consumable and/or vandalized parts celebrated on September 1, 2009 and negotiated to last for an indefinite period of time. There is another contract signed with date January 29, 2016 also for undetermined time.

- The agreement with Diebold de Mexico S. A. de C.V., for preventive maintenance and corrective services for ATMs, replacement of consumable and/or vandalized parts celebrated on March 1, 2008 for an indefinite period of time.

- The contract with Winston Data, S.A. de C.V., for printing services and inserting account statements into envelopes, celebrated on July 15, 2008 which is still in effect as it was negotiated for an indefinite period of time.

- The agreement with Coltomex, S.A. de C.V. for printing services and inserting account statements into envelopes, celebrated on May 20, 2014 which is still in effect as it was negotiated for an indefinite period of time.

- The contract with Satelites Mexicanos S.A. de C.V., for satellite signal services celebrated on July 12, 2006, expiring on July 30, 2012, through addendum the agreement was extended until June 30, 2015. At the beginning of 2015 the renewal through addendum will be negotiated. Later on July 1, 2015 the addendum was renewed for an indefinite period of time.

- The contract with ASAE Consultores S.A. de C.V. for the maintenance of computer equipment and networks celebrated on July 1, 2009 for an indefinite period of time.

- The agreement with NET & SERVICES TRANTOR, S.A. de C.V. for preventative and corrective maintenance of equipment, cabling of nodes, structured cabling for voice and data installed in the Central Site, celebrated on August 1,2007 for an indefinite period of time.

- The contract with Microsoft Licensing GP for the licensing of software signed on December 28, 2011 and expiring on December 27, 2014, at the end of the contract, the service was renewed with Microsoft Corporation (same provider that changed its name) from January 1, 2015 to December 31, 2017, which was subsequently renewed from January 1, 2018 to December 31, 2020. Later it was renewed with Microsoft Mexico, S. de R.L. de C.V. from January 1, 2021 to December 31, 2023.

- The agreement with Netxtor, S.A. de C.V. for equipment maintenance signed on August 13, 2015 for an indefinite period of time, as well as for Arkivio licenses from October 31, 2015 to September 1, 2020. It was renewed from November 1, 2019 to October 31, 2021. Renew and maintenance of Arkivio from November 1, 2021 to October 31, 2023, and maintenance of 50 licenses and capacity increase from October 19, 2021 to December 4, 2023.

- Several Contracts with IGSA, S.A. de C.V. signed as of May 1, 2010 for maintenance of electronic infrastructure, all are indefinite.

- Contract signed in October 2009, for satellite connection services for an indefinite period of time to supply satellite connectivity to Banorte’s private network with GSAT Comunicaciones (formerly Libros Foraneos, S.A. de C.V.).

- The agreement with ORACLE DE MEXICO, S.A. de C.V., for the technical support of Oracle Premier Support to SUN-Oracle infrastructure, signed on November 1, 2012, which expired on February 28, 2014. This contract has been renewed several times with validity dates of July 1, 2019 as of June 30, 2020. Later it was renewed from July 1, 2020 to June 30, 2021 and from Juy 1, 2029 to June 30, 2021, which was renewed until November 30, 2022.

- The agreement with HEWLETT-PACKARD MEXICO, S. de R.L. for licensing HP products for comprehensive and performance tests, signed on June 1, 2012 for an indefinite period of time.

- The agreement with SAP MEXICO, S.A. de C.V. for SAP Netweaver license service signed on December 12, 2012 for an indefinite period of time.

iv. MAIN CLIENTS

As of December 31, 2021 GFNorte had a wide and diversified client portfolio; the largest client represented 3.3% of the total loan portfolio.

Also, GFNorte's transactions are adequately diversified among the different productive sectors of the economy, there is no important concentration in any specific sector and for the same reason, there is no cyclical relevance.

v. APPLICABLE LEGISLATION AND TAX SITUATION

The Mexican Financial System

Mexico's financial system is currently comprised of commercial banks, national development banks, brokerage firms, development trust funds, limited purpose banks and other non-bank institutions, such as insurance and reinsurance companies, bonding companies, credit unions, savings and loans companies, foreign exchange houses, factoring companies, bonded warehouses, financial leasing companies, mutual fund companies, pension fund management companies and multi-purpose financial institutions. In 1990, the Mexican government adopted the Law Regulating Financial Groups (LRAF) aimed at achieving the benefits of universal banking, which permits a number of financial services companies to operate as a single financial services holding company, which was amended and restated on January 10, 2014. Most major Mexican financial institutions are members of financial groups.

The main financial authorities that regulate financial institutions are the SHCP, the Mexican Central Bank, the CNBV, the CONSAR, the CNSF, the IPAB and the CONDUSEF.

Trend toward multi-purpose banking institutions

Prior to 1978, the Mexican banking system was comprised primarily of specialized institutions, which were authorized to conduct specified financial activities pursuant to concessions granted by the Mexican Government. During the period from 1978 to the nationalization of commercial banks in 1982, the structure of the Mexican banking system evolved towards the creation of multi-purpose banking institutions, which were allowed to engage in the full range of banking activities.

Nationalization and subsequent privatization

Effective June 28, 1990, the Mexican Constitution was amended to permit Mexican individuals and financial services holding companies to own controlling interests in the then-existing 18 Mexican commercial banks owned by the Mexican Government. Subsequently, a new Banking Law was enacted to regulate the ownership and operation of Mexican commercial banks, national development banks and foreign financial institutions. Pursuant to the Banking Law, Mexico began the process of privatizing commercial banks. By the third quarter of 1992, the Mexican Government had privatized all 18 state-owned commercial banks. Since that time, new commercial banks, have been chartered and regulations regarding investment in the banking sector by foreign investors have been relaxed.

On November 26, 2013, the Senate approved the Report of the Chamber of Deputies (Cámara de Diputados) on the bill presented by President Enrique Peña Nieto amending, supplementing and repealing various provisions with respect to financial matters and issuing the new LRAF, the "Financial Reform".

Thirty-four legal statutes were amended in order to foster greater competition in the financial and banking system by creating incentives to increase lending, as well as a new mandate for development banks. Also, the Financial Reform strengthens the scheme for the stability of the financial institutions and the powers of financial authorities in regulatory, monitoring and enforcement matters.

Financial Groups

The enactment of the former LRAF in 1990 permitted the development of the universal banking model in Mexico. By July 1992, most major Mexican financial institutions had become part of financial groups controlled by a financial services holding company, such as GFNorte, and made up of a number of financial operating entities. On January 10, 2014, the new LRAF was published, authorizing holding corporations through their companies or other financial institutions, to indirectly hold shares of financial institutions that are members of the financial group, as well as shares of financial institutions that are not members of the financial group, service providers and real estate.

The operations of financial services holding companies are generally restricted to holding shares representing the capital stock of financial services operating subsidiaries as well as those of service providers, real estate and subdholding companies that do not comprise the financial group. Financial services subsidiaries include general deposit warehouses, foreign exchange houses, bonding institutions, insurance companies, broker-dealers, banks, mutual funds managers, mutual funds distributors, retirement fund management companies, multiple purpose non-banking financial institutions and micro finance companies. Financial groups must be comprised at least by a holding company and any of the two formerly mentioned financial institutions (which may be of the same type), provided that a financial group may not be comprised solely by the holding company and two Sofomes (Multi-purpose Non-Banking Financial Institution).

The Law Regulating Financial Groups permits entities controlled by the financial services holding company: (i) to act jointly before the public, offer services that are supplemental to the services provided by the other and hold themselves out as part of the same group;(ii) use similar corporate names; and (iii) conduct their activities in the offices and branches of other entities part of the same group.

In addition, the Law Regulating Financial Groups requires that each financial services holding company enter into an agreement with each of the financial services companies integrating the financial group pursuant to which the holding company agrees to be responsible secondarily and without limitation for the satisfaction of the obligations incurred by its subsidiaries as a result of the activities that each such subsidiary is authorized to conduct under the applicable laws and regulations, and is fully responsible for certain losses of its subsidiaries, up to the total amount of the holding company's assets. In the event that the assets of the financial services holding company are insufficient to meet the losses of its subsidiaries if occurred simultaneously, the financial services holding company must first meet the liabilities of the banking institutions that are part of the group and subsequently, the liabilities of any other entities that form the group will be prorated. For such purposes, a subsidiary is deemed to have losses if its assets are insufficient to meet its payment obligations. The subsidiaries will never be held liable for the losses of their financial services holding company or for the losses of the other subsidiaries of the group.

Furthermore, on December 31, 2014 the General Provisions for Financial Groups were published, according to the faculty the SHCP holds of issuing the secondary provisions that the LRAF refers to. These General Provisions consider the terms and conditions to organize holding companies and the running of the financial groups, as well as those to avoid conflict of interest among the entities of the financial group. The General Provisions for Financial Groups were effective on March 31, 2015, 90 days after the publication in the Official Gazette. Under the Financial Reform, the Mexican Congress approved changes to the Financial Groups Law. Relevant changes include the following:

- *Shareholding Structure* - It provides for the possibility of the holding company to maintain the shareholding of the members of the group through sub-holding companies.
- *Capitalization and Corrective Measures* - A holding company shall maintain net capital that shall not be less than its permanent investments in the subsidiaries of the group. It also authorizes the SHCP to determine corrective measures, such as the potential sale of assets, non-distribution of dividends and suspending payments of bonuses, among others.
- *Corporate Governance* - The new law provides for a new corporate governance structure, setting forth

specific duties of care and fiduciary duties applicable to Board members, even if the financial services holding company is not publicly traded, similar to that provided in the Securities Market Law (Ley de Mercado de Valores) for stock-traded corporations.

- Other material changes from the previous law include shareholders' agreements, tied sales, liability agreements, the investment structure of the holding company, accounting and consolidated supervision, among others.
- *Investment Structure of the Holding Company* - In addition to its interest in the financial institutions of the group, a holding company may invest in other instruments, such as securities representing the capital stock of other financial institutions that are not group members, service providers and real estate companies, among others.

Authorities of the Mexican Financial System

The principal authorities that regulate and supervise financial institutions in Mexico are Banxico, the SHCP, the CNBV, the CONSAR, the CNSF, the IPAB and the CONDUSEF. These authorities are subject to a number of organic laws and other administrative provisions that govern their supervisory and other powers. Also, these entities continually enact administrative provisions on matters falling with their competence for the regulation of the corresponding financial entities, as further mentioned below. GFNorte, as a financial services holding company, is subject to the supervision and regulation of the Supervision Commission (the CNBV, the CNSF or the CONSAR, depending on the responsible for supervising the general functioning of the Financial Group in terms of article 102 of the LRAF). In addition, our financial subsidiaries are subject to the supervision and regulation of and keep in touch with different financial authorities, accordingly.

Banco de México

Banco de México is the Mexican Central Bank. It is an autonomous entity that is not subordinated to any other body in the Mexican federal government. The Banco de México Law, as well as Paragraphs 6 and 7 of Article 28, of the Mexican Constitution, regulate the administration and the performance of Banxico' functions. Its primary purpose is to provide the domestic economy with Mexican currency, procuring stability of acquisition power of such currency, establish reference interest rates and ensure that the banking and payments systems perform under safe and sound principles.

Monetary Policy decisions are taken by its Governing Board. The Governing Board, official body, is composed of a Governor and four Deputy Governors, who are appointed by the President and approved by the Senate or the Permanent Commission of Congress,

Among the decisions that only the Governing Board may take are the authorization of the issuance of currency and the minting of coins, the decision to extend credit to the Mexican government, the determination of policies and criteria that the Mexican Central Bank uses in its operations and in the regulations that it issues, and the approval of its rules of procedure, budget, working conditions and similar internal matters.

SHCP

The SHCP is the entity in charge of proposing, conducting and controlling the economic policy of the Mexican federal government in matters of economics, tax, customs, finance, banking, public budget, public debt and income. Together with the CNBV and Banxico, it is the primary regulator of commercial banks and national development banks. The SHCP participates in the planning, coordination, evaluation and monitoring process of the country's banking system comprised of the Central Bank, the National Development Banking and other institutions responsible for banking and credit services. Furthermore, it exercises powers provided within the laws in the areas of insurance, bonding, securities and organizations & ancillary credit activities, among others.

CNBV

The CNBV is a governmental body subordinated to the SHCP, having independent technical and executive powers. The CNBV is in charge of the supervision and regulation of entities comprising the Mexican Financial System, with the purpose of ensuring their stability and sound performance, as well as the maintenance of a safe and sound financial system. The scope of the CNBV's authority includes inspection, supervision, prevention and correction powers. The primary financial entities regulated by the CNBV are: financial groups, credit institutions, regulated multiple purpose financial institutions, brokerage firms, as well as publicly traded companies and other entities that have issued debt securities to investment public. The CNBV is also in charge of granting and revoking banking and securities brokerage licenses in Mexico.

CONSAR

The CONSAR is a governmental body subordinated to the SHCP, having independent technical and executive powers. The CONSAR was created in 1997 as part of a comprehensive reform of the retirement savings and pensions system, and is in charge of protecting the retirement savings of employees through the regulation and supervision of Afores and Siefores. The CONSAR evaluates risks borne by the participants in the retirement savings system and makes sure these participants are solvent and maintain adequate liquidity levels.

CNSF

The CNSF is a governmental body subordinated to the SHCP, having independent technical and executive powers. The CNSF is in charge of the supervision and regulation of insurance and bonding companies, promoting the safe and sound development of the insurance and guaranty bond financial sectors.

IPAB

After the 1994 financial crisis, the Mexican government created the IPAB, an independent, decentralized governmental institution with its own legal standing and assets. The IPAB's primary purpose is the protection and insurance of bank deposits, having also powers to provide solvency to banking institutions, contributing to the safe and sound development of the banking sector and the national payments system. The IPAB is also entitled to acquire assets from distressed banking institutions.

CONDUSEF

The CONDUSEF is a governmental body under the SHCP. The CONDUSEF is in charge of protecting and defending the rights of users of financial services and serves as an arbitrator between financial institutions and their customers. Among other powers, CONDUSEF has the authority to order the amendment of standardized agreements used by financial entities when it considers that such agreements contain abusive clauses, it may issue general recommendations to financial institutions, and suspend the distribution of information regarding financial services and products that it considers confusing.

History of the Banking Sector

Banking activities in Mexico have been and continue to be affected by prevailing conditions in the Mexican economy; the demand for and supply of banking services have been vulnerable to economic downturns and changes in government policies. Prior to the early 1990s, lending by Mexican banks to the private sector had fallen to very low levels. It is estimated, however, that by the end of 1994 average total indebtedness of the private sector to Mexican commercial banks had grown to represent approximately 40.7% of Mexican GDP, with mortgage loans and credit card indebtedness generally growing faster than commercial loans. The devaluation of the Mexican peso in December 1994 initiated a crisis, and the resulting high interest rates and contraction of the Mexican economy in 1995 severely impacted most borrowers' ability to both repay loans when due and meet debt service requirements. These effects, among others, caused an increase in the non-performing loan portfolio of Mexican financial institutions, particularly during 1995, which adversely affected the capitalization level of financial institutions. Also, increased domestic interest rates and the deteriorating value of the peso made it more difficult for financial institutions to renew dollar-denominated certificates of deposit and credit lines.

From 1995 through the end of 1997, the CNBV intervened in the operations of 13 banks and adopted several measures designed to protect, stabilize and strengthen the Mexican banking sector. These measures included:

- Creating a temporary capitalization program to assist banks;
- Establishing a foreign exchange credit facility with Banco de México to help banks with dollar liquidity problems;
- Increasing the level of required loan loss reserves;
- Establishing a temporary program for the reduction of interest rates on certain loans;
- Establishing various programs to absorb a portion of debt service cost for mortgage loan (including debt restructuring and conversion support programs); and
- Broadening the ability of foreign and Mexican investors to participate in Mexican financial institutions.

In addition, to address deteriorating asset quality, the Mexican government established debt restructuring and conversion support programs to face cash-flow problems. Finally, the Mexican government created a program to promote increased capitalization of Mexican banks by transferring loans and other assets to the Banking Fund for the Protection of Savings (Fondo Bancario de Proteccion al Ahorro or the FOBAPROA). Effective January 20, 1999, the FOBAPROA was replaced by the IPAB, which was created to manage the banking savings protection system and regulate financial support granted to banks.

Reforms to Mexican Banking Law

On January 10, 2014, several amendments to the Mexican Banking Law were published in the Official Gazette of the Federation, and are currently in effect, with the following purposes:

Update capital requirements according to Basel III. The amendments to the Mexican Banking Law updated the capital requirements for banking institutions by incorporating the requirements of the Basel III accords, currently included in the General Rules Applicable to Mexican Banks. The amendments specify that net capital will be comprised of capital contributions, retained profits and capital reserves. The CNBV is authorized to allow or prevent the inclusion of other items to calculate a bank's net capital, subject to the terms and conditions of the general rules to be issued by CNBV to further regulate the capital requirements for bank institutions. We currently comply with applicable capitalization requirements.

Enhancing the CNBV supervisory practices. The reforms grant ample authority to the CNBV for the supervision of the financial entities under the Mexican Banking Law. The CNBV may perform visits to banks, with the aim to review, verify, test and evaluate the operations, processes, systems of internal control and risk management among others elements that may affect the financial position of banks.

Increasing requirements for the granting of credits to customers. For the granting of credits, banks are required to analyze and evaluate the viability of payment by borrowers or counterparties, relying on an analysis based on quantitative and qualitative information that allows establishing their credit worthiness and ability of timely payment of the credit. Banks must issue guidelines and lending process manuals and credit procedures shall be performed in accordance with such policies.

Establishing new provisions on transparency and reliability. Banks are required to publicly disclose their corporate, financial, administrative, operational, economic and legal information, as determined by the CNBV. Banks must post on their website and in a national newspaper their balance sheets and other relevant information periodically.

Establishing audit powers for the supervision of external auditors. The CNBV has powers of inspection and surveillance with respect to entities that provide external audit services to banks, including those partners or employees who are part of the audit team, in order to verify the compliance with the Mexican Banking Law. The CNBV is allowed to: (i) request any information and documentation related to the services rendered; (ii) practice inspection visits; (iii) require the attendance of partners, legal representatives and other employees; and (iv) issue audit procedures to be complied by the auditors, in connection with the tax opinions and practices performed by them.

Limited purpose banks. The reform introduced limited purpose banks (bancos de nicho), which can only engage in a limited amount of banking activities which are specifically set forth in their by-laws. The minimum required capital of limited-purpose banks can vary depending on the activities carried out by such entities, from a range of 36,000,000 UDIs to 90,000,000 UDIs.

Under the Financial Reform, the Mexican Congress approved additional changes to the Mexican Banking Law. Relevant changes include the following:

Participation of Foreign Governments. It clarifies the rules that require prior approval from the CNBV for the investment of foreign governments in commercial banks, as a temporary prudential measure, in cases where foreign entities receive financial support or are rescued. Such intervention should be through official entities not exercising authority, and participation should be indirect and without control. The shareholding structure in broker-dealers, retirement fund administrators, insurance companies and mutual insurance companies, bonding companies, financial groups and credit information companies was also amended.

Capitalization Requirements. The concepts of “Minimum Basic Capital” and “Capital Supplement” have been incorporated into the law. The law also provides for capital requirements, additions and restrictions, as well as asset disposal in cases where the entities with significant influence on banks are facing liquidity or solvency problems. It also entitles development banks to support banks should they require capitalization.

Limit on Transactions with Related Parties. The limit on the aggregate number of transactions with related parties has changed, which shall not exceed 35 percent of the net capital.

Liquidity Requirements. The amendments to the Mexican Banking Law grant authority to the CNBV to order adjustments to a bank’s accounting registries. If a bank fails to meet the liquidity requirements imposed by CNBV and the Mexican Central Bank, the CNBV may order the bank to adopt actions toward restoring the corresponding liquidity requirements, including suspending or partially limiting certain lending, borrowing or service operations of the bank, and requiring the bank to present a liquidity restoration plan.

Risk Control, Banking Resolutions and New Judicial Liquidation/Bank Bankruptcy Rules. The early warning, preventive and corrective action system changed. The Financial Reform entitles the CNBV to determine the maximum number of active transactions and provides for new rules in the event that the Mexican Central Bank acts as lender of last resort so that it requires collateral on the bank’s shares. It also introduces the obligation to have a plan of stress scenarios, contingency and resolution plans as well as participation in mock resolutions. It also has amended certain articles regarding the structure of bank resolutions, including new deadlines for exercising the right of audience prior to the revocation of the authorization to operate as a bank and includes a new scheme of judicial liquidation/bank bankruptcy, replacing the provisions of the Bankruptcy Act.

Self-Correcting Programs. The Mexican Banking Law and other financial laws state that the financial institutions may submit to the CNBV self-correcting programs when they detect defaults to the provisions regulating them, taking into consideration that irregularities detected by the CNBV or serious defaults or offenses may not be part of the self-correcting programs.

Transactions with Members of the Same Group or Consortium. New rules and limitations have been established. Transactions with members of the same group shall be agreed to on market terms.

Measures to Encourage Credit and Performance Evaluations. The SHCP is authorized to assess the performance of commercial banks regarding compliance with the support of the country's productive forces and the growth of the economy; the SHCP shall issue the relevant guidelines for such assessment. It also authorizes the CNBV to encourage the channeling of more resources to the productive sector by setting parameters on the execution of transactions with securities. The financial authorities shall take into account the results of the assessments to decide on the authorizations it will grant in general.

Administrative Offenses and Penalties. It significantly increases the number and severity of the sanctions, which are to be disclosed to the general public, although none are definitive or final. It also provides for sanctions for officials involved in transactions with related parties in excess of the statutory limits. Amendments to the administrative sanction system were made consistently in all financial laws amended by the Reform.

SHCP Blacklist. With respect to the prevention of transactions with funds from illegal sources and terrorist financing, it provides for the obligation to immediately suspend transactions with the persons included in the blacklist issued by the SHCP. This obligation is also set for the other financial institutions in their respective laws.

Asymmetric Regulation. It authorizes the SHCP, the CNBV and the Mexican Central Bank to issue asymmetric regulation, *i.e.*, one that considers the regulatory burden in accordance with the size of each institution.

Exchange of Information with Foreign Financial Authorities. It regulates in more detail the procedure for the exchange of information with foreign authorities and verification visits.

Initiatives to Improve Creditors' Rights and Remedies

Mexico has enacted legislation to improve creditors' rights and remedies. These laws include collateral pledge mechanisms and a new bankruptcy law.

Collateral Mechanisms

On June 13, 2003, a congressional decree was published amending the Mexican Commerce Code (Codigo de Comercio), the General Law of Negotiable Instruments and Credit Transactions (Ley General de Titulos y Operaciones de Credito), the former Securities Market Law, the Mexican Banking Law, the Insurance Companies Law (Ley General de Instituciones y Sociedades Mutualistas de Seguros), the Bond Companies Law (Ley Federal de Instituciones de Fianzas) and the General Law of Ancillary Credit Organizations and Activities (Ley General de Organizaciones y Actividades Auxiliares del Credito). The purpose of the amendment was to provide an improved legal framework for secured lending and, as a consequence, encourage banks to increase their lending activities. Among its provisions, the decree eliminated a prior non-recourse provision applicable to non-possessory pledges (which allowed the creation of a pledge over all the assets used in the main business activity of the debtor, but limited recourse to the applicable collateral) and collateral trusts, to allow creditors further recourse against debtors in the event that proceeds derived from the sale or foreclosure of collateral are insufficient to repay secured obligations.

Foreclosure of Securities Loans

The Mexican Congress also approved changes to the Commerce Code intended to expedite proceedings relating to the foreclosure of secured loans by financial institutions. These changes grant authority to Mexican courts to issue interim measures, such as ordering persons not to leave Mexico or ordering assets to be frozen. Furthermore, on January 10, 2014, a decree was published which reforms, adds and repeals diverse regulations on financial matters and the Law Regulating Financial Groups was issued, establishing in the General Law of Titles and Loan Operations the application of values or goods given in pledge, which at the time of execution can be made without a legal ruling.

Mexican Bankruptcy Law

The Mexican Bankruptcy Law was enacted on May 12, 2000 and has been restored by virtue of the Decree of Financial Reforms published on January 10, 2014, and is used as a means to conclude complex insolvency situations affecting Mexican companies, by providing expedited and clear procedures, whereas at the same time granting creditors and other participants the certainty of an in-court solution. The Bankruptcy Law provides for a single insolvency proceeding encompassing two successive phases: (i) a conciliatory phase of mediation between creditors and debtor, (ii) and bankruptcy.

The Bankruptcy Law, impose that only a Supervisory Commission, may demand the declaration of insolvency of banking institutions; being that in which according with the applicable provisions, is responsible for the supervision and monitoring of a Financial Institution. In the case of banking institutions, such as Banorte, with the declaration of bankruptcy the judicial procedure is initiated in the bankruptcy phase and not, as in common procedures, in the conciliatory phase. The bankruptcy of a Credit Institution is viewed as an extreme measure (because it results in a liquidation and dissolution of the relevant institution), which has not been resorted to in practice, and is preceded by a number of measures that seek to avoid it, such as corrective measures taken by the CNBV, facilities made available by the IPAB and an intervention led by the CNBV. Upon filing a suit of declaration of insolvency, banking institutions must cease operations and suspend payment of all obligations.

The Bankruptcy Law establishes precise rules that determine when a debtor is in general default in its payment obligations. The principal indications are failure by a debtor to comply with its payment obligations with two or more creditors, and the existence of the following two conditions: (i) liabilities must be least 30 days past-due and represent 35.0% or more of a debtor's outstanding liabilities, and (ii) the debtor fails to have certain specifically defined liquid assets and receivables to support at least 80.0% of its obligations.

Applicable law provides for the use and training of experts in the field of insolvency and the creation of an entity to coordinate their efforts. Such experts include the intervenor (interventor), conciliator (conciliador) and receiver (síndico). The IPAB acts as the liquidator and receiver and the CONDUSEF may appoint up to three intervenors.

On the date the insolvency judgment is entered, all peso-denominated obligations are converted into UDIs, and foreign currency-denominated obligations are converted into pesos at the rate of exchange for that date and then converted into UDIs. Only creditors with a perfected security interest (i.e., mortgage, pledge or security trust) continue to accrue interest on their loans. The Bankruptcy Law mandates the netting of derivative transactions upon the declaration of insolvency.

The Bankruptcy Law provides for general rules as to the period when transactions may be scrutinized by the judge to determine if they were entered into for fraudulent purposes, which is 270 calendar days prior to the judgment declaring insolvency. This period is referred to as the retroactivity period. Nevertheless, upon the reasoned request of the conciliator, the inspectors, who may be appointed by the creditors to oversee the process, or any creditor, the judge may set a longer period.

In December 2007, the Bankruptcy Law was amended to incorporate provisions relating to pre-agreed insolvency proceedings, frequently used in jurisdictions different from Mexico, that permit debtors and creditors to agree upon the terms of a restructuring and thereafter file, as a means to obtain the judicial recognition of a restructuring reached on an out-of-court basis. This also provides protection against dissident minority creditors.

The Mexican Congress also approved changes to Mexico's Bankruptcy Law, intended to improve the application of such law. Relevant changes include:

- the consolidation of bankruptcy proceedings affecting parent and subsidiary companies;
- the application of liquid assets provided as collateral, in connection with the netting and close out of derivative and similar contracts;
- setting forth an outside limit to bankruptcy restructuring (three years);
- permitting trustees and other creditor representatives, to submit claims on behalf of groups of creditors;
- expressly recognizing subordinated creditors, and deeming related party creditors as subordinated creditors; and
- making members of the Board of Directors liable to the bankrupt debtor if such member acted when affected by a conflict of interest, self-dealing and otherwise against the interests of the bankrupt debtor.

As of the date of this offering memorandum, we are continuing to evaluate the effects that these reforms may have on us.

Deregulation of Lending Entities and Activities

In July 2006, the Mexican Congress enacted reforms to the General Law of Auxiliary Credit Organizations and Credit Activities (Ley General de Organizaciones y Actividades Auxiliares del Credito), the Mexican Banking Law and the Foreign Investment Law (Ley de Inversion Extranjera), with the objective of creating a new type of financial entity called Multi-purpose Non-Banking Financial Institution (Sociedad Financiera de Objeto Multiple, or Sofom) (the "Sofom Amendments"). The Sofom Amendments were published in the Official Gazette on July 18, 2006.

The main purpose of the Sofomes Amendments is to deregulate lending activities, including financial leasing and factoring activities. Sofomes are Mexican corporations (sociedades anónimas) that expressly include as their main corporate purpose in their by-laws, engaging in lending and/or financial leasing and/or factoring services. Pursuant to the Sofomes Amendments, the SHCP has ceased to authorize the creation of new Sofoles, and all existing Sofol authorizations automatically terminate on July 19, 2013. On or prior to that date, existing Sofoles ceased operating as a Sofol. Failure to comply with this would result in dissolution or liquidation of the Sofol. Existing Sofoles also have the option of converting to Sofomes or otherwise extending their corporate purposes to include activities carried out by Sofomes.

Among others, Sofomes that are affiliates of Mexican credit institutions (i.e., private or public banks) or the holding companies of financial groups that hold a credit institution will be regulated and supervised by the CNBV, and will be required to comply with a number of provisions and requirements applicable to credit institutions such as capital adequacy requirements, risk allocation requirements, related party transactions rules, write-offs and assignment provisions, as well as reporting obligations. Regulated Sofomes are required to include in their denomination the words "Entidad Regulada" (regulated entity) or the abbreviation thereof, "E.R." All other entities whose main purpose is engaging in lending, financial leasing and factoring activities are non-regulated Sofomes and must so indicate in their corporate denomination by including the words "Entidad No Regulada" (non-regulated entity) or the abbreviation thereof, "E.N.R." Non-regulated Sofomes are not subject to the supervision of the CNBV.

Sofomes (regulated or non-regulated) will be subject to the supervision of the CONDUSEF as is the case with any other financial entity.

The Sofomes Amendments also eliminated the restrictions on foreign equity investment applicable to Sofoles, financial leasing and factoring companies, which until the Sofomes Amendments became effective, was limited to 49.0%. Accordingly, the Sofom Amendments may result in an increase in competition in the financial services industry, from foreign financial institutions.

The Mexican Securities Market Law

On December 30, 2005, a new Mexican Securities Market Law was enacted and published in the Official Gazette. The new Mexican Securities Market Law became effective on June 28, 2006, however, in some cases an additional period of 180 days (until late December 2006) was available for issuers to incorporate the new corporate governance and other requirements derived from the new law into their bylaws. The Mexican Securities Market Law sets standards for authorizing companies to operate as brokerage firms, which authorization is granted by the CNBV with the approval of its Governing Board. In addition to setting standards for brokerage firms, the Mexican Securities Market Law authorizes the CNBV, among other things, to regulate the public offering and trading of securities, corporate governance, disclosure and reporting standards and to impose sanctions for the illegal use of insider information and other violations of the Mexican Securities Market Law.

The new Mexican Securities Market Law changed the Mexican securities regulation in various material respects. The reforms were intended to update the Mexican regulatory framework applicable to the securities market and publicly traded companies in accordance with international standards.

Reforms to the Mexican Securities Market Law.

Under the Financial Reform, the Mexican Congress approved additional changes to the Mexican Banking Law. Relevant changes include the following:

Offerings of Securities Abroad. The CNBV must be notified of any type of offerings made abroad, in the case of securities issued in Mexico or by Mexican corporations, even if the offerings are private.

Various Modifications to the Obligations Related to the Information of an Issuer. The CEO of the issuer shall be responsible for the content of the disclosed information, the material events and other information that must be disclosed to the public.

It also provides for tighter controls on persons having access to material information, the publication of which is deferred.

The persons related to the underwriter, persons providing independent or subordinated personal services to the issuer and third parties that have had contact with those who have access to privileged information must be included in the list of persons who are considered to have access to privileged information, unless proven otherwise.

Finally, with respect to misleading information, disclosure of information that is prohibited by applicable law has been excluded as an omission of disclosure.

Rules applicable to Development Trust Certificates, Real Estate Notes and Indexed Notes. The Law introduces special regulation for these instruments. Also, it considers the operating companies of investment companies within the institutions that can act as trustees for the issuance of trust certificates. Finally, administrators of issuing trusts of indexed certificates will be prohibited from having ties with those determining those indices.

Homologation of Broker-Dealers' Capitalization Rules. The capitalization of broker-dealers is homologated to that of the banking institutions.

Stress Scenarios. It introduces the obligation to have a plan for stress scenarios for broker-dealers and commercial banks.

Liability of Underwriters. The liability structure of broker-dealers, who may be liable for damages and losses caused by breach of their obligations, has been extended.

Stock Pledge. It provides for rules for the application of payments of the securities pledged, without any judicial proceeding.

Insurance System

The Mexican insurance system is governed by a number of statutes, the most important of which include the General Insurance Companies Law (Ley General de Instituciones y Sociedades Mutualistas de Seguros) – which was repealed on April 4, 2015 and substituted as of this date by the Insurance and Bonding Law -, the Insurance Contract Law (Ley Sobre el Contrato de Seguro) and other regulatory provisions enacted by the SHCP and the CNSF.

Insurance companies require the authorization of the SHCP for their incorporation. The authorization may include the specific insurance sector in which the insurance company will conduct business, including life, health care, damages, civil and professional liability, among others. The SHCP may also grant authorization to perform reinsurance and co-insurance activities. Insurance companies are subject to stringent capital adequacy and investment rules, compliance of which is supervised by the CNSF. These rules determine the type of assets into which insurance companies may invest, as well as the minimum amount of capital required to be maintained by such entities. Also, insurance companies are required to maintain technical reserves that function as a cushion against risks and help these entities to maintain adequate levels of liquidity.

The regulation and surveillance powers of the CNSF grant this entity the authority to verify compliance with the various financial and technical actuarial regulations, as well as with other corporate governance principles.

Retirement Savings System

The Retirement Savings Systems Law (Ley de los Sistemas de Ahorro para el Retiro) established the Afore pension system. Among other economic benefits and services to be provided to participants in the retirement savings system, the Retirement Savings Systems Law provides that each worker may establish an independent retirement account, which is to be managed by an approved Afore. Under this system, employees, employers and the government are required to make contributions to the independent retirement accounts maintained by each worker. In addition to the mandatory contributions, employees are allowed to make voluntary contributions to their independent retirement accounts. Pursuant to the Retirement Savings Systems Law, the main functions of an Afore include, among others, (i) managing pension funds, (ii) creating and managing individual pension accounts for each worker, (iii) creating, managing and operating Siefores, (iv) distributing and purchasing Siefores' stock, (v) contracting pension insurance, and (vi) distributing, in certain cases, the individual funds directly to the pensioned worker.

Afores and Siefores are subject to the supervision of the CONSAR, which is in charge of the coordination and regulation of the pension system. Under the Retirement Savings Systems Law, no Afore may serve more than 20.0% of the total market, unless CONSAR authorizes a higher limit of market concentration, provided that this is not to the detriment of the interests of workers.

Federal Law for Protection of Personal Data Held by Private Persons

The Federal Law for Protection of Personal Data Held by Private Persons (Ley Federal de Proteccion de Datos Personales en Posesion de Particulares) that protects personal data collected, became effective on July 5, 2010.

Under such law, we are required to ensure the confidentiality of information received from clients. No assurances may be given as to how such law will be interpreted. However, if strictly interpreted and enforced, we may be subject to fines and penalties in the event of violations to the provisions of such law.

Amendments to Financial Regulations Impacting Banks

The Mexican financial system has continued to advance in recent years, consistent with demands from regulators and market participants, developments in other jurisdictions and to address systemic issues resulting from the global financial crisis. In particular, in June 2007, a new Law for the Transparency and Ordering of Financial Services (Ley para la Transparencia y Ordenamiento de los Servicios Financieros) was approved, which granted the Mexican Central Bank authority to regulate interest rates and fees and the terms of disclosure of fees charged by banks to their customers.

Even though the global financial crisis did not affect Mexican banks directly, many Mexican corporations were affected, primarily by having engaged in foreign-currency linked derivative transactions, which increased exposures substantially as a result of the devaluation of the peso, triggering a new regulation issued by the CNBV that sought to improve disclosure standards as they relate to derivative transactions.

On October 31, 2013, the Mexican Congress approved the tax reform that went into effect in January 2014, including several changes to tax regulations that, although they did not have direct impact on GFNorte, they did affect it indirectly through its subsidiaries. Because of labor costs such as payrolls and benefits to officers and employees, as well as the change in writing off global allowances for loan losses, bad debts for now, the most affected subsidiary was Banorte. Some of the main changes in the Tax Reform were: Business Flat Tax (IETU) and Tax on Cash Deposits (IDE) were repealed, uniform Value Added Tax nationwide at 16%, and the new Income Tax Law that had important implication for Banorte. Some of these are:

<u>30% Income Tax Rate:</u> The temporary rates stated in the repealed law, which set a tax rate of 29% for 2014 and 28% as of 2015, no longer is in effect. The definitive rate for income tax is 30%.

<u>10% Income Tax on Dividends:</u> A new 10% tax was applied on the distribution of dividends to individuals and foreigners. This tax will be paid by means of withholding and will be deemed as definite payment. The tax will be applied to the profits generated as of 2014.

<u>Overall Allowance for loan losses:</u> According to the repealed Income Tax Law, Banorte could deduct from taxes the loan reserves in an amount equivalent to 2.5% of the average balance of the loan portfolio. According to the tax reform, this deduction of loan reserves will be replaced by the deduction of write-offs (art. 27 section XV of the ISR Law), and even though the new law set a “tax ceiling” to prevent the deduction of write-offs that used to be part of the previously deducted 2.5% of the reserves, the non-deducted part of the loans originated in 2013 or earlier are not subject to said ceiling. The addendum for 2014 published in the Official Gazette on December 30, 2013 in the rule I.3.22.5 and later by rule 3.23.1 of the Miscellaneous Fiscal Resolution for 2015 published in the Official Gazette of the Federation dated December 30, 2014, both state that losses from bad debts, generated after January 1 2014, could be deducted for tax purposes so long as the amount of loss –together with: discounts and write-offs over the loan portfolio, losses from portfolio sales and losses from payments in kind originated after January 1 2014 (in accordance with Article 9, fraction XIV, last paragraph of transitional provisions of the Income Tax Law)- equals the balance of overall allowance for loans losses on December 31 2013. Losses before this time will not be deductible for tax purposes.

The amount of losses from bad debts and other items to which the previous paragraph refers that can be implemented in each fiscal year against the balance on December 31 2013, cannot exceed 2.5% of the yearly average balance of the loan portfolio of the corresponding fiscal year, determined in accordance with the penultimate paragraph of Article 53 of the Income Tax Law in force until December 31 2013. When the amount of losses from bad debts and the aforementioned items exceeds that percentage, the surplus can be applied to subsequent fiscal years until it runs out, so long as the sum of the aforementioned losses and other items applied during the fiscal year do not exceed 2.5%. At GFNorte, the reserve balance as of December 31, 2013 was applied in 2014 and 2015.

Deductibility of ISR-exempt employee benefits: The new ISR Law provisions limit the deductibility of some of the benefits paid to employees, including the pension plan, savings fund, IMSS contributions, among other concepts. Now only 53% of these benefits may be deducted, and if the benefit is lower than last year's, only 47% may be deducted. In GFNorte's case, these provisions affect mainly the deductions associated with the savings fund, food coupons and pension plans, among others. So although it is not considered a substantial amount, it does involve a larger taxable base.

SAT Teller (Tax Administration Service): The tax reform states that the taxpaying individuals and business entities who opened an account in their name in the banking system or in savings & loan companies, will be obligated to request their registration in the Federal Taxpayers Register (RFC). Furthermore, members of the financial system are obliged to report to the authorities about their accountholders and verify that they are registered in the RFC. This way the tax authorities will be able to request information directly to said entities without having to go through the CNBV.

On April 23, 2021, were published in the Official Gazette the decree amending, adding and repealing provisions of the Federal Labor Law (*Ley Federal del Trabajo*); of Social Security Law (*Ley del Seguro Social*); of Law of the Institute of the National Housing Fund for Workers (*Ley del Instituto del Fondo Nacional de la Vivienda para los Trabajadores*); of Fiscal Code of the Federation (*Código Fiscal de la Federación*); of Income Tax Law (*Ley del Impuesto sobre la Renta*); of Value Added Tax Law (*Ley del Impuesto al Valor Agregado*); of Federal Law of Workers in the Service of the State Regulation of Section B) of Article 123 of the Constitution (*Ley Federal de los Trabajadores al Servicio del Estado Reglamentaria del Apartado B del Artículo 123 Constitucional*); of Regulatory Law of Section XIII Bis of Section B, of Article 123 of the Political Constitution of the United Mexican States (*Ley Reglamentaria de la Fracción XIII Bis del Apartado B, del Artículo 123 de la Constitución Política de los Estados Unidos Mexicanos*), regarding Labor Subcontracting.

This reform contemplated several changes in tax and labor provisions that, even though they did not directly impact GFNorte, they did affect it indirectly through its subsidiaries, prohibiting to subcontract personnel and allowing subcontract specialized services that are not part of the corporate purpose or the predominant economic activity of the beneficiary of these, provided that the contractor is registered with the Secretary of Labor and Social Welfare (*Secretaria del Trabajo y Previsión Social*).

Applicable Law and Supervision

The following is a summary of provisions, laws and regulations applicable to financial institutions in Mexico.

GFNorte has SHCP authorization to incorporate and operate as a financial group under the terms provided in the LRAF, being under inspection and supervision of CNBV. Its transactions consist in the acquisition, disposal and managing of voting shares issued by Group entities, as well as by those companies providing complementary services to one or more of the financial entities of the Group or to the Company, and to other companies authorized by the SHCP through general regulations.

Our operation as financial group is primarily regulated by the LRAF and the general provisions issued by the SHCP. The operations of our subsidiaries are primarily regulated by the LIC, the LMV, the LGOAAC, the LISF, the LSAR, the LFI, the LGSM and the rules issued thereunder by the SHCP, the CNBV, the CNSF and the CONSAR, as well as rules issued by Banxico and IPAB, the Civil Code for Mexico City and the Mexican Federal Tax Code.

Company's Bylaws, the Statutory Responsibility Agreement, as well as any other amend to such documents, will be submitted for the SHCP approval, which shall grant or deny it hearing Banxico and CNBV opinion. Any conflict arising from interpretation of the compliance or breach of the Company's Bylaws shall be submitted before the competent Mexico City's Courts.

Incorporation of a Financial Group and Subsidiaries

In terms of the LRAF, the incorporation and functioning of the financial groups are permitted prior authorization of the SHCP, including the opinion of Banxico and the CNBV, the CNSF or the CONSAR, as the case may be. Approval of the SHCP is also required prior to the opening, closing or relocating of offices, including branches, of any kind outside of Mexico or transfer of assets or liabilities between branches. Likewise, a notice to the SHCP is required for the opening of branches in Mexico.

The corporate purpose of a financial group's holding company shall be to acquire and manage the shares issued by the subsidiaries of the financial group. In no case shall the financial services holding company perform or execute any of the financial activities authorized to the entities that comprise the financial group.

Financial services holding companies shall at all-time direct or indirectly own more than 50% of the representative shares of the paid-in capital of each of the entities that comprise the financial group. Additionally, financial services holding companies may appoint the majority of the members of the Board of Directors of each of its controlled subsidiaries.

The financial services holding company's by-laws, the Statutory Responsibility Agreement, and any other amendment to such documents, shall be submitted to the approval of the SHCP, which may grant or deny such authorization, taking into consideration the opinion of Banco de México and, as the case may be, the opinion of the CNBV, the CNSF or the CONSAR.

Financial Groups are integrated by a holding company and at least two financial institutions (which may be of the same type), provided that a financial group may not be comprised solely by the holding company and two Multi-purpose Non-Banking Financial Institutions. Such institutions may include Multi-purpose Non-Banking Financial Institutions, foreign exchange houses, bonding institutions, insurance companies, broker-dealers, banks, mutual funds managers, mutual funds distributors, retirement fund management companies, multiple purpose non-banking financial institutions and micro finance companies.

Entities of the same financial group are allowed to (i) act jointly before the public, offer complementary services and publicly act as part of the same financial group; (ii) use similar corporate names; and (iii) conduct their activities in the offices and branches of members of the same financial group.

Limitations on Investments in Other Entities

Under the Financial Groups Law, subsidiaries of a financial services holding company may not directly or indirectly own capital stock of their own financial services holding company, unless they hold such stock as institutional investors under the Financial Groups Law. Institutional investors under the Financial Groups Law are insurance and bond companies that invest their technical reserves, investment funds and pension funds.Institutions belonging to a financial group may not extend credits in connection with the acquisition of their capital stock, the capital stock of their financial services holding company or the capital stock of other subsidiaries of their financial services holding company. Without the prior approval of the SHCP (which shall take into consideration the opinions of Banco de México and the primary Mexican regulatory commission supervising the relevant financial entity), members of a financial group may not accept as collateral shares of capital stock of Mexican financial institutions. Mexican banks, such as Banorte's subsidiaries, may not acquire or receive as collateral certain securities issued by other Mexican banks. The approval of the SHCP is required prior to acquisition of shares of capital stock of non-Mexican financial entities.

The Mexican Banking Law imposes certain restrictions on investments by Mexican banks, such as our subsidiary Banorte, in equity securities of companies engaged in non-financial activities. Mexican banks may own equity capital in such companies in accordance with the following guidelines:

- up to 5.0% of the capital of such companies at any time, without any approval;
- more than 5.0% and up to 15.0% of the capital of such companies, for a period not to exceed three years, upon prior authorization of a majority of the members of the bank's Board of Directors; and
- higher percentages and for longer periods, or in companies engaged in new long-term projects or carrying out development related activities, whether directly or indirectly, with prior authorization of the CNBV.

  The total of all such investments (divided considering investments in listed and in non-listed companies) made by a bank may not exceed 30.0% of such bank's Mexican Tier 1 capital.

A Mexican bank, such as our subsidiary Banorte, requires the prior approval of the CNBV to invest in the capital stock of companies that render auxiliary services to such bank and of companies that hold real estate where the offices of the applicable bank may be located.

In accordance with the LRAF, in order to merge two or more Holding or Sub holding companies, or any other financial company with a Holding or Sub holding company, as well as to merge two or more financial entities comprising the same Financial Group or an entity of the Financial Group with other financial company or any other company it is required the SHCP authorization, listening to the opinion of Banxico and, as appropriate, the CNBV, the CNSF, or the CONSAR.

Financial Groups' Statutory Responsibility

The Law Regulating Financial Groups requires that each financial services holding company, such as GFNorte, enter into an agreement with each of its financial services subsidiaries (the "Statutory Responsibility Agreement"). Pursuant to such agreement, the financial group holding company is responsible secondarily and without limitation for performance of the obligations that the financial institutions comprising the Financial Group have, corresponding to the activities which, in accordance with the applicable provisions, each is responsible for, even respect to those incurred by such financial institutions prior to their integration into the Financial Group and is unlimited responsible for losses of each and every one of these financial institutions. In the event that the assets of the Holding company are not sufficient to simultaneously face the responsibilities, with respect to the subsidiaries of the Financial Group, such liabilities will be covered firstly, with regard to the credit institution belonging to this financial group and, subsequently, on a proportional basis with respect to the other companies integrating the Financial Group, until the patrimony of the Holding company is used up. In accordance with the provisions of Article 119 of the LRAF, is considered that a financial entity has losses when its assets are not sufficient to cover its payment obligations. Furthermore, the definition for losses is according to that set forth in the general provisions issued by the SHCP for this purpose.

The financial services holding company has to inform the CNBV of the existence or potential existence of any such obligation or loss. The financial services holding company would only be liable for the obligations of its financial services subsidiaries 15 business days after the CNBV (or any other principal regulator) delivers notice of its approval of the enforceability of such obligations. The financial services holding company responds to the losses of its subsidiaries by making capital contributions to such subsidiaries (no later than 30 days counted from the date the applicable losses shall arise).

In the event of a financial services holding company's statutory responsibility with respect to a bank, IPAB must determine the amount of the preliminary losses of such bank. The financial services holding company is required to create a capital reserve for the amount of such losses. The financial services holding company is also required to guarantee the payment of the bank's losses that are paid by IPAB pursuant to its law. Such guarantee may be created over the financial services holding company's assets or over such company's shares or those of its subsidiaries. Pursuant to Article 120 of the Law Regulating Financial Groups, any shareholder of the financial services holding company, due to its holding of the shares, accepts that its shares could be posted as guarantee in favor of IPAB, and that such shares will be transferred to IPAB if the financial services holding company is unable to pay any amounts due to IPAB as a result of the bank's losses.

A financial services holding company is not allowed to pay any dividends or transfer any monetary benefit to its shareholders as of the date on which IPAB determines the bank's losses up to the date on which the financial services holding company has paid for the bank's losses.

No subsidiary is responsible for the losses of the financial services holding company or of the financial services holding company's subsidiaries. GFNorte has entered into such an agreement with its financial services subsidiaries and such agreement is in effect.

Liabilities

A financial services holding company may only engage on direct or contingent liabilities, or post its assets as guarantee, in the following cases: (i) with respect to its obligations under the Statutory Responsibility Agreement; (ii) transactions with IPAB or with the protection and security fund provided for in the Mexican Securities Market Law; and (iii) with the authorization of Banco de México for the case of subordinated debentures of mandatory conversion to securities representing its capital and the obtainment of short-term loans.

Supervision and Intervention

A financial services holding company is subject to the supervision of the commission that supervises the most important entity of the financial group, as determined by the SHCP. GFNorte is overseen by the Supervision Commission (the CNBV, the CNSF or the CONSAR, depending on the responsible for supervising the general functioning of the Financial Group in terms of article 102 of the LRAF) which in turn supervise the financial entities according to their activities. The financial services holding company's accounting will be subject to the rules authorized by the CNBV.

If, as part of its supervision activities, the corresponding commission determines that a financial services holding company has engaged in irregular activities against the applicable financial regulations, the chairman of such commission may impose the corrective measures it deems necessary. If such measures are not complied with in the period set for such purposes, the relevant commission may declare the administrative intervention (*intervención administrativa*) of the financial services holding company.

If, in the opinion of the relevant commission, the irregularities of a financial services holding company affect its stability and solvency, and endanger the interests of the public or its creditors, a managerial intervention (*intervención gerencial*) can be declared by the chairman of the relevant commission, prior resolution of the governing board. The chairman will appoint a peremptory manager (*interventor-gerente*). The peremptory manager will assume the authority of the Board of Directors. The peremptory manager will have the authority to represent and manage us with the broadest powers under Mexican law and will not be subject to the Board of Directors or the shareholders' meeting. The appointment of the peremptory manager must be registered in the Public Registry of Commerce of the corresponding domicile.

Ownership Restrictions; Foreign Financial Affiliates

Ownership of a financial services holding company's capital stock is no longer limited to specified persons and entities under the Law Regulating Financial Groups. The ordinary stockholders' equity of holding companies shall be comprised of shares Series "O". Additional equity shall be represented by shares Series "L", which shall be issed uop to the amount equivalent to 40% od the ordinary Stockholders' equity, prior SHCP authorization. Shares Series "O" , and if the case, Series "L" can be subscribed by both Mexican and non-Mexican investors.

Notwithstanding the above, under the Law Regulating Financial Groups, foreign Governments may not participate, directly or indirectly, in the holding's capital stock, except in the following cases:

- When done with prudential measures of a temporary nature such as for support or bailouts.

- When the corresponding participation implies that it has control of the holding company, and is carried out by official corporations, such as funds and governmental promotional entities among others, with prior discretionary authorization of the SHCP, whenever in its opinion such corporations prove that:

    - They do not exert authority, and
    - Their decision-making bodies operate independently of the foreign government involved.

- When the corresponding participation is indirect and does not imply control of the holding company.

  Mexican financial entities, including those that form part of the respective financial group, cannot purchase a financial services holding company's capital stock, unless such entities are institutional investors as defined in the Law Regulating Financial Groups.

- any transfer of shares representing more than 2% of the outstanding capital stock of a Mexican bank is required to be reported to the CNBV;
- the CNBV has been granted broader discretion to authorize the acquisition of more than 5% of the outstanding shares of a Mexican bank; and
- the composition of the boards of directors of Mexican banks has been limited to a total of 15 members and their alternates (as opposed to the former rule of 11 members or multiples thereof), 25% or more of whom must qualify as independent.

In addition, the LRAF, the LMV and our by-laws set forth restrictions to acquire shares of the Financial Group, pursuant to item 4. Administration, subsection d) Corporate By-Laws and other Agreements of this Annual Report.

A holder that acquires shares in violation of the foregoing restrictions, or in violation of the percentage ownership restrictions, will have none of the rights of a shareholder with respect to such shares and will be required to forfeit such shares in accordance with procedures set forth in the Law Regulating Financial Groups and the Securities Market Law, in addition to any penalties that may be applicable.

Banking Regulation

The SHCP, either directly or through the CNBV, possesses broad regulatory powers over the banking system. Banks are required to report regularly to the financial regulatory authorities, principally the CNBV and Banco de México. Reports to bank regulators are often supplemented by periodic meetings between senior management of the banks and senior officials of the CNBV. Banks must submit their unaudited monthly and quarterly and audited annual financial statements to the CNBV for review, and must publish on their website and in a national newspaper their unaudited quarterly balance sheets and audited annual balance sheets. The CNBV may order a bank to modify and republish such balance sheets.

Additionally, each credit institution must publish on their website, among other things:

- its basic consolidated and audited annual financial statements, together with a report containing the management's discussion and analysis of the financial statements and the bank's financial position, including any important changes thereto and a description of the bank's internal control systems;
- a description of the bank's Board of Directors, identifying independent and non-independent directors and including their resumes;
- a description and the total compensation and benefits paid to the members of the Board of Directors and senior officers during the past year;
- unaudited quarterly financial statements for the periods ending March, June and September of each year, together with any comments thereon;
- any information requested by the CNBV to approve the accounting criteria and special registries;
- a detailed explanation regarding the main differences in the accounting used to prepare the financial statements;
- the credit rating of their portfolio;
- the capitalization level of the bank, its classification (as determined by the CNBV) and any modifications thereto;
- financial ratios;
- a brief summary of the resolutions adopted by any shareholders' meeting, debenture holders' meeting, or by holders of other securities or instruments; and
- the bank's by-laws.

The CNBV has authority to impose fines for failing to comply with the provisions of the Mexican Banking Law, or regulations promulgated thereunder. In addition, Banco de México has authority to impose certain fines and administrative sanctions for failure to comply with the provisions of the Law of Banco de México (Ley del Banco de México) and regulations that it promulgates and the Law for the Transparency and Ordering of Financial Services (Ley para la Transparencia y Ordenamiento de los Servicios Financieros), particularly as violations relate to interest rates, fees and the terms of disclosure of fees charged by banks to clients. Violations of specified provisions of the Mexican Banking Law are subject to administrative sanctions and criminal penalties.

The Mexican Banking Law permits foreign governments to acquire equity securities of Mexican banks, on a temporary basis in connection with rescue or similar packages, which was not possible in the past, and to acquire control of Mexican banks, with the prior approval of the CNBV.

Mexican banks are now required to expense carefully, through their boards of directors, compensation payable to officers and, for that purpose, will be required to observe general rules to be issued by the CNBV and to establish and maintain a compensation committee.

Changes approved by the Congress clarify capitalization requirements, causes for revocation of a license and terms pursuant to which the Mexican government may provide assistance to troubled Mexican banks.

The amended Mexican Banking Law includes a provision for self-correcting irregularities detected by Mexican banks, arising from non-compliance with applicable law. Programs for self-correction are required to be approved by the board of directors of the applicable Mexican bank and must be supervised by the bank's audit committee. General rules implementing the provisions are expected to be issued by the CNBV.

New provisions have been added to the Mexican Banking Law, in connection with the dissolutions and liquidation of Mexican banks facing liquidity or solvency problems. A Mexican bank may only be dissolved and liquidated, if the CNBV has issued a determination to that effect. Prior to such dissolution and liquidation, the IPAB may provide temporary financial assistance to Mexican banks having liquidity problems.

Non-viable Mexican banks will be liquidated pursuant to a procedure set forth in the Mexican Banking Law, under which the IPAB will act as liquidator, will conduct the procedures necessary to collect fees and pay creditors (respective parties specified under the Mexican Banking Law) and will take all measures conducive to the bank's liquidations. The Mexican Banking Law now reflects provisions that were regulated by the Mexican Bankruptcy Law, as they relate to the dissolutions and liquidation of Mexican banks. Liquidation proceedings may be conducted in-court or out of court, depending upon the circumstances affecting the relevant Mexican bank. In addition to liquidation proceedings, Mexican banks may be declared in bankruptcy pursuant to a specialized proceeding set forth in the Mexican Bankruptcy Law.

Licensing of Banks

Authorization of the Mexican government is required to conduct banking activities. The CNBV, with the approval of its Governing Board and subject to the prior favorable opinion of Banco de México, has the power to authorize the establishment of new banks, subject to minimum capital standards, among other things. Approval of the CNBV is also required prior to opening, closing or relocating offices, including branches outside of Mexico or transfer of assets or liabilities between branches.

Intervention

The CNBV, with the approval of its Governing Board, may declare the managerial intervention (*intervención gerencial*) of a banking institution pursuant to Articles 129 through 141 of the Mexican Banking Law (the "CNBV Intervention"). In addition, the Governing Board of IPAB will also appoint a peremptory manager (*administrador cautelar*) if the IPAB provides liquidity, in accordance with applicable law.

A CNBV Intervention pursuant to Articles 129 through 141 of the Mexican Banking Law will only occur when:

- during a calendar month, any of the Capital Ratios of a bank is reduced from a level equal to or above the minimum Capital Ratios required under the Mexican Capitalization Requirements, to 50% or less than such minimum Capital Ratios;
- the banking institution does not comply with the minimum Capital Ratios required under the Mexican Banking Law and it does not submit itself to the conditional operation regime under Article 29 Bis 2 of the Mexican Banking Law; or
- the banking institution defaults with respect to any of the following payment obligations:
    - in the case of obligations in an amount greater than 20,000,000 UDIs or its equivalent: (1) loans granted by other banking institutions, foreign financial institutions or Mexican Central Bank, or (2) payments of principal or interest on securities issued, that have been deposited with a clearing system; and
    - in the case of obligations in an amount greater than 2,000,000 UDIs or its equivalent, if during two business days or more, (1) it does not pay its obligations with one or more participants in clearing systems or central counterparts, or (2) it does not pay in two or more of its branches, banking deposits claimed by 100 or more of its customers, could occur.

In addition, a CNBV Intervention may occur when the CNBV, in its sole discretion, determines the existence of irregularities that affect the stability or solvency of the bank or the public interest or the bank's creditors.

The peremptory manager will be appointed by the IPAB, if the IPAB has granted extraordinary financial support to a bank in accordance with the Mexican Banking Law. The peremptory manager will have the authority to represent and manage the bank with the broadest powers under Mexican law, will prepare and submit to the IPAB, the bank's budget (for approval), will be authorized to contract liabilities, make investments, undertake acquisitions or dispositions and incur expenses, to hire and fire personnel and may suspend operations. The appointment of the peremptory manager must be registered in the Public Registry of Commerce of the corresponding domicile.

Revocation of a Banking License and Payment of Guaranteed Obligations

Revocation of a Banking License. In the case that the CNBV revokes a license to be organized and operate as a banking institution, IPAB's Governing Board will determine the manner under which the corresponding banking institution shall be dissolved and liquidated in accordance with Articles 165 through 274 of the Mexican Banking Law. In such a case, IPAB's Governing Board may determine to carry out the liquidation through any or a combination of the following transactions:

- transfer the liabilities and assets of the banking institution in liquidation to another banking institution directly or indirectly through a trust incorporated for such purposes;
- the constitution, organization and managing of a new banking institution owned and operated directly by IPAB with the exclusive purpose of transferring the liabilities and assets of the banking institution in liquidation; or
- any other alternative that may be determined within the limits and conditions provided by the Mexican Banking Law that IPAB considers as the best and least expensive option to protect the interest of bank depositors.

Causes to Revoke a Banking License. The above mentioned amendments significantly expand the events upon which the CNBV may revoke a banking license. The following are among the most relevant causes:

- if the bank does not starts operations within the term of thirty days as from the notification of such authorization;
- that the shareholders' meeting decide to request the revocation;
- if the banking institution is dissolved or initiates liquidation or bankruptcy procedures (*concurso mercantil or quiebra*);
- if the banking institution
    - does not comply with any minimum corrective measures ordered by the CNBV pursuant to Article 122 of the Mexican Banking Law;
    - does not comply with any special corrective measure ordered by the CNBV pursuant to such Article 122; or
    - consistently does not comply with an additional special corrective measure ordered by the CNBV;
- if the banking institution does not comply with the minimum Capital Ratio required under the Mexican Banking Law and the Mexican Capitalization Rules;
- if the banking institution defaults with respect to any of the following payment obligations:
    - in the case of obligations in an amount greater than 20,000,000 UDIs or its equivalent: (1) loans granted by other banking institutions, foreign financial institutions or Banco de México, or (2) payments of principal or interest on securities issued, that have been deposited with a clearing system, and
    - in the case of obligations in an amount greater than 2,000,000 UDIs or its equivalent, if during two business days or more, (1) it does not pay its obligations with one or more participants in clearing systems or central counterparts, or (2) it does not pay, in two or more of its branches, banking deposits claimed by 100 or more of its clients; or
- if the assets of the banking institution are insufficient to meet its liabilities.

Upon publication of the resolution of the CNBV revoking a banking license in the Official Gazette and in two newspapers of wide distribution in Mexico and registration with the corresponding Public Registry of Commerce, the relevant banking institution will be dissolved and liquidation will be initiated. Upon liquidation of a banking institution, the IPAB shall proceed to make payment of all "guaranteed obligations" of the relevant banking institution in compliance with the terms and conditions set forth by the Mexican Banking Law, other than those "guaranteed obligations" that have been actually transferred pursuant to article 186 of the Mexican Banking Law.

Obligations of a banking institution in liquidation that are not considered “guaranteed obligations” pursuant to the IPAB Law, and that are not effectively transferred out of the insolvent banking institution, will be treated as follows:

- term obligations will become due (including interest accrued);
- unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in pesos or UDIs will cease to accrue interest;
- unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in foreign currencies, regardless of their place of payment, will cease to accrue interest and will be converted into pesos at the prevailing exchange rate determined by Banco de México;
- secured liabilities, regardless of their place of payment will continue to be denominated in the agreed currency, and will continue to accrue ordinary interest, up to an amount of principal and interest equal to the value of the assets securing such obligations;
- obligations subject to a condition precedent, shall be deemed unconditional;
- obligations subject to a condition subsequent, shall be deemed as if the condition had occurred, and the relevant parties will have no obligation to return the benefits received during the period in which the obligation subsisted; and
- derivatives, repos and securities loans will be early terminated and netted after two business days following the publication of the resolution of the CNBV revoking a banking license in the Official Gazette and in two newspapers of wide distribution in Mexico.

Liabilities owed by the banking institution in liquidation will be paid in the following order of preference:

- liquid and enforceable labor liabilities,
- secured loans,
- tax liabilities,
- liabilities to IPAB, as a result of the partial payment of obligations of the banking institution supported by IPAB in accordance with the Mexican Banking Law,
- bank deposits, loans and other liabilities as provided by Article 46, Sections I and II of the Mexican Banking Law, to the extent not transferred to another banking institution, as well as any other liabilities in favor of IPAB different from those referred formerly,
- any other liabilities (other than those referred to below),
- preferred subordinated debentures,
- non-preferred subordinated debentures, and
- the remaining amounts, if any, shall be distributed to stockholders.

Financial Support

Determination by the Financial Stability Committee. The Financial Stability Committee (“*FSC*”) includes representatives of the SHCP, Banco de México, the CNBV and IPAB. In the case that the FSC determines that if a bank were to default on its payment obligations and such default may (i) generate direct or indirectly serious negative effects in one or more commercial banks or other financial entities, endangering their financial stability or solvency, and such circumstance may affect the stability or solvency of the financial system, or (ii) put in risk the operation of the payments’ systems required for the development of the economic activity, then the FSC may determine, on a case-by-case basis, that a general percentage of all of the outstanding obligations of the troubled bank that are not considered “guaranteed obligations” under the IPAB Law and guaranteed obligations in amounts equal to or higher than the amount set forth under Article 11 of the IPAB Law (400,000 UDIs per person per entity), be paid as a means to avoid the occurrence of any of such circumstances. Notwithstanding the foregoing, under no circumstance may the transactions referred to in Sections II, IV and V of Article 10 of the IPAB Law (which include transactions such as liabilities or deposits in favor of shareholders, members of the Board of Directors and certain senior officers, and certain illegal transactions) or the liabilities derived from the issuance of subordinated debentures, be covered or paid by IPAB or any other Mexican governmental agency.

Types of Financial Support. In the case that the FSC makes the determination referred to in the prior paragraph, then IPAB's Governing Board will determine the manner according to which the troubled commercial bank will receive financial support, which may be through either of the following options:

- If the FSC determines that the full amount of all of the outstanding liabilities of the relevant troubled commercial bank (guaranteed and non-guaranteed) must be paid, then the financial support may be implemented through (i) capital contributions granted by IPAB in accordance with Articles 151 to 155 of the Mexican Banking Law, or (ii) credit support granted by IPAB in accordance with Articles 156 through 164 of the Mexican Banking Law, and in either case the CNBV shall refrain from revoking the banking license granted to such commercial bank.

- If the FSC determines that less than the full amount of all the outstanding liabilities of the troubled commercial bank (guaranteed and non-guaranteed) must be paid, then the support will consist of the payment of the general percentage of outstanding obligations of the relevant troubled banking institution in determined by the BSC, in terms of article 198 of the Mexican Banking Law,transferring the assets and liabilities of such commercial bank to a third party, as set forth in Articles 194 to 197 of the Mexican Banking Law.

Conditional Management Regime. As an alternative to revoking the banking license, the relevant bank may request, with the prior approval of its shareholders, the application of a conditional management regime. The conditional management regime may be requested when any of the Capital Ratios of the relevant bank is below the minimum required pursuant to the Mexican Capitalization Requirements. In order to qualify for such regime, the relevant commercial bank should (*i*) deliver to the CNBV a plan for the reconstitution of its capital, and (*ii*) transfer at least 75% of its shares to an irrevocable trust. Banking institutions that fail to meet the minimum core capital required by the Mexican Capitalization Requirements may not adopt the conditional management regime.

Bank Liquidation Process

According to the latest amendments to the Mexican Banking Law, enacted on January 10, 2014, upon publication of the resolution of the CNBV revoking a banking license, in the Official Gazette and two newspapers of wide distribution in Mexico and registration of such resolution with the corresponding Public Registry of Commerce, the relevant banking institution will be dissolved and liquidation will be initiated, in terms of the procedure set forth in the Mexican Banking Law. The IPAB will be appointed liquidator of the banking institution.

In the event that the banking license is revoked because the assets of the relevant bank are insufficient to meet its liabilities, the IPAB shall undertake the liquidation procedure before a competent Federal court, according to the terms and conditions provided for a court liquidation (*liquidación judicial*) procedure under the Mexican Banking Law, in substitution of the *concurso mercantil* under the Mexican Bankruptcy Law. Moreover, the IPAB will be appointed as receiver (*liquidador judicial*) for purposes of the court liquidation procedure.

The IPAB will carry out the creditors' identification process. The IPAB must also comply with the following preference for the payment of the banking institution´s debts: first, secured creditors; second, labor obligations; third, debts with a special privilege provided by statute; fourth, the unpaid balance in respect to the of the deposits insured by the IPAB and thereafter, payments shall be made in the preference provided in article 241 of the Mexican Banking Law, noting that the last debts to be paid are subordinated preferred and non-preferred obligations.

Capitalization

The Mexican Capitalization Requirements set forth the methodology to determine the net capital relative to market risk, risk-weighted assets and operations risk. Under the relevant regulations, the CNBV may impose additional capital requirements.

Adoption of Basel III Standards in Mexico

On November 28, 2012, the CNBV published new banking regulations, anticipating the adoption of Basel III guidelines. Most aspects of the new set of rules became effective on January 1, 2013, while others will be phased until the year 2022. (See section 2. “Issuer. Subsection b) Business Description – Applicable Laws and Tax Position – Applicable Law and Supervision – Adoption of New Rules in Mexico in accordance with Basel III”).

The new regulation aims to, among others: (i) strengthen the composition of the net capital of banking institutions under Basel III guidelines, and (ii) allow certain securities issued by commercial banks to have the ability to absorb losses incurred by these institutions when submitting a detriment in their capital, either through a conversion into their shares or by the loss of the agreed value at the time of issuance in order to be recognized as part of the net capital of such institutions.

Among other changes, the amendments to the General Rules Applicable to Mexican Banks implementing the Basel III rules include the following:

Quality and level of capital. Greater focus on common equity and Common Equity Tier 1 Capital. The minimum Common Equity Tier 1 Capital was raised to 4.5% of risk-weighted assets, after deductions.

Capital loss absorption at the point of non-viability. Contractual terms of capital instruments include a clause that allows – at the discretion of the relevant authority – write-off or conversion to common shares if the bank is judged to be non-viable. This principle increases the contribution of the private sector to resolving future banking crises.

Capital conservation buffer. Banks shall constitute a Capital Supplement of 2.5% of the risk-weighted assets, bringing the total minimum Common Equity Tier 1 Capital standard to 7.0%. Constraint on a bank’s discretionary distributions will be imposed when banks fall into the buffer range.

Countercyclical buffer. This buffer is imposed within a range of 0-2% comprising Common Equity Tier 1 Capital, when the CNBV judges that credit growth is a result from an unacceptable build-up of systemic risk, and is based on the credit activities carried by the financial institution in foreign markets.

Pursuant to the General Rules Applicable to Mexican Banks, this capital supplement is calculated taking into consideration the financing activities performed by banks in different jurisdictions.

Systemically Important Domestic Banks. D-SIBs must have higher loss absorbency capacity to reflect the greater risks that they pose to the domestic financial system. The additional loss absorbency requirements are to be met with a progressive Common Equity Tier 1 Capital requirement ranging from 0.60% to 2.25%, depending on a bank’s systemic importance.

Under the Mexican Capitalization Rules, Mexican banks are required to maintain a minimum capital ratio of 8.0%, including a supplementary capital of 2.5% of Tier 1 Capital with respect to risk weighted assets subject to total risks. Aggregate net capital consists of Tier 1 Capital and Tier 2 Capital.

The General Rules Applicable to Mexican Banks, currently specify that Mexican banks may be classified in several categories based on their Net Capital Ratio, Tier 1 Capital and Common Equity Tier 1 Capital. The relevant corrective measures applicable to us are determined based on the following classifications.

The Capital Adequacy rules that apply to Banorte include 2 additional capital buffers: (1) a capital buffer for an important systemic financial institution, and (2) a counter-cyclical capital buffer. The first is a supplementary capital for institutions that have been identified as of systemically importance, where the institutions must comply in a 4 year period starting on December 2016, while the second buffer represents additional capital that the institutions must cover based on the exposition with the private sectors of jurisdictions that have a higher growth rate on credits than the economic growth. It is important to notice, that Banorte has been identified as a Level IV systemically important institution based on the current regulation, therefore complying with a capital buffer of 0.225% starting on December 2016, 0.45% starting on December 2017, 0.675% starting on December 2018 and 0.90% starting on December 2019.

The General Rules Applicable to Mexican Banks, currently specify that Mexican banks may be classified in several categories based on their Net Capital Ratio, Tier 1 Capital and Fundamental Capital. The relevant corrective measures applicable to us are determined based on the following classifications.:

		Net Capital Ratio (*ICAP*)				
Fundamental Capital or CET1 (*CCF*)	**Tier 1 Capital (*CCB*)**	**≥ 10.5% + CBF**	**≥ 8.0%**	**≥ 7.0% + CBF**	**≥ 4.5%**	**< 4.5%**
≥ 7% +CBF	≥ 8.5% + CBF	**I**	**II**			
	≥ 7% + CBF	**II**	**II**	**III**		
≥ 4.5%	≥ 8.5% + CBF	**II**	**II**			
	≥ 6%	**II**	**II**	**III**	**IV**	
	≥ 4.5%	**III**	**III**	**IV**	**IV**	
< 4.5%						**V**

Where,

ICAP = Net Capital Ratio (Índice de Capitalización)
CCB = Tier 1 Capital Ratio (Coeficiente de Capital Básico)
CCF = Fundamental Capital Ratio (Coeficiente de Capital Básico Fundamental)
CBF = Capital Supplements (Systemically Important Bank Capital Supplement + Countercyclical Capital Supplement). The Capital Supplement for Institutions of Systemic Importance for Banorte corresponds to 0.90% as of December 2019.

This table is based upon the tables set forth in Article 220 of the General Rules Applicable to Mexican Banks, which should be consulted for a complete understanding of the applicable requirements, including in relation to the applicable Capital Supplements to be constituted by the Bank.

Furthermore, the General Rules Applicable to Mexican Banks provide that:

- The Net Capital will include a Tier 1 Capital (capital básico) and a Tier 2 Capital (capital complementario). The minimum Net Capital ratio required for each bank shall be equal to 8%;

- The Tier 1 Capital shall include:
    - a Tier 1 Capital coefficient of at least 6%;
    - a Common Equity Tier 1 Capital coefficient of at least 4.5%; and

      (a) a capital conservation buffer equivalent to 2.5% of the Weighted Assets Subject to Risk,
      (b) in case of D-SIBs, the Systemically Important Bank Capital Supplement, and

(c) the Countercyclical Capital Supplement

- The Tier 1 Capital of the Net Capital will be divided into a Fundamental Capital (capital básico fundamental) and a Non-Core Tier 1 Capital (capital básico no fundamental).

The General Rules Applicable to Mexican Banks require banks to maintain a Net Capital Ratio of at least 10.5% to avoid the imposition of corrective measures notwithstanding that the minimum required Net Capital Ratio is 8%.

For clarification purposes, Tier 1 Capital refers to the basic portion of total Net Capital, as such term is defined in the General Rules Applicable to Mexican Banks. Tier 1 Capital is comprised of the two components of basic capital (capital básico fundamental and capital básico no fundamental) as such terms are defined in the General Rules Applicable to Mexican Banks. Fundamental Capital (capital básico fundamental) means only the amount of the fundamental capital as such term is defined in the General Rules Applicable to Mexican Banks. Non-Fundamental Capital (capital básico no fundamental) means the non-fundamental basic capital as such term is defined in the General Rules Applicable to Mexican Banks. Tier 2 Capital refers to the additional portion (parte complementaria) of total Net Capital, as such term is defined in the General Rules Applicable to Mexican Banks.

Total Net Capital consists of Tier 1 Capital (which, in turn, consists of Common Equity Tier 1 Capital (Fundamental) and Common Equity Additional Tier 1 Capital (Non-Fundamental)) and Tier 2 Capital. The Mexican Capitalization Requirements include among the Core Equity Tier 1 Capital, mainly, paid-in capital, which represents the most subordinated right to collect in case of liquidation of a credit institution, which are not due and do not grant reimbursement rights, profits (mainly including retained profits), and capital reserves, and subtract from such Common Equity Tier 1 Capital (Fundamental), among other things, certain subordinated debt instruments, issued by financial and non-financial entities, securities representing residual parts of portfolio securitization, investments in the equity of venture-capital funds and investments in or credits to related companies, reserves pending creation, loans and other transactions that contravene applicable law, and intangibles (including goodwill). Common Equity Additional 1 Capital (Non-Fundamental) is comprised of preferential shares, regarding which the issuer has the right to cancel the dividend payments, and subordinated debt instruments, which are not subject to a due date or forced conversion, regarding which it is possible to cancel the interest payments and which may become shares of a credit institution or a controlling entity or are subject to cancellation (when capitalization problems arise).

Tier 2 Capital comprises capitalization instruments, as long as such capitalization instruments are registered with the RNV, are subordinated to deposits and any other debt of the credit institution, do not have any specific guarantee, have a term of at least five years and may be convertible into shares at their maturity date or are subject of write-down procedures. These instruments shall be included as capital based on their maturity date: 100% if the due date exceeds five years, 80% if the due date exceeds four years but is less than five years, 60% if the due date exceeds three years but is less than four years, 40% if the due date exceeds two years but is less than three years, 20% if the due date exceeds one year but is less than two years, and 0% if the due date is less than one year.

Every Mexican bank must create certain legal reserves that are considered to be part of Tier 1 Capital. Banks must separate and allocate 10.0% of their net income to such reserve each year until the legal reserve equals 100.0% of their paid-in capital (without adjustment for inflation). The remaining of net income, to the extent not distributed to shareholders as dividends, is added to the retained earnings account. Under Mexican law, dividends may not be paid out against the legal reserve.

During 2017, the CNBV implemented a new regulation stating that Tier 1 and Tier 2 capital instruments cannot be considered above 50% of the Common Equity Tier 1 Capital if the CET1 Capital Ratio is below 10.0%.

Furthermore, it is important to remind that in 2021 Banorte Banorte was ratified as a Tier 2 Locally Systemically Important Institution, which implies that Banorte must maintain a 0.90 pp capital buffer, which was established progressively over a period of four years starting in December 2016. With the above, Banorte's minimum regulatory Capitalization Ratio amounts to 11.40% at the end of 2021 (corresponding to the regulatory minimum of 10.5% plus the capital supplement constituted to date).

Additionally, as of December 2022, Multiple Banking Institutions of Local Systemic Importance must also maintain a Supplement to Net Capital, which must be additional capital to that necessary to comply with the minimum Capitalization Ratio. This Supplement to Net Capital corresponds to 6.5% of the Total ASR and must be constituted in a period of 4 years from December 31, 2022 to December 31, 2025 in accordance with the following:

	Commencing December 31,			
	2022	**2023**	**2024**	**2025**
Minimum Capital Ratios				
Total Net Capital (*capital neto*)..	13.025%	14.650%	16.275%	17.900%

As of December 31, 2021, the Bank's Capital Ratios were (i) 24.69% in the case of Capitalization Ratio, (ii) 23.78% in the case of Tier 1 Capital and (iii) 15.32% in the case of Fundamental Capital.

The Bank is currently classified as Class I and, as a result, it is not subject to any corrective measures.

Corrective Measures

The Mexican Banking Law and the General Rules Applicable to Mexican Banks establish the minimum corrective and special additional measures that banks must fulfill according to the category in which they were classified based on their capital. These corrective measures are designed to prevent and, when necessary, correct the operations of the banks that could negatively affect their solvency or financial stability. The CNBV is required to notify the relevant bank in writing of the corrective measures that it must observe, as well as verify its compliance with the corrective measures imposed.

Regardeless the regulatory CAPR, the CNBV may order the application of additional special corrective mesures.

Banking institutions classified under Category I pursuant to the table above, shall not be subject to any corrective measures. For multiple banking institutions that have been classified in Category I according to the matrix described above, no corrective measure will be applicable. Nevertheless, corrective measure for all the other categories include:

For Class II:

- requiring the bank to:
    - inform the Board of Directors about the bank's classification, as well as the causes for the CNBV to make such classification, and submit a detailed report containing a comprehensive evaluation of the bank's financial situation, its level of compliance with the regulatory framework and the main indicators that reflect the degree of stability and solvency of the bank, within 20 business days after the bank has received the CNBV notification of the corrective measure;
    - include in such report the causes of the weakening of their Capitalization Ratio and the Tier 1 Capital and Tier 2 Capital;
    - include in such report any observations mandated, in accordance with their respective scope of authority, by each of the CNBV and the Mexican Central Bank;
    - report in writing the financial situation to the chief executive officer and chairman of the board of directors of the bank or the board of directors of the bank's holding company, in the event the bank is part of a financial group;
    - abstain from entering transactions that will cause its Capitalization Ratio to be lower than required under the Capitalization Requirements;

- abstain from increasing the current amounts of the financings granted to relevant related parties; and
- submit for approval to the CNBV, a plan for capital restoration which has as a result an increase of its Capitalization Ratio in order for the institution to be placed in Class I.

Such plan shall be presented to the CNBV no later than 20 business days after the date the bank receives the CNBV notification of the corrective measure.

For Class III and above:

- requiring the bank's Board of Directors to:
  - within 15 business days as of the notice of its classification, submit to the CNBV, for its approval, a plan for capital restoration that will result in an increase in its Capitalization Ratio, which may contemplate a program for improvement in operational efficiency, streamlining costs and increasing profitability, the carrying out of contributions to the capital and limits to the operations that the banks may carry out in compliance with their bylaws, or to the risks derived from such operations. The capital restoration plan shall be approved by such bank's board of directors before being presented to the CNBV. The bank shall determine in the capital restoration plan that, in accordance with this subsection, it must submit, periodic targets, as well as the date in which the capital of such bank will get the capitalization level required in accordance with the applicable provisions. The CNBV, through its governing board, must resolve all that corresponds to the capital restoration plan that has been presented to them, in a maximum of 60 calendar days from the date the plan was submitted; and
  - comply with the plan within the period specified by the CNBV, which in no case may exceed 270 calendar days starting the day after the bank was notified of the respective approval. To determine the period for the completion of the restoration plan, the CNBV shall take into consideration the bank's category, its financial situation, as well as the general conditions prevailing in the financial market. The CNBV, by agreement of its governing board, may extend the deadline once by a period that will not exceed 90 calendar days. The CNBV will monitor and verify compliance with the capital restoration plan, without prejudice of the provenance of other corrective measures depending on the category in which the corresponding bank is classified;

- requiring the bank to:
  - suspend any payment of dividends to its shareholders, as well as any mechanism or act that involves the transfer of any economic benefits to the shareholders. If the bank belongs to the holding company, the measure provided in this subsection will apply to the holding company to which the bank belongs, as well as the financial entities or companies that are part of such holding company. This restriction on the payment of dividends for entities that are part of the same financial group will not apply in the event the dividend is being applied to the capitalization of the bank;
  - requiring the bank to suspend any capital stock repurchase programs of the bank and, in the event that the bank belongs to a financial group, also the programs of the holding company of such group;
  - requiring the bank to defer or cancel the interest payments on outstanding subordinated debt and, when applicable, defer the payment of the principal or exchange the debt into shares of the bank in the amount necessary to cover the capital deficiency, in advance and proportionately, according to the nature of such obligations. This corrective measure will be applicable to those obligations that are identified as subordinated debt in their indenture or issuance document;
  - requiring the bank to suspend payment of any extraordinary benefits and bonuses that are not a component of the ordinary salary of the chief executive officer or any officer within the next two levels, as well as not granting any new benefits in the future for the chief executive officer and the officers until the bank complies with the minimum levels of capitalization required by the CNBV;
  - requiring the bank to refrain from increasing outstanding amounts of any credit granted to any individual who is a related party; and

For Class IV and above:

- refraining from making new investments on non-financial assets, opening branches or performing activities other than those made in the ordinary course of business.

In addition to the minimum corrective measures, the CNBV may order the implementation of additional and special corrective measures for banks with a classification from II to V. The additional and special corrective measures that, if applicable, the banks must comply with are:

- define the concrete actions that it will carry out in order not to deteriorate its Capitalization Ratio;
- inform the chief executive officer of the foreign holding company about the bank's classification, as well as the causes that caused the CNBV to make such classification, and submit a detailed report containing a comprehensive evaluation of the bank's financial situation, its level of compliance with the regulatory framework and the main indicators that reflect the degree of stability and solvency of the bank, within 20 business days after the bank has received the CNBV notification of the corrective measure, only in case of banks owned by foreign financial groups;
- hire the services of external auditors or any other specialized third party for special audits on specific issues;
- refrain from agreeing to increases in the salaries and benefits of the officers and employees in general, except for agreed salary revisions and in compliance with labor rights;
- substitute officers, members of the board or external auditors with appointed persons occupying the respective positions;
- undergo other actions or be subject to other limitations as determined by the CNBV, based on the result of its functions of monitoring and inspection, as well as with sound banking and financial practices; or
- refrain from entering into new agreements that may cause an increase on the Weighted Assets Subject to Risk or may cause a higher deterioration on the Capitalization Ratio.

Reserve and Compulsory Deposit Requirements

The compulsory reserve requirement is one of the monetary policy instruments used as a mechanism to control the liquidity of the Mexican economy to reduce inflation. The objective of Banco de México's monetary policy is to maintain the stability of the purchasing power of the Mexican peso and in this context, to maintain a low inflation level. Given the historic inflation levels in Mexico, the efforts of Banco de México have been directed towards a restrictive monetary policy.

Under this policy, Banco de México has elected to maintain a short-term financial creditor stance with respect to the Mexican financial money markets, where every day the markets begin operations with a liquidity deficit that is later compensated by Banco de México through daily operations in the money market that provide liquidity and adequate stability to these markets. Banco de México's experience has shown that the implementation of its monetary policy is more effective if it starts with a position of liquidity deficit at the beginning of each day of operations.

As of January 2015, the Liquidity Coverage Ratio came into effect, which is a measurement of liquidity implemented by authorities that reflects current liquidity of the Bank and foresees liquid, free-disposal and good quality assets in order to face liabilities and liquidity needs for a 30 day period under a stress scenario. Later, in January 2019, the minimum LCR established 100% with daily monitoring measured in accordance with deviations above the minimum of 100%, Banorte currently remains above this regulatory minimum.

The Net Stable Funding Coefficient (CFEN), a long-term measure complementary to the CCL that measures the institutions' long-term funding structure, is expected to take effect in March 2022, with a regulatory minimum of 100

% and an early warning structure similar to that applicable to the CCL, measured based on monthly deviations. Banorte's estimates position us above this new regulatory limit.

To manage its maturity exposures to the Mexican financial markets, Banco de México has been extending the maturities of its liabilities for longer terms to avoid the need for continuing refinancing of its liabilities. Those liabilities have been restructured into voluntary and compulsory deposits (Depositos de Regulacion Monetaria), and into investment securities such as longer-term government bonds (Bondes) and compulsory monetary regulatory bonds (Brems). At the same time, Banco de México has elected to hold short-term assets, thus allowing it the ability readily to refinance its positions of assets and reduce its maturity exposure to the financial markets.

Banco de México imposes reserve and compulsory deposit requirements on Mexican commercial banks. Bulletin 36/2008 published on August 1, 2008, stated that the total compulsory reserve deposit required of Mexican commercial banks was Ps 280.0 billion, which had to be deposited in eight installments by eight deposits of Ps 35.0 billion each on August 21 and 28; September 4, 11, 18 and 25; and October 2 and 9, 2008. The amount of the deposit that each bank had to make was determined based on each bank’s pro rata share of total Mexican financial institution time deposits allocated as of May 31, 2008. Likewise, in addition to the compulsory reserve abovementioned, the Mexican Central Bank imposed an addition for the monetary regulation l reserve and compulsory deposit requirement on Mexican commercial banks. Circular 11/2014 published on June 27, 2014, stated an additional compulsory reserve deposit of Ps 41.5 billion, which had to be deposited in four installments by four deposits of Ps10.4 billion each on August 14; September 11, October 9 and November 6, 2014. The amount of the deposit that each bank had to make was determined based on each bank’s pro rata share of total Mexican financial institution time deposits allocated as of May 31, 2014. The Circular 7/2020, published on April 1, 2020, and referring to the modification of Circular 9/2014, established a decrease of Ps 50.0 billion in the total amount of Monetary Regulation Deposits, distributing pro rata the amount of Ps 15.0 billion to Development Banking and Ps 35.0 billion among Multiple Banking Institutions. Circular 42/2020, published on November 4, 2020, and referring to the modification of Circular 9/2014, established the recalculation methodology for the amounts of Monetary Regulation Deposits of banking institutions, which were paid on November 12, 2020.

The compulsory deposit reserves required under the terms of the Bulletins 36/2008 and 11/2014 have an indefinite term. During the time these reserves are maintained on deposit with Banco de México, each banking institution receives interest on such deposits every 28 days. Banco de México will provide advance notice of the date and the procedure to withdraw the balance of these compulsory deposits at such time, if any, that the compulsory deposit reserves are suspended or terminated.

Portfolio rating and allowance for loan loss reserves

Non-performing loan portfolio

The loan portfolio represents the balance of amounts effectively granted to borrowers plus uncollected accrued interest minus interest collected in advance. The allowance for loan losses from credit risks is presented as a reduction of the loan portfolio.
The unpaid loan balance is classified as past-due portfolio as follows:

- Loans with bullet payment of principal and interest at maturity: 30 calendar days after being overdue.
- Loans involving a single principal payment at maturity, but with periodic interest payments, total principal and interest payments 30 and 90 calendar days after being overdue, respectively.
- Loans for which the payment of principal and interest is agreed based on partial periodic payments, 90 calendar days after the first payment is due.
- In the case of revolving loans, whenever payment is outstanding for two billing periods or when they are 60 or more days overdue.

- Overdrawn customer checking accounts are considered as part of the past-due portfolio when such situations arise.

Allowance for loan losses

The loan portfolio is rated pursuant the rules issued by the SHCP and following the methodology established by the CNBV. For the Revolving Consumer loan portfolio and Auto Loans portfolio, the Institution applies an Internal Rating methodology with an Advanced Approach; and for the Commercial Loan Portfolio, the Institution applies an Internal Rating methodology with a Foundation Approach; all three methodologies were authorized by the CNBV.

Such regulations establish general methodologies for rating and estimating the allowance for each type of loan.

The commercial loan portfolio rating procedure requires that credit institutions apply the established methodology (general or internal) based on quarterly information for the periods ending in March, June, September and December of each year, whereas also recording in their financial statements the allowances determined at the end of each month. Furthermore, during the months following each quarter, financial institutions must apply the respective rating to any loan used at the end of the immediately preceding quarter, based on the outstanding balance in effect on the last day of the aforementioned months. The allowances for loan risks that have exceeded the amount required to rate the loan will be cancelled against the period's results on the date of the following quarterly rating. Additionally, recoveries on the previously written-off loan portfolios are recorded in the period's results.

General description of Standard Methodologies established by the CNBV

The rules for rating the consumer, mortgage and commercial loans (excluding loans to financial intermediaries and loans intended for investment projects having their own source of payment) establish that their allowance for loan loss should be determined based on the estimated loan's expected loss over the next twelve month period.

Such methodologies stipulate that the estimate of such loss evaluates the probability of default, the loss given default and the exposure at default. The result of multiplying these three factors is the estimated expected loss that is the same as the amount of the reserves needed in order to face the loan risk.

Depending on the type of loan, the probability of default, loss given default and exposure at default are determined considering the following:

Probability of Default

- Non-revolving consumer loan – takes into account delinquency, borrower's indebtedness, willingness to pay, Banorte's seniority, borrower's credit behavior with other Institutions as per information provided by Credit Information Companies, among others.
- Revolving consumer loan – considers the current performance and historical behavior regarding the number of outstanding payments, vintage, payments respect to the balance, as well as what percentage of usage for the authorized credit line. Additionally, the borrower's credit behavior with other Institutions as per information provided by Credit Information Companies.
- Mortgage loan – considers current delinquency, maximum number of past-due over the last four periods, willingness to pay, current loan to value and borrower's credit behavior with other Institutions as per information provided by Credit Information Companies, among others.
- Commercial loan.- depending on the type of debtor, payment experience, INFONAVIT's payment experience, rating agencies' assessment, financial risk, social-economical risk, financial soundness, country and industry risk, market share, transparency, standards and corporate governance.

Loss Given Default

- Consumer loans (non-revolving and revolving)– depends on the number of past due payments.
- Mortgage loan – based on the outstanding balance of the mortgage loan, unemployment insurance and the state where the loan was granted.
- Commercial loans – considers financial and non-financial guarantees as well as personal guarantees.

Exposure at Default

- Non-revolving consumer loan – considers loan balance at the rating date.
- Revolving consumer loan – considers current use of credit line to estimate how much its usage would increase in the event of default.
- Mortgage loans – considers loan balance at the rating date.
- Commercial – for revocable loans, the loan balance at the rating date is considered. For irrevocable loans, the current use of credit line to estimate how much its usage would increase in the event that default is considered.

The CNBV's rules for rating commercial loan debtors for loans intended for investment projects having their own source of payment, indicate that the rating must be estimated by analyzing the risk of projects at construction and operation stages, evaluating the project's over-cost and cash flows.

Description of internal methodologies

The internal methodologies used by the Institution, like the standard methodologies, have an expected loss approach for the following twelve months. These internal methodologies can have the following approaches:

- Basic - the Probability of Default is estimated using internal methodology, while the parameters of Severity of Loss and Exposure to Default are applied according to the standard model.
- Advanced - Estimates of Default, Severity of Loss and Exposure to Default are estimated using the internal methodology.

Revolving Consumption

Since January 2018, the Institution has been authorized to use an Internal Methodology under an Advanced Approach for the Revolving Consumption portfolio. This methodology is used to estimate reserves and capital requirements for credit risk, in accordance with the provisions of the regulation.

The probability of default, the severity of the loss and the exposure to default of this methodology are determined considering the following:

Probability of Default

- There are differentiated models according to the current internal delinquency level, seniority of the account and credit limit. The models take into consideration aspects as the usage, internal operation, customer loyalty, seniority of the account and external behavior variables such as maximum delinquency and usage with other financial institutions in different time horizons.

Loss given default

- According to the number of missed payments, and usage of credit line.

Exposure to Default

- Takes into consideration the seniority of the account and accounting balance to estimate how much its usage would increase in the event that default is considered.

Auto Loan Portfolio

Since January 2020, The Institution was granted with the approval for applying an Internal Rating Methodology with an Advanced Approach. This methodology is used to estimate the reserves and capital requirements for credit risk, according to regulation.

Regarding this methodology, the probability of default, the loss given default and the exposure at default are estimated considering the following:

Probability of default|
There are differentiated models according to the current delinquency level, seniority (Bank and Credit Bureau), and Credit Bureau performance, which take into consideration aspects as customer loyalty, seniority of the account, collateral value, and internal and external behavior variables in different time horizons.

Loss given default

- According to the number of past-due payments and loan to value.

Exposure at default

- Takes into consideration the amount of the debt at the time of default.

Business Portfolio

Since January 2019 the Institution has been authorized to use an internal methodology under a Basic Approach for the Companies portfolio (legal entities other than states, municipalities and financial entities and individuals with business activity, both with higher annual sales or equal to 14 million IDUs). This methodology is used to estimate reserves and capital requirements for credit risk, in accordance with the provisions of the regulation.

The probability of default of this methodology is determined considering the following:

Probability of Default

• Internal and external Credit behavior, creditor financial risk, economic sector, quality of the company's administration, target markets and other qualitative aspects.

Liquidity Requirements for Foreign Currency-Denominated Liabilities

Pursuant to regulations of Banco de México, the total amount of maturity-adjusted (by applying a factor, depending upon the actual maturity of the relevant liability) net liabilities denominated or indexed to foreign currencies that Mexican banks, their subsidiaries or their foreign agencies or branches may maintain (calculated daily), are limited to 1.83 times the amount of their Tier 1 Capital. To calculate such limit, maturity-adjusted foreign currency-denominated or indexed assets (including liquid assets, assets with a maturity of less than one year, short term derivatives and spot foreign exchange transactions) are subtracted from maturity-adjusted foreign currency-denominated or indexed liabilities, and the aforementioned factor is applied to the resulting amount.

The maturity-adjusted net liabilities of Mexican banks denominated or indexed to foreign currencies (including dollars) are subject to a liquidity coefficient (i.e., to maintain sufficient foreign currency-denominated or indexed liquid assets). These permitted liquid assets include, among others:

- U.S. dollar-denominated cash or cash denominated in any other currency freely convertible;

- deposits with Banco de México;
- treasury bills, treasury bonds and treasury notes issued by the United States government or debt certificates issued by agencies of the United States government, which have the unconditional guarantee of the United States government;
- demand deposits or one-day deposits or one- to seven-day deposits in foreign financial institutions rated at least P-2 by Moody's, or A-2 by S&P;
- investments in mutual funds or similar or in funds complying with certain requirements authorized by Banco de México, and;
- unused lines of credit granted by foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P, subject to certain requirements.

Such liquid assets may not be posted as collateral, lent or be subject to repurchase transactions or any other similar transactions that may limit their transferability.

Banorte and Casa de Bolsa Banorte Ixe are in compliance with the applicable reserve requirement and liquidity coefficients in all material aspects.

Loan approval limits

In compliance with an official document from the banking regulator (Circular Única de Bancos), the limits to loans provided by credit institutions as it relates to the diversification of its operations must be determined according to the following criteria.

- With a capitalization level above 8.0% and up to 9.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 12.0% of the bank's basic capital.

- With a capitalization level above 9.0% and up to 10.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 15.0% of the bank's basic capital.

- With a capitalization level above 10.0% and up to 12.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 25.0% of the bank's basic capital.

- With a capitalization level above 12.0% and up to 15.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 30.0% of the bank's basic capital, and

- With a capitalization level above 15.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 40.0% of the bank's basic capital.

These loan limits must be measured on a quarterly basis. The banking regulator (CNBV) may lower the abovementioned limits at its own discretion if the internal control systems or the risk management of the institution is not strong enough.

The following types of financing are exempt from the abovementioned limits:
- Loans with unconditional or irrevocable guarantees, that may be immediately and extrajudicialy executed, granted by a Mexican or foreign financial institution with Investment Grade rating or above, established in

countries that belong to the OECD or to the European Union (whose guarantees must be accompanied by a legal opinion regarding their ease of execution).

- Securities issued by the Mexican Government and loans to federal and local governments (subject to those loans guaranteed by the right to receive federal funds), Banco de México, IPAB (Bank Savings Protection Institute), and development banks guaranteed by the Mexican Government.
- Cash (transferred to the loan-issuing bank as a deposit that can be used freely by the issuing bank)

These cases however, cannot exceed 100% of the financial institution's basic capital.

Likewise, loans granted to SOFOMES in which the credit institution owns at least 99% of its equity, may exceed the abovementioned requirements, but such loans cannot exceed 100% of the institution's basic capital. However, if such SOFOMES (regardless of the origin of its funding) grant loans to an individual or group of individuals which represent a common risk, then such loan must be subject to the abovementioned rulings, considering its total equity as a reference).

The total amount of loans granted to the three largest debtors cannot exceed 100% of the institution´s basic capital. The abovementioned limits are not applicable to those loans granted to other financial institutions or to entities controlled by the Mexican government or decentralized entities, but may not exceed 100% of the institution's basic capital.

Financial institutions are not mandated to observe the abovementioned limits for loans granted to the federal government, to local governments (subject to those loans being guaranteed by the right to receive certain federal tax funds), Bank of Mexico, IPAB (Bank Savings Protection Institute), and other development Banks guaranteed by the Mexican government.

Regarding SOFOMES whose loan book is exclusively composed of finance leases or factoring or both, as an exception to the above, must be subject to the following:

- With a capitalization level above 8.0% and up to 9.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 30.0% of the bank's basic capital.

- With a capitalization level above 9.0% and up to 10.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 38.0% of the bank's basic capital.

- With a capitalization level above 10.0% and up to 12.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 63.0% of the bank's basic capital.

- With a capitalization level above 12.0% and up to 15.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 75.0% of the bank's basic capital, and

- With a capitalization level above 15.0%, the maximum exposure to a single individual or group of individuals which represent a common risk for the bank, is set to 100.0% of the bank's basic capital.

In addition to this, the sum of the loans granted to the 3 largest debtors, cannot exceed 200% of the SOFOM´s total equity. The rest of the limits must be met by the SOFOM according to the terms mentioned above.

Banks are required to disclose, in the notes to their financial statements, (i) the number and amount of financings that exceed 10% of Tier 1 Capital, and (ii) the aggregate amount of financings made to their three largest borrowers.

Funding Limits

In accordance with the General Rules Applicable to Mexican Banks, Mexican banks are required to raise funds from the public to diversify their risks. In particular, a Mexican bank is required to notify the CNBV, on the business day following the occurrence of the event, in the event it receives funds from a person or a group of persons acting in concert, that represent in one or more funding transactions, more than 100% of such bank's Tier 1 Capital. None of our liabilities to a person or group of persons exceeds the 100% threshold.

Related Party Loans

Pursuant to the Mexican Banking Law, the total amount of the transactions with related parties may not exceed 35% of the bank's Tier 1 Capital. For loans and revocable credits, only the disposed amount is considered. In credit letters operations the contingent risk is considered.

The General Rules Applicable to Mexican Banks establish that the aggregate amount of operations subject to credit risk relating to relevant related parties shall not exceed 25% of the bank's Tier 1 Capital. If the amount exceeds 25%, then the excess must be subtracted in order to determine Tier 1 Capital.

Foreign Currency Transactions

Banco de México regulations establish the applicable provisions for the operations of multiple banking institutions, denominated in foreign currencies. Multiple banking institutions may, without requiring additional specific approval, carry out operations in foreign currency in cash (eg operations with a maturity not exceeding four business days). Other operations in foreign currency are interpreted as derivative operations and require approvals that are explained below. At the close of each day's operations, multiple banking institutions may maintain a foreign exchange risk position (both in general and by type of currency). The, foreign exchange risk positions are generally allowed, provided that such positions do not exceed 15% of the institution's basic capital. Additionally, credit institutions must maintain a minimum liquidity as determined by the provisions issued by Banco de México, in relation to the maturity of obligations denominated in foreign currency.

Derivative Transactions

Certain provisions of Banco de México are applicable to derivative operations carried out by multiple banking institutions. This institutions may enter into: Future Operations, Forwards, Options, Exchange (Swaps) and Credit Derivatives, in relation to the following underlying assets:

- Shares, a group or basket of shares, or securities referenced to shares, listed on a stock exchange;
- Price indices on shares listed on a stock exchange;
- National currency, Currencies and UDIS;
- Inflation-related price indices;
- Nominal, real or surcharge interest rates, rates referring to any debt title and indices based on said rates;
- Loans and credits;
- Any of the following goods:
  - Gold and silver;
  - Corn, wheat, soy, sugar, rice, sorghum, cotton, oats, coffee, orange juice, cocoa, barley, milk, canola, soybean oil and soybean paste;
  - Pork, pigs and cattle;

    - Natural gas, heating fuel, diesel, gasoline and crude oil, and
    - Aluminum, copper, nickel, platinum, lead and zinc.
- Futures, Forwards, Options, Credit Derivatives and Swaps on the aforementioned underlying assets.

Mexican banks require an express general approval, issued in writing by Banco de México, to enter into, as so-called intermediaries, derivative transactions, with respect to each class or type of derivative. Mexican banks may, however, enter into derivatives without the authorization of Banco de México, if the exclusive purpose of such derivatives is to hedge the relevant bank's existing risks. Authorizations may be revoked if, among other things, the applicable Mexican bank fails to comply with Mexican Capitalization Rules, does not timely comply with reporting requirements, or enters into transactions that contravene applicable law or sound market practices.

Banks and Brokerage Firms that execute derivative transactions with related parties or with respect to underlying assets of which the issuer or debtor are related parties, shall comply with the corresponding provisions established in the Mexican Banking Law regarding transactions with third parties.

Institutions may guarantee the compliance of the derivative transactions through cash deposits, receivables and/or securities of its portfolio. In the case of derivative transactions that take place in OTC markets, the above guarantees may be granted only when the counterparties are credit institutions, brokerage firms, foreign financial institutions, mutual funds, mutual funds manager of pension funds, Sofomes, and any other counterparty authorized by Banco de México. Mexican banks are required to periodically inform their Board of Directors with respect to the derivatives transactions entered into, and whether or not the Mexican bank is in compliance with limits imposed by the Board of Directors and any applicable committee. Mexican banks must also inform Banco de México periodically of derivative transactions entered into and whether any such transaction was entered into with a related party. In respect of hedging derivatives transactions entered into by Mexican banks, the counterparties must be other credit financial entities authorized by Banco de México to carry out operations with foreign financial institutions. Derivatives must be entered into pursuant to master agreements that must include international terms and guidelines, such as ISDA master agreements and master agreements approved for the domestic market. As an exception to applicable rules, Mexican banks may pledge cash, receivables and securities to secure obligations resulting from their derivative transactions.

Banco Mercantil del Norte is authorized to carry out the following operations:

Subjacent	Operation							
	Futures		Options		Swaps		Credit Default	
	RM	OM	RM	OM	RM	OM	RM	ME
Shares, a group or basket of shares, or securities referenced to shares, which are listed on a stock exchange;		•[3]		•[3]		•[3]		
Price index of shares listed on the stock exchange.		•		•				
National currency, Currencies and UDIS.	•	•		•	•	•		
Nominal, real or surcharge interest rates, rates referring to any debt security and indices based on said rates.	•	•		•	•	•		
Future Operations, Option Operations and Exchange Contracts (Swaps), on the Underlying referred to in the preceding paragraphs.		•[1]		•[2]				
Loans and credits.								•

RM Regulated Market, OM OTC Market, 1)Forward Starting Swaps, 2)Swaptions

Casa de Bolsa Banorte is authorized to carry over-the-counter operations on Swaps and Forward Starting Swaps on nominal, real or spreads of interest rates, rates referring to any debt security and indices based on said rates.

Repo Operations and Securities Lending

In compliance with the regulation enacted by the Central Bank of México, Credit Institutions may carry out repurchase transactions, acting as sellers or short-term borrower with any party, and act exclusively as buyers or short-term lender with the Central Bank of México, other Credit Institutions, Brokerage Firms, Certified General Storage Entities, and Foreign Financial Entities. The collateral for the transactions are all securities except Securities for International Arbitration Operations. The corresponding circular establishes restrictions on the term and settlement of the Repos. Regarding the legal instrumentation, the parties must enter into formal framework contracts, prior to the conclusion of any Repo operation. These must be approved by the Association of Banks of Mexico, A.C. and by the Mexican Association of Stock Market Intermediaries.

Regarding Securities Lending and Borrowing, Banco de México authorizes Credit Institutions and Brokerage Firms to carry out this type of operations. In this sense, the corresponding regulation provide the guideline for the Securities that may be lent.

Restrictions on Liens and Guarantees

Under the Mexican Banking Law, banks are specifically prohibited from, among others: (i) pledging their properties as collateral (except when pledging collection rights or securities in transactions with the Mexican Central Bank, development banks, public federal trust and IPAP or if the CNBV so authorizes or as described above with respect to derivative transactions, securities, lending and repurchase transactions) and (ii) guaranteeing the obligations of third parties, except, generally, in connection with letters of credit and bankers' acceptances.

Bank Secrecy Provisions; Credit Bureaus

Pursuant to the Mexican Banking Law, a Mexican bank may not provide any information relating to the identity of its customers or specific deposits, services or any other banking transactions (including loans) to any third parties (including any purchaser, underwriter or broker, or holder of any of the bank's securities), other than:

- the depositor, debtor, accountholder or beneficiary and their legal representatives or attorneys-in-fact,
- judicial authorities in trial proceedings in which the accountholder is a party or defendant,
- the Mexican federal tax authorities for tax purposes,
- the SHCP for purposes of the implementation of measures and procedures to prevent terrorism and money laundering,
- the Federal Auditor (Auditoría Superior de la Federación), to exercise its supervisory authority (including information on accounts or agreements involving federal public resources);
- the supervisory unit of the federal electoral agency (Unidad de Fiscalización de los Recursos de los Partidos Políticos);
- the Federal Attorney General's office (Procuraduría General de la República) for purposes of criminal proceedings;
- the Treasurer of the Federation (Tesoreria de la Federación), as applicable, to request account statements and any other information regarding the personal accounts of public officers, assistants and, as the case may be, individuals related to the corresponding investigation; and
- the Secretary and undersecretaries of the Ministry of Interior (Secretaría de la Función Pública) when investigating or auditing the estates and assets of federal public officers, among others.

In most cases, the information needs to be requested through the CNBV. The CNBV is authorized to furnish foreign financial authorities with certain protected information under the Mexican bank secrecy laws, provided that an agreement must be in effect between the CNBV and such authority for the reciprocal exchange of information. The

CNBV must abstain from furnishing information to foreign financial authorities if, in its sole discretion, such information may be used for purposes other than financial supervision, or by reason of public order, national security or any other cause set forth in the relevant agreement.

Banks and other financial entities are allowed to provide credit related information to duly authorized Mexican credit bureaus.

General provisions referred to in article 115 of the Credit Institutions Law:

Mexico has an extensive regulatory framework regarding anti-money laundering and counter-terrorism financing. This regulation as it is applicable to financial institutions was published on April 20,2009, and was put in place the next day. As of today, there have been several reforms to these regulations, the most recent was performed in May, 2021. Each entity within GFNorte has its own set of regulations according to its line of business, but in general, they are very similar to thos applicable to Banorte and have been updated in several dates

Under anti-money laundering and counter-terrorism financing, those entities operating in the financial sector must meet several requirements, among them are:

- The establishment and implementation of know-you-customer policies aimed at preventing, identifying and reporting actions, omissions or operations that could favor, assist or cooperate with money laundering activities or terrorism financing (as defined in the Federal Penal Code)
- Implementation of procedures to identify and report relevant operations, unusual or suspicious activities (as defined in the anti-money laundering and counter-terrorism financing regulations).
- Report to the SHCP (Tax Ministry) through the CNBV (Banking Regulator), all relevant, unusual and suspicious operations. In the specific case of Banorte, USD cash transactions, international transfers and cashier´s checks.
- The establishment of a Control and Communications Committee (which must designate a compliance officer) which will be in charge, among other matters, the supervision of proper compliance of anti-money laundering and counter-terrorism regulations.
- Have automated systems in place in order to monitor client transactions.
- Rate clients according to their risk profile. For qualified high-risk clients, their records should be updated once a year, including an eye visit.
- Have a risk assessment methodology to which the entity is exposed.
- Identify politically exposed individuals
- Train personnel in anti-money laundering and counter terrorism financing

It is worth mentioning that credit institutions may exchange client and user operation information in order to assist other institutions to prevent and detect suspicious operations with an illegal origin. Only in these particular situations will client and user information will be exchanged. This Exchange may be among authorized financial institutions under an information Exchange agreement, and this must be informed to SHCP (Tax Ministry) through CNBV (Banking Regulator).

Those entities operating in the financial industry must also organize and keep a record of each customer before opening accounts or authorizing any operation.

Each individual's identification file must include among others: i)full name, ii)gender; iii)date of birth; iv)nationality, country and place of birth; v) profesional activities, type of work; vi)full address; vii)telephone number; viii)e-mail; ix)Federal ID (CURP), and tax ID (RFC); x)Electronic Signature number (Tax payer number) when applicable. These same requirements are applicable for co-signers and authorized third parties. Beneficiaries must provide full name, date of birth and residence address.

A company's record must be integrated by the following information: i)Full legal name; ii)Address; iii)Type of business; iv)Nationality: v)Tax ID or fiscal ID, showing the country(ies) that provided it; vi)Tax payer number: vii)telephone number; viii)e-mail; ix)Date of Incorporation; x)Administrative officer´s name; members of the board of directors, General Manager and any other individual with relevant powers of attorney.

Each entity's handbook establishes the required proof of address and official picture ID.

Identificantion records will be kept on file for the duration of the contracts exectuted by the client and for a maximum period of ten years after the last contract has been terminated.

In accordance with anti-money laundering and counter-terrorism regulations, entities that operate in the financial sector must provide to the SHCP, through the CNBV: i)Quarterly reports regarding cash transactions that exceed USD 7,500; ii) reports of unusual transactions, within 60 natural days statring on the date when the unusual operation was detected by our subsidiary financial systems; iii) reports of suspicious transactions, within 60 after the suspicious transaction was detected.

In case of credit institutions, in addition to the above, they must issue quarterly reports regarding international fund transfers, sent or received, for an amount equal or higher than USD $1,000, as well as a monthly report of cash transactions higher than USD $250 with users, and cash transactions higher than USD $500 with clients. An additional quarterly report is sent to the CNBV of cashier's checks issued or paid for amounts of USD $10,000.00 or more.

In June 2010 the regulation applicable to credit institutions was modified and were later reformed in September and December 2010 to include regulation for cash currency in USD that could be accepted by Banks. These regulations dictated that credit institutions can only receive dollar deposits in cash from individuals for a maximum accumulated amount of USD $4,000 per month, nationwide; for companies established in states next to the border with the U.S.A. or tourist zones, credit institutions may accept up to USD $14,000 per month. At Banorte, our internal policy is to receive a maximum amount of USD $3,000 per month from individuals in the Northern Border States and tourist zones; in any other locations, the maximum amount is USD $2,000 per month.

Credit institutions can only purchase US Dollars in cash to national users for an amount up to USD $300 per day, without exceeding US$ 1,500 per month; for foreign users, up to $1,500 dollars per month, in one or multiple transactions during the month. At Banorte, cash deposits in US dollars were cancelled in July 2016, remaining only the purchase of US currency to foreign users in tourist zones and in the Northern Border States.

In April 2014 there was a modification in the Anti-Money Laundering Regulation, in particular for the requirements that must be met for customer identification purposes when executing trust agreements, establishing a differentiated treatment for i) trusts in which the bank acts as fiduciary agent, and ii) those which are formalized by another fiduciary agent but that hold an account with the Bank, in this case with Banorte.

The SHCP through the CNBV, will issue the list of blocked individuals and its updates, establishing the following obligations for the bank:

a) Immediately stop any operation or service related to the client or user identified in the blocked individual list.
b) Submit a report to the SHCP through the CNBV of the unusual operation, mentioning that it involves a person in the blocked individual list. This report must be sent within 24 hours of such information being known.
c) Inform the blocked customer or user by means of written communication that his accounts have been blocked, and that all services and transactions have been suspended. That he/she may contest this ten days after receiving this notification, by providing proof and formulating any arguments to clarify his/her situation before the corresponding authorities.

Furthermore, this same modification includes the aforementioned requirement to submit a quarterly report of cashier's checks to the SHCP through the CNBV.

Later on in September 2014, there was a new modification of these regulations, establishing that banks may receive US dollars in cash without any limit from select customers (companies only) anywhere in Mexico that meet the following requirements:

a) That they have at least 3 years since their incorporation.
b) That they justify the need to perform operations in USD in amounts higher tan the ones previously mentioned.
c) The bank must open a file for each of these customers containing among others: financial statements, tax returns, names of main shareholders, etc.

The information that justifies the need to perform cash operations in US dollars must be updated every year. Moreover, the institution must keep an updated record of these clients and report monthly to the SHCP through CNBV the list of customer which receive dollars under this framework.

Again in September 2015, there was an additional modification to the Anti-money laundering regulation that grants an additional 30 day period to the existing 60 day period to submit unusual operations report, so long as the guidelines for customer identification and know-your-customer include the assumptions to apply such extended timeframe.

In this same modification, the term established on September 12, 2014, is extended to two years (730 calendar days), to complete or update the records of clients that have the quality of Trusts that have carried out operations prior to entry. in force of the resolution.

On February 24 2017 the following Anti-Money Laundering modifications were made:

- Change in the maximum amount to report relevant operations from USD $10,000 to USD $7,500.

- As of July 1, 2017, when opening accounts or entering into contracts, a proof of address must be requested, in addition to the identification, even if it contains the address and coincides with the registered one, except in the case of the voter card.

- New mandatory requirements are established for legal entities: (i) Identification of the real owner, (ii) Shareholder structure and (iii) In case it is not low risk, its internal corporate structure.

- Collect and register new data in the system, in the case of transfers through SPID or transfers abroad of clients and users:

Individuals:
- Paternal surname, maternal surname and name (s), without abbreviations. [1, 2, 3, 4]
- Unique Population Registration Code CURP, for Mexicans. [1, 2, 3, 4]
- Nationality [1, 2, 3, 4]
- Date of birth, for foreigners. [1, 2, 3, 4]
- Address of its main administrative offices. [2. 3. 4]
- RFC with Homoclave, when it has it or a tax identification number or equivalent, as well as the country or countries that assigned it. [2. 3. 4]
- Purpose of the transfers sent. [2. 3. 4]
- Occupation, profession, activity or line of business to which the client or user is dedicated. [2. 3. 4]
- Digitized copy of your official identification. [2. 3. 4]
- Number of the Advanced Electronic Signature series (for those of Mexican nationality). [4]

[1] Accumulated amount of transfers received, prior to receipt, up to $ 4,000 in 360 calendar days and up to $ 333 in 30 calendar days.
[2] Amount accumulated in the 360 calendar days prior to the transfer being made, <20,000 USD and> 4,000 in the case of receipt; <20,000 in the case of shipments.
[3] Amount => 20,000 USD and <90,000 USD.

[4] Amount => 90,000 USD.

Companies:

- Full name or company name, as it appears in the current constitutive document.
- Country and date of incorporation.
- RFC with Homoclave if they are incorporated in Mexico or Tax Identification Number or equivalent, as well as the country or countries that assigned it, those established abroad.
- Serial number of the Advanced Electronic Signature.
- Purpose of the transfers sent.
- Address of its main administrative offices (cases => to 300,000 and <2,500,000 USD).
- Business activity or corporate purpose (cases => to 300,000 and <2,500,000 USD).
- Name of the legal representatives designated to request transfers (Cases => 2,500,000 USD).

• Establish a matrix for risk assessment, with a risk-based approach to products, services, practices or technologies. This must be updated every year, leaving the corresponding evidence, and will be reviewed by the CNBV.

• Information and documentation must be exchanged, regarding customers and users who make transfers sent and received through SPID and abroad, through the Banxico platform. Additionally, the obligation to have the consent of the client who makes transfers to share the information and documentation on the Banco de México platform was established.

• The possibility of appointing an Interim Compliance Officer was established for cases in which the Compliance Officer resigns, is removed from his post or is unable to perform his duties.

• The obligation was established to send to the SHCP, through the Commission, the reports corresponding to Unusual Operation and worrying internal, within 3 business days after it is ruled by the Communication and Control Committee.

• The obligation to train staff was established in accordance with the results of the implementation of the methodology, as well as on the activities, products and services offered by the Bank.

• Communicate to the Secretariat, through the Commission, the designation, addition or substitution of the members of the Committee, within fifteen business days following the date on which it was held.

• Establish a risk assessment model (Risk Model), which is the methodology by which Banco Mercantil del Norte will carry out the process of identification, measurement and classification of Clients by the level of Risk that their operations represent for the entity. In this model, it should be established, between the low and high risk degrees, as many degrees of risk as deemed necessary.

The amendments to the provisions for the prevention of money laundering were published on March 22, 2019. The most relevant amendments are the following:

• The Passport Card is added as authorized identification for natural persons of foreign nationality.

• It incorporates the provision on account opening or conclusion of contracts in a non-face-to-face manner, where it is specified that the geolocation and consent of the client must be obtained for said action.

• It is established that it will not be necessary to incorporate a copy of the documents into the client's file: CURP, Assignment of the tax identification number or equivalent and Advanced electronic signature, if evidence is included in said file that was validated before the corresponding authority.

• Level 1 accounts are no longer anonymous and requirements are established for their opening.

• The client identification process may be suspended when it is considered that the potential client could be related to acts or conduct of Arts. 139 Quater or 400 Bis of the Federal Penal Code, could prevent or alert that resources are considered to be related to acts or conduct referred to in the cited articles and the existence of risks is identified. If the suspension is specified, a report of unusual operation must be generated 24 hours, manually with the information that is available.

- The prohibition is established to open accounts in which we can identify the client or real owner, also with respect to the latter, that the data and document of the address where he can be located can be collected and that if he is considered as a politically exposed person, You should have a stricter monitoring of your operations.

- The requirements are established for the Institutions to obtain the authorization to carry out operations through Innovative Models.

- The preservation of identification records, historical records of operations and regulatory reports may be carried out by electronic or digital means, guaranteeing the security of information and documentation.

- For international or national transfers in foreign currency, in the case of those sent, the information of the recipient or beneficiary must be collected, kept and accompanied, and in the case of those received, the information of the transferor.

- It is established that the Risk Assessment Methodology must contain information on the operations of our clients in a period of at least twelve months.

- In the case of Trusts, the Entities must integrate the identification file of the trustees who are not individualized in the contract, at the time they come to exercise their rights, except for those Trusts where there is brokerage of securities, in which case the obligation will fall on the financial entity that carries out said intermediation.

In the amendment published in July 2021, were incorporated the applicable requirements and operations for demand deposit accounts in national currency for underagers who are beneficiaries of Government support scholarship programs.

In the amendment published in May 2021, were added the municipalities and town halls where it is determined the amount of remittances per capita are higher compared to other municipalities and town halls and where the amounts in absolut value of such remittances are relevant with respect of the total that our country receives, as authorized to receive dollars in cash.

Rules of the Interbank Payment System in Dollars (SPID):

On the other hand, in March 2016, Banco de México established a regulation for the operation of transfers of funds in dollars in the country, through the Interbank Payment System in Dollars (SPID), thus establishing the obligation to integrate a clients with accounts in dollars and in national currency that make transfers in dollars in the country. Said file must contain a copy of the digital certificate and signature, the purpose of the use of the SPID account, information of the shareholders, the transactional profile of the client and the information of the beneficiaries.

An additional risk assessment model must be established (Risk Model), which is a methodology by which the Subjects to the Risk Model must carry out the process of identification, measurement, classification and mitigation of customer risks. that operate in said system.

It is established that as of May 31, 2017, the only way to transfer dollars in Mexico is by using the SPID system. In order to enforce compliance of this regulation, there must be a SPID Compliance Officer, who must report any situation related to the SPID system's operation to the Compliance Officer in charge of Anti-money laundering and counter terrorism financing.

It is also established that ther must be a Semi-annual report sent to the Audit Committee and to the Bank of Mexico which details any risk-related findings (additional and non-additional). Moreover, there must also be an annual written report sent to Banco de Mexico, which contains the results of the additional risk model. Before sending it to Banco de Mexico, it must be sent to the Communications and Control Committee of the institution, which shall be approved by the Risk Committee and then communicated to the Board of Directors of the bank.

As an acceptance and permanence requirement for participating banks, the head of Internal Audit together with an external auditor, must prepare a compliance report detailing any findings, irregularities and non-compliant activities identified in the SPID process. This process must be reviewed annually, one year by Internal Audit, and the next by an independent (external) auditor, and must be sent to Banco de México.

Rules on Interest Rates

Banco de México provisions limit the number of reference rates that can be used by Full Service Banking Institutions as a basis to determinate interest rates on loans. For loans in pesos, Full Service Banking Institutions can choose any fixed rate, TIIE funding and for terms greater than one business day, CETES, the interest determined by Banco de México as applied to loans financed or discounted by NAFIN, the interest agreed with development banks on loans financed or discounted with them, the weighted interbank funding rate and the weighted government funding rate. For loans in foreign currency, credit institutions can choose any of the reference fixed rates or variable interest rates that are not unilaterally determined by a financial institution, including LIBOR rate, or overnight interest rates based on transactions observed in the market that comply with principles established by IOSCO, and that be accepted by the authorities of the international jurisdiction to which they belong, among which, but not limited to DOFR, SONIA and ESTR rates. Likewise, there are considered as reference rates, those with terms greater than one day that are derived from the previous mentionaded rates and that are formally proposed for use by some authority, or the rate agreed by national and internationsl development banks and funds, for loans financed or discounted with aforementioned banks and funds. For loans in dollars, Full Service Banking Institutions can choose between fixed rate or any rate mentioned in the previous lines or dollars-CCP as calculated and published in the Official Gazette by Banco de México.

The rules also provide that only one reference rate can be used for each transaction and that no alternative reference rate is permitted, unless the selected reference rate is discontinued, in which event a substitute reference rate may be established. A rate or the mechanism to determine a rate, may not be modified unilaterally by a bank. Rates must be calculated annually, based upon 360-day periods.

On November 11, 2010, Banco de México published new rules that regulate the issuance and use of credit cards. Such rules standardize the regulations and forms that enable card holders to authorize charges for recurrent payments relating to goods and services and standardize the procedures for objecting to improper charges and cancelling such services quickly and securely. The rules also establish the way in which credit card issuers shall determine the amount of the minimum payment in each period by means of a formula that favors payment of a part of the principal at the time of each minimum payment, with the aim of achieving payment of debts within a reasonable time period. Such rules also include certain protection provisions for card users in case of theft or loss of their credit cards, the creation of incentives to credit card issuers to adopt additional measures to reduce risks derived from use of credit cards in internet transactions and the wrongful use of information contained in credit cards. These rules did not have a material impact on our operations or financial condition.

In June 2014, the Mexican Supreme Court of Justice issued jurisprudential guidance, of mandatory application, allowing federal judges to determine ex officio if an interest rate agreed on a promissory note is evidently excessive, violating an individual’s human rights and, consequently, establish a reduced rate. The elements the judge should take into account to determine if a rate is evidently excessive are: (a) the type of relationship between the parties; (b) the qualification of the persons intervening in the subscription of the note and if the activity of the creditor is regulated; (c) the purpose of the extension of credit; (d) the amount of the loan; (e) the term of the loan; (f) the existence of guaranties for the payment of the loan; (g) the interest rates applied by financial institutions in transactions similar to the one under analysis, as a mere reference; (h) the variation of NCPI during the term of the loan; (i) market conditions; and (j) other issues that the judge may deem relevant.

Fees

Under Banco de México regulations, Mexican banks and Sofomes may not, in respect of loans, deposits or other forms of funding and services with their respective clients:

- charge fees that are not included in their respective, publicly disclosed, aggregate annual cost (costo anual total),
- charge alternative fees, except if the fee charged is the lower fee, and
- charge fees for the cancellation of credit cards issued.

In addition, among other things, Mexican banks may not:

- charge simultaneous fees, in respect of demand deposits, for account management and relating to not maintaining minimum amounts,
- charge fees for returned checks received for deposit in a deposit account or as payment for loans granted,
- charge fees for cancellation of deposit accounts, debit or teller cards, or the use of electronic banking services, or
- charge different fees depending upon the amount subject of a money transfer. Under the regulations, fees arising from the use of ATMs must be disclosed to users.

Mexican banks and Sofomes that allow to customers to use ATMs, must choose between two options to charge fees to clients when withdrawing or checking balances: (i) specify a fee for relevant operations, in such case, banks and Sofomes issuing credit and debit cards ("the Issuers") can not charge an additional fee to the customers (Issuers have the right to charge the respective fee to operators), or (ii) allow the Issuers to charge a fee to clients, in such case, banks and Sofomes will not be able to charge any additional fee to customers.

Banco de México, on its own initiative or at the request of CONDUSEF, credit institutions or Sofomes, may evaluate whether there are reasonable conditions of competition regarding collection fees made by credit institutions and Sofomes in the development of financial operations. Banco de México must obtain an opinion from COFECE in conducting such task. Banco de México may adopt measures to deal with these expeditions.

On October 3, 2014, Banco de México published a bulletin modifying rules on ATM fees that limited us to charge for their use and the amount of such fees for services such as:

- cash withdrawals
- checking balances
- account deposits
- credit payments, both at the teller and ATMs operated by clients' bank

Bulletin also specifies that ATMs must clearly display a legend regarding transaction costs on their screens so that the customer can decide if they want to proceed with the transaction.

IPAB

The IPAB Law, which became effective January 20, 1999, provides for the creation, organization and functions of IPAB, the Mexican bank savings protection agency. IPAB is a decentralized public entity that regulates the financial support granted to banks for the protection of bank guaranteed operations.

According to the IPAB Law, banks must provide the information required by the IPAB for the assessment of their financial situation and notify the IPAB about any event that could affect their financial stability. The IPAB Law expressly excludes the release of such data from bank secrecy provisions contained in the Mexican Banking Law and expressly provides that the IPAB and the CNBV can share information and databases of banks.

IPAB is authorized to manage and sell the loans, rights, shares and any other assets that it acquires to perform its activity according to the IPAB Law, to maximize their recovery value. IPAB must ensure that the sale of such assets is made through open and public procedures. The Mexican President is required to present annually a report to Congress prepared by IPAB with a detailed account of the transactions conducted by IPAB in the prior year.

IPAB has a Governing Board of seven members:

- the Minister of Finance and Public Credit,
- the Governor of Banco de México,
- the President of the CNBV, and
- four other members appointed by the President of Mexico, with the approval of two-thirds of the Senate.

The deposit insurance to be provided by the IPAB to a bank's depositors will be paid upon determination of liquidation of a bank. The IPAB will act as liquidator or receiver, or both, in the liquidation of banks, according to the Mexican Banking Law. The IPAB will guaranty obligations of banks to certain depositors and creditors (excluding, among others, financial institutions) only up to the amount of 400,000 UDIs per person per bank. The IPAB will not guarantee:

- deposits and loans constituting negotiable instruments and bearer promissory notes;
- liabilities for financial institutions or subsidiaries of the bank;
- liabilities not incurred in the ordinary course of business and related party transactions; or
- liabilities assumed in bad faith or in connection with money laundering or other illegal activities.

Banks have the obligation to pay IPAB ordinary and extraordinary contributions as determined from time to time by the Governing Board of IPAB. Under the IPAB Law, banks are required to make monthly ordinary contributions to IPAB, equal to 1/12 of 0.4% multiplied by the average of the daily outstanding liabilities of the respective bank in a specific month, less:

- holdings of term bonds issued by other commercial banks;
- financing granted to other commercial banks;
- financing granted by IPAB;
- subordinated debentures that are mandatorily convertible in shares representing the capital stock of the banking institution; and
- certain *forward* transactions.

IPAB's Governing Board also has the authority to impose extraordinary contributions in the case that, given the conditions of the Mexican financial system, IPAB does not have available sufficient funds to comply with its obligations. The determination of the extraordinary contributions is subject to the following limitations: (i) may not exceed, on an annual basis, the amount equivalent to 0.3% multiplied by the total amount of the liabilities outstanding of the banking institutions that are subject to IPAB contributions; and (ii) the aggregate amount of the ordinary and extraordinary contributions may not exceed, in any event, on an annual basis, an amount equivalent to 0.8% multiplied by the total amount of the liabilities outstanding of the applicable banking institution.

The Mexican Congress allocates funds to IPAB on a yearly basis to manage and service IPAB's liabilities. In emergency situations, IPAB is authorized to incur additional financing every three years in an amount not to exceed 6.0% of the total liabilities of Mexican banks as determined by the CNBV.

Law for the Protection and Defense of Financial Service Users

A Law for the Protection and Defense of Financial Service Users (Ley de Protección y Defensa al Usuario de Servicios Financieros) is in effect in Mexico. The purpose of this law is to protect and defend the rights and interests of users of financial services. To this end, the law provides for the creation of CONDUSEF, an autonomous entity that protects the interests of users of financial services and that has very wide authority to protect users of financial services (including imposing fines). CONDUSEF acts as mediator and arbitrator in disputes submitted to its jurisdiction and seeks to promote better relationships among users of financial institutions and the financial institutions. Banorte and other subsidiaries operating in the financial sector must submit to CONDUSEF's jurisdiction in all conciliation proceedings (initial steps of a dispute) and may choose to submit to CONDUSEF's jurisdiction in all arbitration proceedings that may be brought before it. The Law requires banks to maintain an internal unit designated to resolve any and all controversies submitted by clients. Our financial subsidiaries maintain such a unit.

CONDUSEF maintains a Registry of Financial Service Providers (Registro de Prestadores de Servicios Financieros), in which all financial services providers must be registered, that assists CONDUSEF in the performance of its activities. This Registry will be replaced as explained below. CONDUSEF is required to publicly disclose the products and services offered by financial service providers, including interest rates. To satisfy this duty, CONDUSEF has wide authority to request any and all necessary information from financial institutions. Furthermore, CONDUSEF may scrutinize banking services provided by approving and supervising the use of standard accession agreements.

Banorte and other subsidiaries operating in the financial sector may be required to provide reserves against contingencies which could arise from proceedings pending before CONDUSEF. Our financial subsidiaries may also be subject to recommendations by CONDUSEF regarding our standard agreements or information used to provide our services. Our financial subsidiaries may be subject to coercive measures or sanctions imposed by CONDUSEF. Our financial subsidiaries are not the subject of any material proceedings before CONDUSEF.

As part of the financial reform being undertaken in Mexico in 2013, the Mexican Congress approved changes to the Law for the Protection and Defense of Financial Services Users pursuant to which, among other things:

- CONDUSEF is entitled to initiate class actions against Mexican financial institutions, in connection with events affecting groups of users of financial services;
- CONDUSEF shall maintain a new Bureau of Financial Entities (*Buró de Entidades Financieras*), which is to set forth any and all information deemed material for users of financial services;
- CONDUSEF is empowered to order amendments to any of the standard form commercial banking documentation (such as account and loan agreements) used by financial institutions, if it considers provisions thereof as detrimental to users;
- CONDUSEF is permitted to issue resolutions as part of arbitration proceedings, for the benefit of issuers, that would permit users to attach assets of a financial institution prior to the completion of arbitration proceedings; and
- CONDUSEF is given broader authority to fine financial institutions, if any such financial institution does not comply with an order issued by CONDUSEF.

Law for the Transparency and Ordering of Financial Services.

The Transparency and Ordering of Financial Services Law regulates:

- the fees charged to clients of financial institutions for the use and/or acceptance of means of payment, as with debit cards, credit cards, checks and orders for the transfer of funds,
- the fees that financial institutions charge to each other for the use of any payment system,

- interest rates that may be charged to clients, and
- other aspects related to financial services, all in an effort to make financial services more transparent and protect the interests of the users of such services.

This law grants Banco de México the authority to regulate interest rates and fees and establish general guidelines and requirements relating to payment devices and credit card account statements (See section 2. “The Company. Subsection b) Business Description–Applicable Laws and Tax Position– Applicable Law and Supervision – Banking Regulations – Interest Rates and Fees Rules”). Banco de México has the authority to specify the basis upon which each bank must calculate its aggregate annual cost (*costo anual total*), which comprises interest rates and fees, on an aggregate basis, charged in respect of loans and other services. The aggregate annual cost must be publicly disclosed by each bank. The law also regulates the terms that banks must include in standard accession agreements and the terms of any publicity and of information provided in account statements. Our subsidiaries operating in the financial sector must inform Banco de México of any changes in fees at least 30 calendar days before they become effective.

As part of the financial reform passed in 2013, the Mexican Congress approved changes to the Law for the Transparency and Ordering of Financial Services pursuant to which the Mexican Central Bank may issue temporary regulations applicable to interest rates and fees, if it or the Mexican Federal Economic Competitive Commission determine that no reasonable competitive conditions exist among financial institutions. Also, the Mexican Central Bank and the CNBV are given authority to issue rules regulating the means to obtain funds (i.e., credit cards, debit cards, checks and funds transfers), as a means to ensure competition, free access, no discrimination and protecting the interests of users.

Law on Transparency and Development of Competition for Secured Credit

On December 30, 2002, the Mexican Congress enacted the Law on Transparency and Development of Competition for Secured Credit (Ley de Transparencia y de Fomento a la Competencia en el Credito Garantizado, or the “Secured Credit Law”), amended on June 15, 2007 and on May 25, 2010. The Secured Credit Law provides a legal framework for financial activities and certain other services performed by private credit institutions (as opposed to governmental entities) in connection with secured loans relating to real property in general and housing in particular (i.e., purchase, construction, restoration or refinancing). In particular, the Secured Credit Law established specific rules requiring the following:

- the disclosure of certain information by credit institutions to their clients prior to the execution of the relevant loan agreement, including the disclosure of certain terms relating to interest rates, aggregate costs and expenses payable;
- the compliance by credit institutions and borrowers with certain requirements in the application process;
- the binding effect of offers made by credit institutions granting secured loans;
- the inclusion of mandatory provisions in loan agreements; and
- the assumption of certain obligations by public officers (or notaries) before whom secured loans are granted.

In addition, the Secured Credit Law seeks to foster competition among guaranteed credit grantors institutions by permitting security interests underlying a secured loan to survive any refinancing thereof, even if such loans were granted by different credit institutions. This provision of the Secured Credit Law is designed to reduce expenditures made by borrowers.

Insurance Companies

Insurance companies are regulated and subject to supervision by the CNSF, and are subject to the Insurance and Bonding Law -, the Insurance Contract Law (*Ley sobre el Contrato de Seguro*) and other regulatory provisions enacted by the SHCP and the CNSF. The CNSF enacts regulatory provisions establishing the rules and requirements pertaining to insurance companies. Mexican insurance companies are typically involved in insuring customary risks, such as life, accidents, medical, civil liability, professional liability, maritime and transportation and credit. Insurance companies are subject to capital adequacy requirements, and to certain report filing obligations to ensure compliance with legal, regulatory, capital and accounting provisions. Also, insurance companies are subject to certain regulations in connection with their investment activities. Our subsidiary, Seguros Banorte, operates its business as an insurance company, and therefore, is subject to regulation and supervision by the CNSF.

Brokerage Firms

Brokerage firms (casas de bolsa) are regulated by, and subject to the supervision of, the CNBV, and are subject to the Mexican Securities Market Law and the General Rules Applicable to Brokerage Firms (Disposiciones de Carácter General Aplicables a las Casas de Bolsa) issued by the CNBV. Their principal business includes the brokerage, underwriting and intermediation of securities, the sale and trading of securities (either on their own behalf or on behalf of third parties), and the provision of investment and portfolio management advice to their clients. The CNBV has the power to authorize the incorporation and operation of brokerage firms, and power to revoke any such authorizations. Our subsidiary, Casa de Bolsa Banorte Ixe, operates its business as a brokerage firm, and therefore, is subject to regulation and supervision by the CNBV.

Management of Broker-Dealers

Broker-dealers are managed by a Board of Directors and by a Managing Director.

The Board of Directors may have up to 15 members, 25.0% of which is required to be independent.

The broker-dealer must also maintain an audit committee. Casa de Bolsa Banorte Ixe's audit committee is comprised of 3 members, 1 of which is independent. *See section 4 "Administration - Support Committees to GFNorte's Management" in this Annual Report.*

Capitalization

Broker-dealers are required to maintain a minimum capital depending upon their activities. In addition, broker-dealers must maintain minimum capital levels depending upon market risks, credit risk and operational risk.

If minimum capitalization levels are not maintained, the CNBV may take measures against the applicable broker-dealer, which include: (i) suspending the payment of dividends and other distributions to shareholders, (ii) suspending the payment of bonuses and extraordinary compensation to the general director and higher level officers, and (iii) ordering the suspension of activities that may impact the broker-dealer's capital.

Suspension and Limitations of Activities

The CNBV may suspend or limit the activities of a broker-dealer if: (i) internal infrastructure or internal controls are not sufficient for its activities, (ii) it conducts activities different from authorized activities, (iii) it conducts activities affected by conflicts of interest, (iv) undertakes securities transactions on the BMV, and (v) transactions are omitted or incorrectly entered into the broker-dealer's accounting.

In addition, the CNBV may intervene and commence the management of a broker-dealer, if any events affect the broker-dealer that may have an impact on the soundness, solvency or liquidity, or affect the interests of the broker-dealer's clients.

Revocation of Authorization

The CNBV may revoke the authorization to operate as a broker-dealer if, among other things: (i) the authorization was obtained based upon false documentation or statements, (ii) its capital falls below the regulatory minimum, (iii) provides false or incomplete periodic reports, (iv) fails to duly make accounts entries, (v) fails to comply with applicable law, (vi) a process for its dissolution or liquidation is initiated, or (vii) it is declared bankrupt.

Systems for Handling Orders

Broker-dealers are required to maintain an automatic system to receive, register, assign and execute orders for transactions with securities received by clients. Such system must distinguish (i) type of client, and (ii) different orders received. Broker-dealers are required to inform clients their schedules to receive orders and time-periods during which transactions shall remain in effect.

Secrecy

Under the Mexican Securities Market Law, broker-dealers may not provide any information in respect of transactions undertaken or services offered, except to the owner or holder of the account, to beneficiaries or their legal representatives, except if required by judicial authorities as a result of an order or to tax authorities, solely for tax purposes.

Traders and Operators

Broker-dealers may only engage in transactions with the public through authorized officers, and only if such officers have passed certain required exams and have been granted sufficient authority, through powers of attorney, by the broker-dealer.

Third-Party Services

Broker-dealers may contract with third parties any of the services required for their operations, as long as such broker-dealers obtain the approval of the CNBV and (i) maintain procedures to continuously monitor the performance of the service provider, (ii) cause the service provider to always grant CNBV access in connection with its supervisory rate, (iii) ensure that third-party service providers maintain confidentiality, and (iv) report to the CNBV the criteria used for selecting the service provider, the services in effect contracted, and risks arising from services provided.

Financial Reporting

Broker-dealers are required to disclose to the public (i) internal financial statements for the quarters ending in March, June and September, within one month from the end of this applicable quarter, and (ii) audited financial statements for each full fiscal year, within sixty days following the end of the applicable fiscal year.

Afores

Afores and Siefores are regulated and subject to supervision by the CONSAR, and are subject to the Retirement Savings System Law (Ley de los Sistemas de Ahorro para el Retiro) and the regulations issued by CONSAR. Afores are pension funds organized under the Retirement Savings Systems Law, in charge of receiving and investing retirement funds, through a retirement savings system implemented by the Mexican government in 1997. Under Mexican retirement savings system, workers are entitled to choose an Afore, which will manage and invest their retirement fund as set forth under the Retirement Savings System Law. Workers are subject to mandatory and voluntary contributions to their Afore, which in principle guarantees that, upon retirement, the worker will receive a more significant amount as a retirement pension. Afores typically invest their funds through Siefores, specialized investment entities controlled by Afores. Our subsidiary, Afore XXI Banorte, operates its business as an Afore, and therefore, is subject to regulation and supervision by the CONSAR.

New Regulation Applicable to our Business

Law on Financial Discipline for States and Municipalities

Aiming to regulate and control increasing indebtedness of States and Municipalities, the Executive Power and Congress published a Constitutional Reform effective as of May 27, 2015 and the Law on Financial Discipline for States and Municipalities passed on April 27, 2016. The Law was amended in January 30, 2018.

This law is applicable for the following government powers or entities: executive, legislative and judicial powers, the autonomous bodies of the Federative Entities and Municipalities, as well as de-centralized organisms, state companies (the state has more than 50% interest on the corporation) and trusts of States and Municipalities.

The aim of this Law is to promote sustainable local public finance and responsible management of public debt, as well as to strengthen accountability and transparency based on:

- **Rules on fiscal and financial discipline**: which promote sound public finance based on fiscal responsibility principles.
- **Alerts system**: which establishes indebtedness obliges you to comply with tax liability agreements..
- **Contract of debt and liabilities**: it is guaranteed that debt be contracted at the lowest financial cost through competitive and transparent processes.
- **Secured State Debt**: federal government may secure so States and Municipalities access to cheaper financing.
- **Unique Public Registry**: which will serve to register and provide transparency on the financing and liabilities of public entities.

Insurance and Bailment Law

The Insurance and Bailment Law (LISF) was published on the Diario Oficial (Official Journal) on April 4, 2013, establishing that it would become valid 2 years (730 days) after its publication that is on April 4, 2015. At that moment, the existing law, the "Ley General de Instituciones y Sociedades Mutualistas y de Seguros" (LGISMS) (Insurance Institutions and Mutual Societies General Law) was abrogated.

The objective of the LISF law was top incorporate Solvency II principles, which seek to provide certainty that companies within the insurance industry keep adequate solvency, stability and financial security to face their expected ad unexpected obligations, as well as implement international regulation and supervision standards.

In order to achieve the above, the governance system was strengthened, which increases the obligations of the Board of Directors, as it is now responsible of setting permanent surveillance mechanisms to ensure compliance of operating and financial aspects of the institution (Corporate Governance).

The main aspects incorporated by the LISF are:

a) To determine the legal structure for regulatory development of Solvency II in Mexico. (Solvency II is a legislative program currently developed in the European Union), Solvency II is underpinned by three main pillars:

    (i) Pillar I, quantitative requirements. This refers to the economic measurement of assets, liabilities and equity: main aspects of this pillar are based on estimation of better estimator, BEL (Best Estimate Liability) to calculate reserves plus a risk margin and to calculate Solvency Capital Requirement, which is based on the risk efectivelly assumed by the institutions.

According to Solvency II, LISF allows insurance companies to develop and implement their own Solvency Capital Requirement model calculation which must be authorized by the National Commission of Bailment and Insurance Companies (Comisión Nacional de Seguros y Fianzas), or to use the general formula used by the CUSF.

The LISF establishes that all capital, including that in excess of the Investment Base or of the Solvency Capital Requirement, shall be invested according to the investment policy approved by the Board of Directors, and in compliance with applicable regulation.

(ii) Pillar II, qualitative requirements. It focuses on institutions having an effective Corporate Governance system that guarantees sound and prudent management of their activity, implementation and monitoring will be responsibility of the Board of Directors. LISF increases the obligations of the Governing Structures of the organizations to implement mechanisms to ensure compliance of operating and financial aspects of the institution.

Moreover, LISF implemented the compulsory establishment and verification of explicit policies and procedures compliance in: Comprehensive Risk Management, Internal Control, Internal Audit, Actuarial Function and Hiring services with third parties.

The LISF also requested the implementation of measures that will ensure that systems, terminology, balance sheet and financial statements be separated from those of their parent institutions in order to ensure free competition conditions, as in transfer pricing studies.

(iii) Pillar III, market discipline. It consists of Transparency and Information Disclosure requirements, for instance: Specifically points out that Financial Statements published by Insurance and Bailment Institutions must include notes disclosing Assets covering the Investment Base and Own Funds that cover Solvency Capital Requirement.

It also sets the requirement for institutions to obtain a credit rating from a specialized credit rating agency from those mentioned in the applicable regulations, and that it be included in the notes to their financial statements.

b) A new business line was implemented so that insurance institutions now offer Surety Insurance Premiums which would co-exist with the bailment system currently in place. LISF law explicitly requires that surety insurance be accepted as form of guarantee, in the same way that bails are accepted as guarantees in federal and local government transactions.

c) In the previous law (LGISMS), the Tax Ministry (SHCP) was responsible of issuing the authorizations to incorporate and operate as an Insurance Institution; however, the LISF now entrusts this duty to the CNSF. The SHCP keeps the power to interpret, apply and resolve administrative matters related to the LISF.

All the above is further detailed in the “Circular Única de Seguros y Fianzas”, a document published on December 19, 2014 which establishes in its first and second transitory provisions, that it will be valid as of April 4, 2015, substituting and abrogating the “Circular Única de Seguros” published on November 8, 2010 and valid since December 13, 2010.

Additionally the Law on Insurance Cotract (Ley Sobre el Contrato de Seguros) is applied.

Adoption of New Rules in Mexico in accordance with Basel III

During 2017, the CNBV implemented a new a new regulation stating that Tier 1 and Tier 2 capital instruments cannot be considered above 50% of the Common Equity Tier 1 capital if the CET1 Capital Ratio is below 10.0%. As of December 31, 2020, the CET1 ratio was 13.90%.

Liquidity Coverage Ratio

The CNBV and Banxico exercising their power jointly, issued on December 31st, 2014 General Provisions on Liquidity Requirements for banking institutions, which came into effect on January 1st, 2015. These provisions establish the liquidity requirements that banking institutions must comply with, pursuant guidelines issued by the Banking Liquidity Regulation Committee, in congruence with standards issued by the Basel Committee on Banking Supervision in this matter. The regulation aims to increase the capacity of institutions to meet their obligations, even in extraordinary situations of liquidity.

The Regulation contains guidelines and considerations to estimate the liquidity coverage ratio, which demonstrates whether the institution has sufficient liquidity to meet its short-term liabilities, i.e. a 30-day horizon under an extreme scenario, using only its Liquid Assets.

When estimating the Liquidity Coverage Ratio, all operations shall be included individually and also those carried out by the financial subsidiaries and SOFOMES that are not subject to accounting consolidation in accordance with the accounting criteria, provided that they could generate a requirement of liquidity for these institutions under the terms established by the aforementioned Provisions.

In our case, it is also applicable to the transactions that Casa de Bolsa Banorte carries out with securities issued by the Bank.

The rules establish guidelines to determine the Computable Liquid Assets, Total Net Cash Outflows and Total Net Cash Inflows:

- Classify the Eligible Liquid Assets at their market value in the corresponding category pursuant to the Provisions and determine the Computable Liquid Assets to estimate the Liquidity Coverage Ratio, after applying the formulas established in the aforementioned Regulation.

  In the case of Subsidiaries established abroad, their Computable Liquid Assets cannot be higher than the Total Net Cash Outflow.

- Total Cash Outflow is the result of adding all the liability transactions with a maturity equal to or less than thirty days multiplied by the corresponding output factor.

- The Total Cash Inflow shall consider all performing operations in accordance with the Accounting Criteria excluding those with due payments of principal or interest which, derived from held agreements, will generate a cash inflow in the thirty days following the date of calculation of the Liquidity Coverage Ratio, multiplied by the corresponding input factor.

Moreover, the Regulation also establishes different liquidity scenarios for credit institutions, based on the Liquidity Coverage Ratio report, the ratio having a regulatory minimum of 100% since January 1st, 2019 based in maximum deviations of it.

The CNBV, based on the Liquidity Coverage Ratio, verified and reported by Banco de México, may order - at any time - institutions to place in the scenario corresponding to each one.

When institutions have knowledge of or forecast that their Liquidity Coverage Ratio will place them in a scenario other than that of the liquidity, actions must be taken for restituting it.

vi. HUMAN RESOURCES

GFNorte had 30,887 full-time and professional fee-based employees at the end of 2021.

Sector	2021	2020	2019
Banking, Brokerage, SOFOM and Other Finance Companies Sector	25,986	24,878	24,302
Long- term Savings Sector	4,899	5,038	5,860
Total full-time employees	**30,885**	**29,916**	**30,162**
Total full-time employees & salaries	**30,887**	**29,920**	**30,167**

66% of GFNorte's Banking Sector employees are non-unionized and the rest are union members.

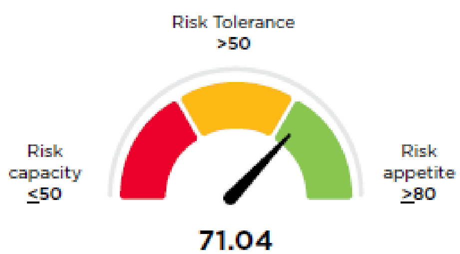
Historically the relationship between Banorte's union and the Institution has been cordial and respectful. There have been no strikes, threats of work disruption or collective conflicts.

vii. ENVIRONMENTAL PERFORMANCE

GFNorte is firmly convinced of the importance of sustainable finance. To achieve this, we comprehensively manage our environmental, social and governance (ESG) risks. With this strategy, we promote the sustainable development of our group in the financial system. By managing ESG risks, we can define our priorities in financial practice and achieve our business goals while creating value responsibly and transparently.

Sustainability Score

In order to internally evaluate our ESG performance, we developed a Sustainability Score applicable to the bank, for the purpose of detecting risks and areas of improvement and to identify opportunities for the institution in this area. The methodology involves selection of the material indicators corresponding to each of the ESG pillars, which are assigned certain risk thresholds. It also incorporates external ESG ratings, to arrive at an overall Sustainability Score (based 70% on the internal evaluation and 30% on the external ratings). Each year the results are presented to the Risk Policies Committee and the Sustainability Committee.



In our 2021 Sustainability Score assessment, we obtained a rating of 71.04 points (on a scale of 0 to 100), 16.4 points better than the previous year, which is within the appropriate range of risk tolerance.

Sustainability Score threshold: Risk appetite >80, Risk tolerance >50, Risk capacity <50.

Update process

Methodological review
Analysis of the indicators counted in the score to determine which remain useful and which should be eliminated.

Compilation of information
Information was compiled as of December 2020 from areas in charge of tracking and managing indicators.

Information evaluation
The information was checked for coherency, completeness, consistency, and correction of measurements.

Definition of thresholds
Together with the responsible areas, risk thresholds were defined with a forward-looking vision, ensuring they aligned with standards, commitments and best domestic and international practice.

Sustainability index
A score was assigned to each pillar, and improvements and areas of opportunities analyzed, which resulted in the Overall Sustainability Index.

Improvements in the score
The strategy and materiality matrix was incorporated.

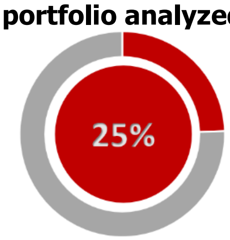
To determine the score, each indicator and category was assigned a specific weight, according to the strategy and materiality matrix, in which investors and senior management determine a level of importance according to ESG matters.

Management of socio-environmental risks in financing

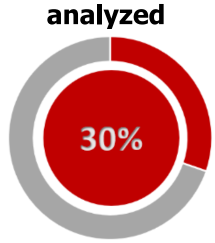
For GFNorte, taking environmental and social risks into account in decision-making is essential for achieving a resilient future in light of climate change, biodiversity loss and social inequality. For this reason, preventing and managing this type of risk is a priority for our business processes and our stakeholders.

Social and Environmental Risk Management System (SEMS)

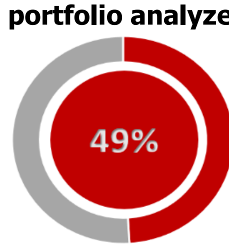
Wholesale banking portfolio analyzed



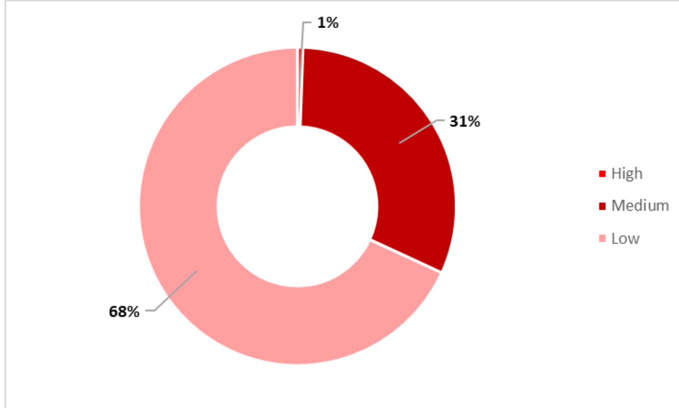
Corporate Banking portfolio analyzed



Commercial Banking portfolio analyzed



More than half of the loans we grant were classified as low-risk, meaning the risks they pose are non-existent, minimal or mitigable.



Projects evaluated in 2021

Evaluation framework	Category A	Category B	Category C	Total
Equator Principles	**5**	**7**	**1**	**13**
Performance standards	**0**	**5**	**0**	**5**
SEMS evaluation	**0**	**1**	**0**	**1**

We evaluated 19 projects, primarily in the construction, tourism and infrastructure industries, which together represented Ps. 16.41 billion in financing.

We also funded 289 lower-impact loans on the recommendations of the IFC industry-specific Environmental, Health and Safety Guidelines.

The most representative sectors with which we share best global practices are:

Industry
Construction
Agriculture
Manufacturing

For more information, contact sems@banorte.com

Emerging risks

GFNorte has become increasingly aware of the potential for direct impact from a variety of emerging risks in areas like the economy, families and society. We have also observed their relationship to other types of risks, as well as to changes that must be made in the way we operate, to a redefinition of our strategic goals, and even profit generation. Among the main emerging risks are climate risk, nature risk, pandemic risk and cybersecurity risk.

Climate risk

The risk arising from climate change has become increasingly significant in the financial industry, because the threats it poses to the short-, medium- and long-term future of mankind demand immediate action. To understand this type of risk, we must first understand how a low-carbon economy functions, as well as the direct risk of natural disasters caused by climate change.

Climate change is one of the greatest environmental risks the world faces today. The severity and frequency of weather-related events, and the transition to a low-carbon economy, are affecting economic stability. GFNorte recognizes our key role as a financial institution in accelerating actions to mitigate and adapt to the phenomenon, inviting our stakeholders to participate as well in this process.

Nature risk

GFNorte is convinced that the loss of biodiversity, scarcity of natural resources and alteration of ecosystems are all risks that could compromise the subsistence of all economic activities. We know that we cannot face climate and social risks without protecting the environment, so it is urgent that we galvanize action toward an economy that also generates positive impacts on nature.

Pandemic risk

Pandemic risk, which manifested itself in 2020 and 2021 in the many variants of the SARS-COV-2 virus, is defined as the potential loss caused by a wide range of economic, social and political impacts caused by the pandemic, primarily the negative effects on the health of the Mexican population and on our employees, and the climate of widespread uncertainty it generates about the future.

In 2020, Banorte developed support programs for borrowers, while the National Banking and Securities Commission defined a set of special accounting criteria to mitigate the negative economic effects of the public health emergency. This enabled us to assist affected clients and keep our portfolio and key indicators stable in 2021.

The pandemic continues to test the robustness of our financial system, but it has remained resilient, retaining the strength of its main indicators and continuing to adopt to a stricter regulatory framework.

In the case of COVID-19, a growing number of contagions and the prolongation of the pandemic into a second year threatened economic growth and development due to the possibility shutdowns of company operations, supply chain disruptions and alterations in international trade flows. This type of risk can be mitigated if countries approach the level of herd immunity so that contagion and mortality rates diminish.

Comprehensive risk management efforts at GFNorte were focused on identifying industries and segments with the highest risk, creating work groups on controlling non-performing loans and strengthening portfolio quality, proactively managing the balance sheet and bolstering capital ratios.

- **Responsible investment**

We are aware of the relevance of ESG factors in investment—in terms of the risks, opportunities and the positive and negative impacts they may have. We have incorporated responsible investment as a complement to traditional investment processes and as part of our fiduciary duty to our clients.

In March 2017, we became the first Mexican financial group to sign the United Nations Principles for Responsible Investment (PRI). In late 2020, we decided to add two business lines independently, given the nature of their operations: Afore XXI Banorte, as an asset holder, and Operadora de Fondos Banorte, as an asset manager.

- **Afore XXI Banorte**

At Afore XXI Banorte, we work steadily to maintain our position as a leading Mexican pension fund manager in the area of responsible investment. Over the course of the year, we developed a Policy on Climate Change Management in the Portfolio, which reinforces our commitment to incorporating ESG factors into the investment process and charting a roadmap toward compliance with the Paris Agreement. The policy centers around a tree-step approach for response to climate change:

Investment process

- Investment aligned with the Paris Agreement
- Climate Change Strategy

Engagement

- Collaborative
- Corporate

Disclosures

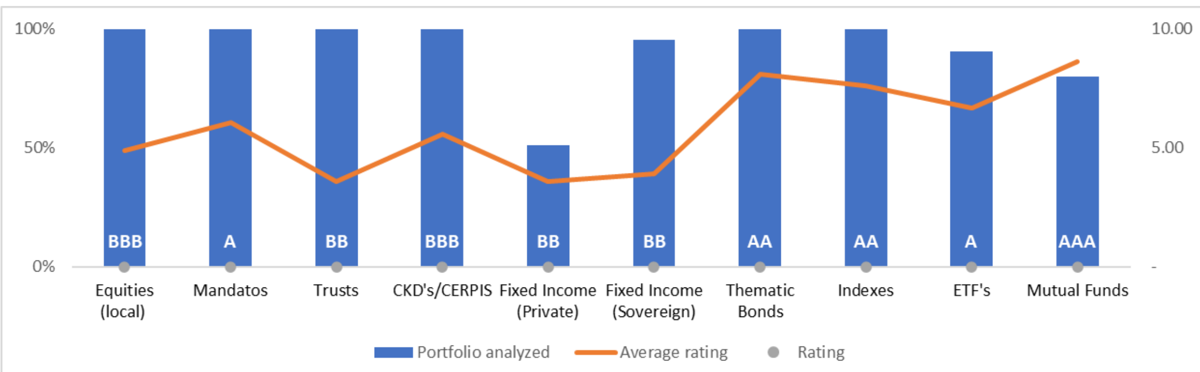
- Governance
- TCFD recommendations
- Contributions to the SDG

We seek to understand the results of the investments made and their real impact on society, the economy and the environment. Accordingly, we focus on contributing to the SDG and thus fulfilling our fiduciary duty and protecting the equity of our savers.

We continued to train our team in key ESG matters, providing a total of 70 hours of training to various teams in the investment area.

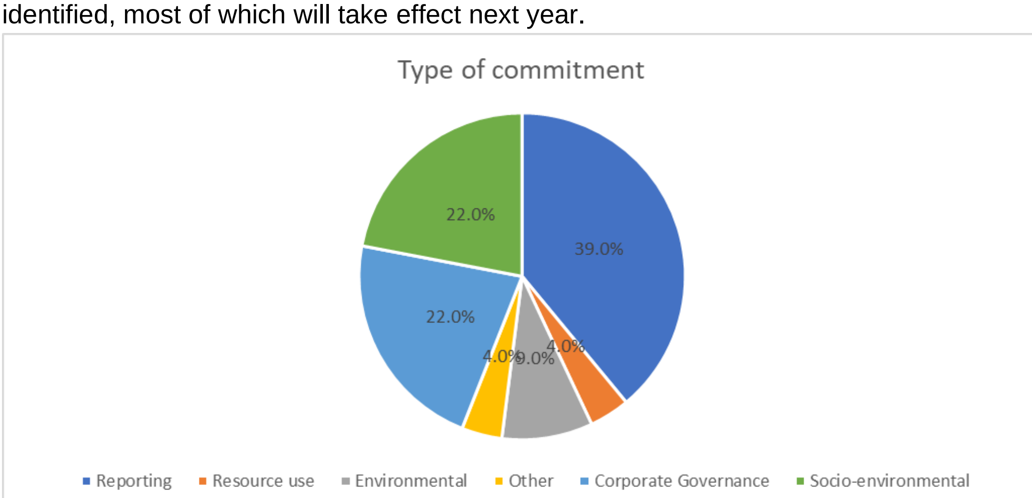
- **ESG Analysis**

Based on an in-house methodology, with the support of an ESG data provider, we analyzed the presence of these factors in our portfolio, covering 76% of the universe of investment. This was 9% more than last year—42 new security issues, in absolute terms, which were assigned an ESG rating. We also monitored for disputes relating to the most significant portfolio positions.



- **Engagement**

Based on the results of our ESG analysis, we sought out an individual engagement with the companies to learn about their initiatives, processes and strategies in this area, and to establish specific commitments with them. During the year we approached 19 issuers with this process and formalized 23 commitments relating to areas of opportunity identified, most of which will take effect next year.



To complement this effort, we continue our collective engagement through the Green Finance Consulting Council, the Mexican AFORES Association (AMAFORE) and the Climate Action 100+ Initiative. Together with other market participants, both local and international, we opened a conversation with three of the country's leading corporations engaged in the industries that are most relevant in ESG terms. These meetings were held at least once every quarter, and the issues addressed included requests for information disclosure, alignment with international reporting standards, decarbonization plans and climate adaption, as well as monitoring of the goals established previously.

These efforts are part of our climate change commitment and are aligned with the Nationally Determined Contributions Plan (NDC), which set medium- and long-term goals for managing GHG emissions, to take effect in 2025 and 2030.

We also worked to strengthen our responsible investment processes during the year. We engaged an international consultant to assist us in the first phase, which consisted of a diagnosis of ESG progress, identifying strengths such as our internal culture, our solid credibility with stakeholders, and our infrastructure and ESG data quality.

- **Promotion of responsible investment**

Early in the year, the National Retirement Savings System (CONSAR) announced that beginning in 2022, all AFORES must consider ESG factors in their investment process. This required adaptation of manuals, communication materials and risk assessment, along with a transformation of the process by which investments are analyzed.

In 2021, Afore XXI Banorte (AXXIB) supported other fund managers in complying with each of the regulator's requirements, heading the Sub-Committee on Responsible Investment at AMAFORE. This sub-committee encourages and develops various activities that benefit all participants, most notably:

- Constant communication with the regulator to better understand the requirements.
- Involvement in various initiatives to encourage climate change action and gender equality.
- Communication forums to share best practices.
- Training by international leaders for local managers.

Other efforts to foster and disseminate information on responsible investment in line with PRI number 4 included participation by Afore XXI Banorte in 12 forums, ranging from webinars and virtual workshops to training for various stakeholders. These events focused on sustainable finance, corporate social responsibility, human rights and gender perspective.

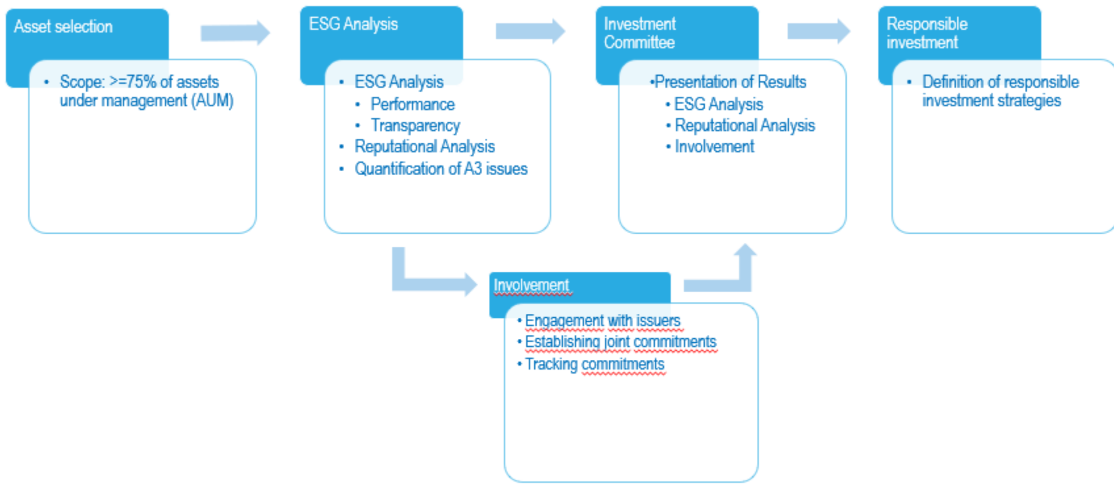
- **Asset manager**

Our asset manager, Operadora de Fondos Banorte, strengthened its responsible investment strategy in 2021 by updating the Responsible Investment Policy and its ESG analysis and issuer engagement procedures which are part of the internal regulation of this subsidiary. Among the most important changes were regular reporting to the Managed Portfolio Investment committee, the group that establishes investment strategy and tracks fund performance.

The policy can be viewed at the following link: https://investors.banorte.com/~/media/Files/B/Banorte-IR/sustainability/policies-and-procedures/en/Responsible%20Investment%20Policy_151021.pdf

Responsible investment requires analyzing the ESG aspects of the instruments in which we invest, to establish joint commitments and align sustainability interests. We also try to reward issuers with outstanding ESG performance, using various responsible investment strategies depending on the mandate for the fund in question.

Process:

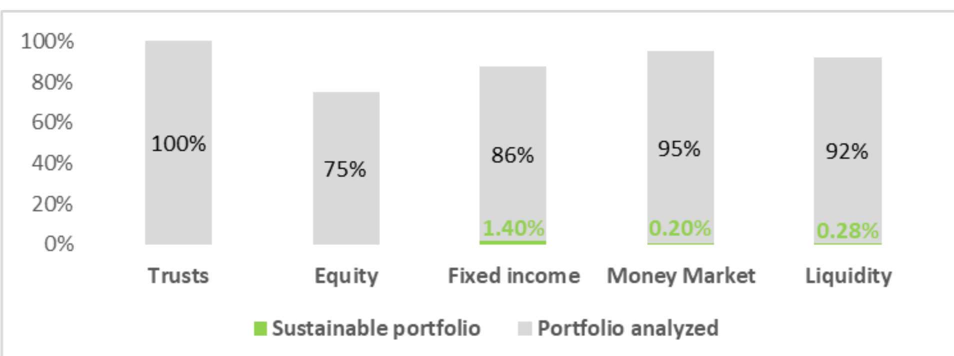


To analyze ESG performance, we use an in-house methodology based on GRI and SASB standards, as well as the CDP questionnaire on climate change aspects. This methodology encompasses key indicators for each of the 17 industry groups included in the process scope, weighting them according to our industry materiality matrix and evaluating them based on best global practices.

As a complement, we evaluated ESG-related disputes under an industry approach to arrive at the reputational risk of each issuer. To do this, we used an algorithm consisting of three points: source of the dispute, scope and number of postings.

During the year we developed a special methodology for analyzing ESG criteria in sovereign issues, evaluating the countries that make up the MILA market: Mexico, Peru, Chile and Colombia. Although we only have positions in Mexican securities at present, we used the results for comparison against other emerging countries in the region.

The ESG analysis carried out this year covered 72% of the AUM.



For the second year in a row, we led the CDP's Non-Disclosure Campaign (NDC) in Mexico, which encourages companies to report their actions against climate change, deforestation and water stress through its questionnaires. The request went out to 24 issuers, 45% of which responded and 21% agreed to participate.

We also joined the Science-Based Targets initiative (SBTi) together with the CDP, in order to accelerate corporate adoption of this initiative and encourage other companies to commit to decarbonizing their portfolios and mitigating climate-related risks.

We also participated in the LatAm Investors' Climate Initiative, promoted by the PRI, the goal of which is to develop skills for incorporating climate aspects in investment decisions. The first phase consisted of five workshops; in 2022 the second phase will focus on the use of scenario analysis to assess climate-related risks and opportunities in a portfolio.

The application of responsible investment principles is reflected in our NTESEL fund, which includes a strategy of involving ESG criteria in its selection, and the NTEESG fund, administered by an external manager, with a positive selection strategy. With these efforts, we hope to contribute to society and the environment while creating value for our clients and rewarding issuers who show outstanding ESG performance.

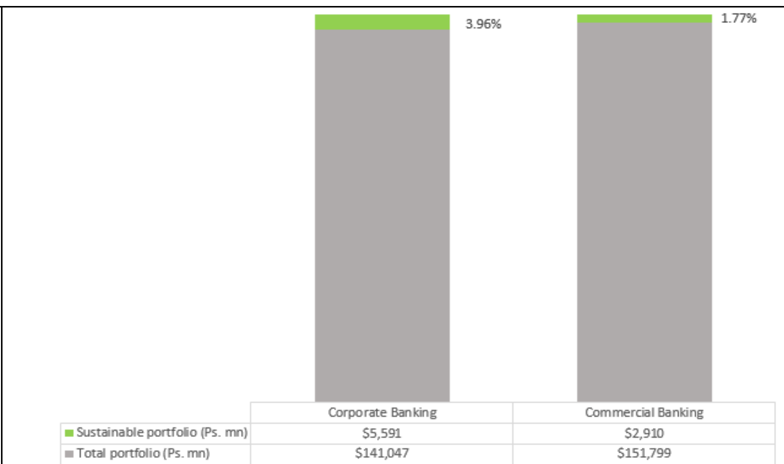
Along the same lines, all of our external asset managers are PRI signatories, which guarantees comprehensive application of responsible investment strategies.

- **Sustainable financial products**
  - **Sustainable Finance**
    - Sustainable and climate portfolio

GFNorte wants to contribute more to the general goals of society and to climate agreements. We are convinced that there are tremendous opportunities for the capital markets to direct funding to projects that protect the environment and improve people's quality of life, which is why we identify and categorize our financing to ensure a positive impact on the country.

At the close of the year, the value of our sustainable portfolio in corporate and commercial loans was estimated at Ps. 8.50 billion, which was invested in projects in the following areas:

- Renewable energy (wind and solar)
- Clean energy
- Sustainable building
- Sustainable agriculture
- Wastewater treatment
- Waste recycling (paper, metal, plastic)
- Financing for vulnerable members of society (women)



We also recognize the importance of clean energy as a primordial way to transition toward a low-carbon economy. Despite current uncertainty over energy industry legislation, we remain committed to our clients in the renewable and clean energy industries. As of December 2021, our ten renewable energy projects totaled Ps. 8.12 billion in financing to ten major projects.

- Banorte Total Rewards

Inspired by the success of our inclusion of cause-based suppliers in our Banorte Total Rewards program, we extended our portfolio of Products with a Cause, the purpose of which is to support Mexican companies that make sustainable products to benefit the community and the environment. On our platform, we have a space where employees and clients can find a wide range of such products to redeem their loyalty points.

- **Responsible Investment**

- ESG Integration

Within the range of products offered by Operadora de Fondos Banorte, our NTESEL fund is a relatively managed mutual fund whose investment strategy is determined by a quantitative model involving ESG criteria, among others, to screen instruments for acceptance. With an ESG rating of 56.7 points, according to an internal evaluation, and 63 points from an independent consultant, the fund had a total value of Ps. 1.32 billion in assets under management at the close of the year.

- Positive and negative selection

In collaboration with Franklin Templeton, Operadora de Fondos Banorte launched the NTEESG fund, made up of issuers who follow the best global ESG practices and who meet this subsidiary's Responsible Investment Policy guidelines. The fund's aim is to deliver returns superior to its benchmark. With an ESG rating of 7.26 points according to the manager's rating (19% higher than the benchmark index), the fund closed the year with a total of Ps. 2.15 billion in assets under management.

We also have exclusion lists for Afore XXI and Operadora de Fondos, which rule out certain activities and industries for investment.

- Thematic investment

Through our subsidiaries Afore XXI and Operadora de Fondos, we strive to have a positive impact on the environment and society by investing in financial instruments with a sustainable focus. In 2021, our exposure to this type of asset totaled Ps. 19.06 billion in thematic bonds, Ps. 7.20 billion in sustainable ETFs and Ps. 23.17 billion in alternative instruments (CKDs and CERPIs).

- Impact investment

Through Afore XXI Banorte, we promote investment in impact projects that benefit society and the environment, weighting the benefits for our AFORE members in each investment. Some of the results we obtained in 2021 were:

- We helped build 9,017 km of highways and paved roads.
- We supported social impacts that benefited around 7.5 million people.
- We promoted reforestation and remediation in around 100 square meters of land in various parts of Mexico.
- We invested in farmers that generated 17,065 metric tons of food.
- We contributed to the generation of around 127,000 megawatts a year, equivalent to 3.3% of national installed energy capacity.
- The companies that make up the portfolio achieved savings of 400 billion liters of water last year through treatment and recycling strategies for reusing water in other processes.

- We helped create 3.5 million jobs, both direct and indirect, in Mexico, equivalent of 6% of the country's economically active population.
- We encouraged the inclusion of women in governance bodies of around 39 publicly traded Mexican companies and more than 40 development capital asset managers (CKDs), resulting in a participation of 10% and 16% women in the boards of these institutions, respectively.

Thematic issues

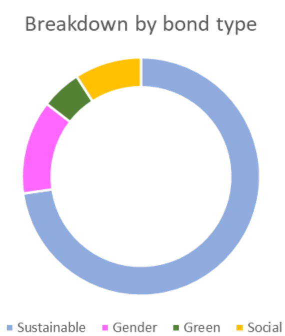
Placement of thematic bonds

During the year, Banorte participated as lead underwriter in 12 thematic bond tranches for four different issuers: Banobras, FIRA, U-Storage and Compartamos, for a total of Ps. 27.50 billion, in which the bid-to-cover ratio averaged 2.5x.

Issuer	Ticker	Bond type	Sector	Amount placed (MXNmn)	Format	Rate/spread	Issue date	Term	Bid-to-cover by tranche	Bid-to-cover for issue	S&P	Moody's	Fitch	HR
Banobras (1)	BANOB 21X	Sustainable	Developing Banking	1,100	TIIE+	-0.09%	mar-21	3.0	9.2x	3.6x	AAA	Aaa	AAA	
Banobras (1)	BANOB 21-2X	Sustainable	Developing Banking	2,000	TIIE+	-0.03%	mar-21	5.0	2.0x		AAA	Aaa	AAA	
Banobras (1)	BANOB 21-3X	Sustainable	Developing Banking	4,300	Fixed	7.07%	mar-21	10.0	2.4x		AAA	Aaa	AAA	
Banobras (1)	BANOB 21UX	Sustainable	Developing Banking	2,600	UDIs	3.04%	mar-21	15.0	4.1x		AAA	Aaa	AAA	
FIRA (1)	FEFA 21G	Gender	Developing Banking	3,500	TIIE+	0.14%	abr-21	3.0	3.2x	3.2x	AAA			AAA
U-Storage (1)	STORAGE 21V	Green	REITs	1,171	Fixed	8.64%	jun-21	7.0	1.3x	1.6x			AA-	AA
U-Storage (1)	STORAGE 21-2V	Green	REITs	329	TIIE+	1.50%	jun-21	4.0	2.7x				AA-	AA
Bancomext (1)	BACMEXT 21X	Sustainable	Developing Banking	3,000	TIIE+	-0.07%	oct-21	3.0	2.0x	1.9x		Aaa	AAA	
Bancomext (1)	BACMEXT 21-2X	Sustainable	Developing Banking	1,000	TIIE+	-0.05%	oct-21	5.0	3.0x			Aaa	AAA	
Bancomext (1)	BACMEXT 21-3X	Sustainable	Developing Banking	6,000	Fija	7.83%	oct-21	10.0	1.6x			Aaa	AAA	
Compartamos (1)	COMART 21S	Social	Commercial Banking	1,783	TIIE+	0.40%	nov-21	3.0	2.1x	3.0x	AA		AA	
Compartamos (1)	COMART 21-2S	Social	Commercial Banking	717	Fixed	9.19%	nov-21	5.0	5.1x		AA		AA	
			Total amount	**27,500**		**Average bid-to-cover**			**2.5x**					

(1) Issued under communicating vessels scheme

The total amount of issues labeled Sustainable accounted for 73% of the total, with Ps. 20 billion; total Gender-linked issues 13% with Ps. 3.50 billion; Social 9% with Ps.2.50 billion; and Green 5% with Ps. 1.5 billion.



All of these issues have been subject to external verification of the reference framework as a second opinion.

Green bond reference framework

In line with market trends and needs, we have a green bond reference framework aligned with the Green Bond Principles. Backed by a favorable second opinion from Sustainalytics, this framework sets the guidelines for future debt issues the proceeds of which go to financing or refinancing projects in the areas of renewable energy, energy efficiency, natural resources and biodiversity, sustainable mobility and water stewardship, provided they meet the criteria established in that document.

Consult our green bond reference framework at: https://investors.banorte.com/~/media/Files/B/Banorte-IR/sustainability/policies-and-procedures/en/GreenBondFramework_010520.pdf

- Sustainable insurance

  - Hydrometeorological insurance

Our insurance subsidiary, Seguros Banorte, offers catastrophic coverage for weather-related phenomena, helping clients mitigate the physical risks of climate change, like hurricanes, flooding, storm surges, tsunamis and hail, among others. This type of insurance is available for homes, retail and industrial properties.

At the close of 2021 we were covering 214,256 risks throughout the country, including the zones with the greatest exposure to hurricanes: the Yucatán peninsula, the Gulf of Mexico and the Pacific Coast. The insurable assets declared in these policies totaled Ps. 785.27 billion, with total risk retention of Ps. 104.74 billion and net premiums of Ps. 825mn.

  - Parametric insurance

Seguros Banorte offers a parametric insurance policy with coverage against hurricanes. The parametric triggers of payment depend on the trajectory and speed of wind—scaled at 100, 130 and 160 knots—which in turn determines the maximum parametric payout. Parameters are graded according to the official records of the National Hurricane Center at the National Oceanic and Atmospheric Administration (NHC-NOAA).

In the event of a claim that includes any of the predefined parameters, our commitment is to make payment within 72 hours, regardless of whether or not there was any impact in the insured zone. This guarantees that both infrastructure and natural capital impacts in the defined area can be addressed as quickly as possible. In 2021, we issued five policies in various states of Mexico, with net premiums of Ps 15 million.

Environmental management

As part of our commitment to the environment and our organizational development, we have an Environmental Policy aligned with current national and international regulations and initiatives and with international standard ISO 14001. The policy is available for viewing at: https://investors.banorte.com/~/media/Files/B/Banorte-IR/sustainability/policies-and-procedures/en/PolticaAmbiental_en.pdf

We also have an environmental impact matrix that enables us to identify existing environmental legislation applicable to the industry, for managing 128 operational aspects that in turn involve six current or emerging risks. We received no environmental fines in 2021.

Operating eco-efficiency
Energy

Total Energy Consumption				
Year	**2019**	**2020**	**2021**	**Chge. 21/20**
Metric	**(GJ)**	**(GJ)**	**(GJ)**	**(%)**
Natural gas	154.29	11.93	2.3	-80.7%
Diesel	2,221.49	3,422.64	1,994.3	-41.7%
LP Gas	1,193.93	910.19	770	-15.4%
Gasoline	54,912.79	43,637.62	36,389.89	-16.6%
Electricity	484,045.70	461,727.42	459,228.53	-0.54%
Total GJ	**542,373.91**	**509,697.87**	**498,385.35**	**-2.2%**
GJ by employee	**17.98**	**17.04**	**16.25**	**-4.6**
GJ per Ps. mn of net income	**14.85**	**16.71**	**14.22**	**-14.9**
Employee scope	100%	100%	100%	

Factors Used (CONUEE)	2020	2021	2021	

The diesel included in the total considered as fixed-source is the fuel used for backup generators and as fixed sources, the diesel used in utility vehicles. LP gas is used for forklifts and cooking, which was replaced by electricity starting in July. Finally, the gasoline reported is used for utility vehicles.

The consumption of gasoline in utility vehicles in our Leasing and Factoring subsidiary, and in Bonded Warehousing, as well as diesel fuel from fixed sources at Banorte, were estimated based on expenses and the monthly average price given by the Energy Regulatory Commission (CRE) for each fuel.

To calculate emissions intensity we used a base of 30,667 employees, including full-time employees, those working on a fee basis and other professional service providers, and Ps. 35.05 bn in net income.

Security protocols applied during the COVID-19 pandemic required us to develop new forms of remote work and staggered office hours, which allowed us to vacate two administrative buildings and 29 bank branches. This contributed directly to the reduction of our energy use by 2,100 MWh, associated with the emission of 1,037.4 metric tons of tCO2e.

We also have a program for automatic shutoff of computers outside of working hours, which allows us to monitor equipment in the networks of our administrative buildings. By our estimates, this program has saved us Ps. 1.2 million, corresponding to 727.39 MWh and emissions of 359.33 tCO2e which we avoided.

Our strategic alliance with Google Cloud allowed us not only to innovate in the banking industry but to achieve new environmental goals. Google Cloud has been carbon-neutral since 2007 and has the goal of powering all of its data centers with renewable energy by 2030. A fundamental pillar of the alliance is the migration of certain strategic loads suitable for the cloud, so that we can take advantage of the carbon-free energy supply offered by Google Cloud. We currently use this platform and are working on migrating processes like finance, accounting and budgeting. The alliance gives us an opportunity to develop new digital services that will directly benefit our clients.

In 2022 we began migrating our main data center from Tlalpan in Mexico City to the city of Querétaro. This is being done in a series of phases, and it will ultimately enhance data security and optimize electrical energy consumption, while taking advantage of natural environmental factors for cooling the data center. We consider data security to be strategically vital, so we perform regular secure backups to keep the center functioning properly during this change. The migration will reduce our energy consumption as well as the greenhouse gas emissions it entails.

In 2021, legal efforts continued to obtain modification of the self-supply permit to include Banorte as a consuming partner. If we succeed in this effort, we will have a renewable energy supply covering 70% of the electricity consumed by this subsidiary.

Greenhouse gas (GHG) emissions
Scopes 1 and 2
GFNorte scope 1 and 2 emissions (tCO2e)

GFNorte scope 1 and 2 emissions (tCO2e)				
Concept	**2019**	**2020**	**2021**	**Var.**
Metric	(tCO2e)	(tCO2e)	(tCO2e)	
Natural Gas (A1)	1.40	0.67	0.13	-80.6%
Diesel (A1)	166.21	256.20	149.95	-41.5%
LP Gas (A1)	76.73	59.06	49.98	-15.4%
Gasoline (A1)	3,960.31	3,147.14	2,624.44	-16.6%
Electricity (A2)	67,855.07	63,339.46	63,008.51	-0.5%
Total tCO2e **(A1 + A2)**	**72,058.08**	**66,851.91**	**65,833.00**	**-2.0%**

tCO2e **per employee**	**2.39**	**2.23**	**2.15**	**-6.0%**
tCO2e **per Ps. mn of net profit**	**1.97**	**2.19**	**1.88**	**-14.9%**
Employee scope	100%	100%	100%	
Scope 1 emissions were calculated on the basis of factors published by SEMARNAT in the Official Gazette of the Federation, in the agreement establishing the technical details and formulas to be applied in methodologies for calculating greenhouse gas or compounds. Scope 2 emissions were calculated using the national electrical emissions factor for 2020. Calculations on emissions intensity assume Ps. 35.05 billion in net income and a staff of 30,667 employees (full-time employees, those working on a fee basis and other professional service providers).				

Corporate air travel
GFNorte employees traveled approximately 2,813,834 kilometers by air in 2021, equivalent to 302.24 tCO2e emitted into the atmosphere. This is 40% less than in 2020, primarily because of the shift to remote work and the gradual return of certain areas of the group to the office.

Employee commuting
Because we operate in an industry considered essential, we were able to continue operating and offering services to our clients. Employees in our branches, call center and some administrative buildings continued working on site. Together with the Institute for Transport and Policy Development and MOVIN (Movilidad Inteligente), a group of companies located along Mexico City's Avenida Reforma, we developed an institutional mobility plan to explore the accessibility of various means of transport for our employees to and from the office.
In the first phase, we conducted a diagnosis to learn about our employees' mobility patterns, quantify the impact they have inside and outside of the institution and identify possible solutions for mitigating it. In 2022 we will be applying the institutional mobility plan for the return of employees to offices located in this zone through a staggered scheme involving more sustainable means of transport, like bicycles, company vans, carpooling and walk-to-work incentives.

Cooling gases
We emitted 3,674.14 tCO2e resulting from recharges of R-22 and R-410a cooling gases (which do not affect the ozone layer), 37% less than the year before. In 2015 we stopped purchasing air conditioning equipment that uses R22 cooling gas. The scope includes the facilities of Banorte and Afore XXI, where 93% of our employees work.

Investment
According to the GHG Protocol methodology for calculating scope 3 emissions, category 15 for investment, we quantified a total of 125,240 tCO2e corresponding to 121 issuers whose securities are included in the portfolio of our Fund Manager. This covers 76% of the total equity assets of this subsidiary.

Waste management

In 2021, we extended the Waste Separation Program to a total of six buildings: Torre Santa Fe, Reforma 383 and Tlalpan, located in Mexico City, and the Call Center, Torre Sur and Torre KOI in Monterrey. With the measurement taken for the 2020 program, we estimated the amount of waste generated in our administrative buildings based on the indicator of kilograms per employee, dividing this into non-organic, non-recyclable and organic. Assuming a similar pattern in the remainder of our administrative buildings, this indicator was extrapolated to 110 other buildings with a scope of 48.3% of our workforce; adding up the metric tons of recyclable non-organic waste we arrived at a total of 1,050 metric tons of waste generated.
Having done this, we were able to channel a total of 489.5 metric tons of waste for recycling; the proceeds raised from 2.6 metric tons of this waste went to social causes like maintenance and repair of school furniture. Furthermore, in keeping with standards on the appropriate disposal of dead files, this year we recycled a total of 463.7 metric tons of paper, equivalent to 50,754 boxes of documents destroyed. And under an alliance with BioBox we collected

around 18.4 metric tons of PET and aluminum cans in exchange for rewards through machines located in Mexico City.
To increase the accessibility of waste collection and disposal from our employees, through our corporate volunteer corps, two of our administrative buildings in Mexico City were converted into collection centers, where a total of 1.433 metric tons of recycle waste was collected: paper, cardboard, aluminum, scrap metal, NDPE, tetra pak, glass, PET, caps and electronics.

We also encouraged the efficient consumption of paper in our operations, being the largest source of waste by volume that we generate. We adopted a number of initiatives and campaigns in order to consume less paper and encourage the use of digital media and cross selling.

- **Origina**: by optimizing contract formats and reducing the number of pages we saved 35.01 metric tons of paper, equivalent to 7,745,416 sheets.
- **Papercut**: by monitoring multifunctional printers in banking industry corporate buildings and controlling the number of printouts per user, we saved 2.3 metric tons of paper or 513,122 sheets.
- **Paperless**: Reduced the amount of printed account statements sent to clients' addresses by sending digitized statements to clients with Mujer Banorte, Cuenta Preferente, Enlace Personal and Suma Menores accounts. This year 250,177 accounts went paperless, equivalent to 33.36 metric tons of paper, saving approximately Ps. 10.3 million.
- **ATMs**: The elimination of printed receipts at our ATMs saved close to 187 metric tons of paper and Ps. 380,000.
- **Mobile Adjuster**: A total of 176,500 clients in the Insurance business entered their claim statement on a tablet and processing orders were issued electronically via e-mail to the insured party. This avoided the consumption of 1.4 million sheets, or 6.38 metric tons of paper.

Water
Our water efficiency measures include water-saving sinks in our administrative buildings, dry urinals and low-consumption toilets. We also have a water capture system on rooftops and conventional drains in two of our administrative buildings, which permits us to channel rainwater to a special cistern for use in building operations and maintenance.

Water consumption

Consumption	2019	2020	2021	Var.
Water m3	714,835	509,599	673,596	32.2%
m3/employee	23.70	17.03	21.96	28.9%
Employee scope	100%	100%	100%	

Calculations based on water expense and average government price. The water comes from the public water supply networks where we operate, and wastewater is channeled into public sewage networks.

Water intensity calculations assume a workforce of 30,667 employees (full-time employees, those working on a fee basis and other professional service providers)-

Climate Change

Climate strategy

GFNorte recognizes global climate change as one of the greatest environmental threats humanity is facing. We know that efforts are urgently needed to reduce dependency on fossil fuels and lower the amount of greenhouse gases emitted into the atmosphere to avoid irreversible consequences for society, the environment, and productive activity. We have developed a comprehensive climate strategy that covers our national and international commitments, aware of the way climate change pervades all ESG issues. Our climate strategy focuses on six goals that will be achieved between 2021 and 2050, aligned with the issues of governance, strategy, risk management, metrics and targets, stakeholders and transparency.

2021 - 2025	2026 - 2030	2031 - 2035	2036 - 2040	2041 - 2045	2046 - 2050

Governance	Develop policies, processes and work groups on climate change to support decision-making by governance bodies and ensure that these permeate the entire organization.	CDP, TCFD, PRB, PRI
Strategy	Guarantee the group's resilience to the effects of climate change and accelerate the transition to a low-carbon economy.	CDP, TCFD, PRB, PRI
Risk management	Analyze risks and impacts relating to climate, nature and society, and identify opportunities under possible future scenarios.	CDP, TCFD, EP, PRB, PRI, TNFD
Metrics and targets	Measure the direct and indirect impact on the Group from climate change and define decarbonization targets based on science and sustainable finance.	CDP, TCFD, SBTi, NZBA, PRB, PRI
Stakeholders	Participate actively with clients, regulatory bodies and other stakeholders to encourage climate action.	CDP, EP, PRB, PRI
Transparency	Publicize the group's commitments and actions regarding climate change.	CDP, TCFD, SBTi, NZBA, EP, PRB, PRI, TNFD

CDP: Carbon Disclosure Project **SBTi:** Science Based Targets Initiative **TCFD:** Taskforce on Climate-related Financial Disclosures **NZBA:** Net Zero Banking Alliance	**PBR:** Principles for Responsible Banking **PE:** Equator Principles **PRI:** Principles for Responsible Investment **TNFD:** Taskforce on Nature-related Financial Disclosures

Emissions reduction target

Aligned with the commitments Mexico assumed in the Paris Agreement, we defined short- and medium-term goals to reduce scope 1 and 2 GHG emissions, which were approved by the Sustainability Committee in its first meeting of the year. We are still in the process of setting scope 3 emissions reduction targets, which correspond to our financing and investment portfolios.

Target	KPI	Target	Base year	Target year
Reduce absolute CO2 emissions by the group	tCO_2e	50%	2020	2030
Reduce absolute CO2 emissions by the group	tCO_2e	100%	2020	2050
Reduce CO2 emissions per employee (intensive) by the group	tCO_2e /colaborador	30%	2020	2025
Reduce CO2 emissions per employee (intensive) by the group	tCO_2e /colaborador	60%	2020	2030

We also continued our work on aligning these commitments with the methodologies of the Science Based Targets Initiative (SBTi) and the Net Zero Banking Alliance (NZBA), taking part in various workshops to develop skills and tools needed to do so during the year.

Natural Disasters

In 2021 we recorded 40 climate-related events, three of which had an economic impact on 42 of our branches. The physical impact totaled approximately Ps. 843,000 in infrastructure damage, and we estimate the loss of close to Ps. 11.2 million in net income from the interruption in services totaling approximately 480 hours.

To mitigate climate risk, we have a command center that conducts live monitoring of high-impact climate events, as well as 15 sub-committees in different regions of the country, involving 462 employees during the year. We also provide theoretic and practical training which was completed by 1,046 of our active brigade members. We also have a resilience plan to ensure business processes and the efficient return to operations following meteorological crises at eight branches, at a total cost of Ps. 18.5 million.

Environmental culture

Biodiversity
Our green rooftop project, located in the Roberto González Barrera Contact Center in Monterrey, Nuevo León, represents our commitment to the sustainable use of urban spaces. The rooftop holds 70 species of Mexican plants, 13 of them classified under environmental protection standard NOM-059-SEMARNAT-2010. It has 1,784 m2 of landscaped area with succulents and cactuses from the biome where it is located.

Together with the Reino Animal theme park and nature preserve, we continued our conservation efforts through the Center for Conservation of the Mexican Grey Wolf. The existence of this species has been interwoven with human activity from the times of Teotihuacán, so its conservation is deeply important in Latin America, for educational and social purposes as well as for its local and national environmental impact.

Additionally, and as part of our commitment to building greater environmental awareness, we promote the use of renewable energy through solar power installed within the park. We set up infographics on the benefits of renewable energy, so that visitors can learn about the various options they have to apply it at home and in their companies.

viii. MARKET INFORMATION

As a result of the wide variety of products and services in all our business lines, we are faced with large competitors, which may be financial groups, commercial banks, regional or international, brokerage houses, investment fund operators, Afores, Insurance , Pensions, Leasing and Factoring Companies, among others.

Grupo Financiero Banorte (GFNorte), competes strongly in Mexico with foreign Financial Groups with Mexican subsidiaries (mainly US and Spanish), the main ones being: *i) BBVA Bancomer, S.A., Multiple Banking Institution, BBVA Bancomer Financial Group; ii) Banco Nacional de México, S.A., Multiple Banking Institution, Grupo Financiero Banamex; iii) Banco Santander (Mexico), S.A., Multiple Banking Institution, Grupo Financiero Santander; iv) HSBC México, S.A., Multiple Banking Institution, Grupo Financiero HSBC; v) Scotiabank Inverlat, S.A., Multiple Banking Institution, Grupo Financiero Scotiabank Inverlat; and vi) Banco Inbursa, S.A., Multiple Banking Institution, Grupo Financiero Inbursa.*

Below is the evolution of the market shares of the main financial entities that make up GFNorte:

Company	Concept	2021	2020	2019
Consolidated Bank (1) (2)	Core Deposits	12.50%	13.60%	13.50%
	Performing Loans	14.77%	15.10%	14.10%
Casa de Bolsa Banorte (3)	Share operation	2.50%	3.10%	2.30%
Afore XXI Banorte (4)	Affiliations	13.34%	14.06%	15.17%
Seguros Banorte (5)	Issued Premiums	4.74%	4.89%	4.82%
Pensiones Banorte (6)	Pensions	47.79%	49.29%	42.35%
Arrendadora y Factor Banorte (7)	Total Loans	18.35%	17.69%	10.30%
Almacenadora Banorte(8)	Deposits of Property	4.42%	5.55%	2.80%

1) Consolidation of Banco Mercantil del Norte with the other subsidiaries
2) Source: CNBV Banca Multiple as of December 2021.
3) Source: Asociacion Mexicana de Intermediarios Bursatiles (Operations Report), A.C., as of December 2021.
4) Source: CONSAR as of December 2021, does not include Assigned Workers with Resources Deposited in Banco de México.
5) Source: Premiums written, Asociacion Mexicana de Instituciones de Seguros, A.C.(AMIS) as of December 2019, 2020 and 2021.
6) Source: AMIS as of December 2021.

7) Source: CNBV Sociedades Financieras de Objeto Multiple, Entidades Reguladas that do not consolidate with Banks as of December, 2021.
8) Source: CNBV Almacenes Generales de Deposito as of December, 2021.

Regarding the Consolidated Bank, position and market share in various segments are listed below:

	2021		2020	
Concept	**Position**	**Market Share**	**Position**	**Market Share**
Total Assets	4	11.16%	4	11.30%
Performing Loans	2	14.77%	2	15.10%
Commercial	2	14.24%	2	14.70%
Consumer (1)	2	13.24%	2	13.40%
Credit Cards	4	10.41%	4	10.20%
Mortgage	2	18.91%	2	19.50%
Government	2	24.53%	2	28.30%
Retail Total Deposits	4	12.50%	3	13.60%
Demand Deposits	4	11.76%	3	12.80%
Time Deposits	4	14.57%	1	15.70%

Source: CNBV Banca Mutiple as of December, 2021.
1) Includes Personal, Payroll and Car.

ix. CORPORATE STRUCTURE

Financial Entity / Service Subsidiary	Equity as of December 31, 2021
Banco Mercantil del Norte, S.A., Institucion de Banca Multiple, Grupo Financiero Banorte. • Credit Institution authorized to conduct financial operations. • Conduct banking and credit operations.	98.26%
Arrendadora y Factor Banorte, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte. • Celebrate leasing and factoring contracts. • Obtain loans and financing from credit and insurance institutions to cover liquidity needs.	99.91%
Almacenadora Banorte, S.A. de C.V., Organizacion Auxiliar del Credito, Grupo Financiero Banorte. • Store, keep and maintain goods and merchandise. • Issue deposit certificates and pledged bonds. • Transform deposited merchandise in order to increase their value.	99.99%
Casa de Bolsa Banorte, S.A. de C.V., Grupo Financiero Banorte. * Act as authorized intermediary to operate in the stock market, conducting sale and purchase transactions of securities; provide advice on securities' placement and operations with securities and mutual funds.	99.99%
Operadora de Fondos Banorte, S.A. de C.V., Sociedad Operadora de Fondos de Inversion, Grupo Financiero Banorte.[1] • Carry out asset the functions of asset management, distribution, valuation, promotion and acquisition of securities issued by mutual funds, deposit and custody of securities subject to investment and of mutual funds, accounting, and management in the issuance of securities.	99.99%
Ixe Servicios, S. A. de C. V.	99.99%

∗ Service Subsidiary.	
Banorte Ahorro y Previsión, S. A. de C. V.*	99.99%
∗ Act as a Sub-holding company of Grupo Financiero Banorte, in terms of the Law Regulating Financial Groups, maintaining its share position in the financial entities comprising the Long-Term Savings Sector.	
***Seguros Banorte, S.A. de C.V., Grupo Financiero Banorte.**	99.99%
∗ Act as insurance and re-insurance institution for individuals and corporations.	
***Pensiones Banorte, S.A. de C.V., Grupo Financiero Banorte.**	99.99%
∗ Act as insurance institution whose objective is to exclusively manage annuities derived from social security laws.	

For more information on the main business relationships with subsidiaries, see Section 4, item b) "Administration- Operations with Related Parties and Conflict of Interest" of this Annual Report.

x. DESCRIPTION OF MAIN ASSETS

The following are the most important real estate properties of GFNorte and its subsidiaries:

Bulding	Location	Construction m²*	Net book value (thousands of Ps)
Tlalpan	Calzada de Tlalpan # 2,980, Ciudad de México.Col. Santa Úrsula Coapa	72,294	4,752,582
Centro de Contacto	Alfonso Reyes # 3,639, Monterrey, N.L. Col. Del Norte	41,672	382,618
Oro Sena	Paseo de la Reforma # 281, esquina Río Sena 110, Ciudad de México Col. Cuahutémoc	1,182	155,055

* Includes offices and parking lots.

These properties are insured against damages and are not pledged as guarantee in credit operations.

As of December 2021 there are office spaces for subsidiaries in 9 buildings. All these properties are leased to third parties with contracts ranging from 5 to 10 years in average duration. The following chart shows the location of our leased offices and branches.

Buildings	Offices
Cd. de México y A.M.	1
Coahuila	1
Estado de México	1
Jalisco	1
Michoacán	1
Nuevo León	1
Puebla	1
Querétaro	1
Yucatán	1
Total	**9**

xi. ADMINISTRATIVE, ARBITRATION AND JUDICIAL PROCESSES

There are no relevant matters to report.

For information on Commitments and Contingencies, see Note 37 Commitments and 38 Contingencies in the Audited Financial Statements (Section 8. C) "Annexes- Audited Financial Statements" of this Annual Report.

xii. REPRESENTATIVE SHARES OF COMPANY'S EQUITY

As of December 31, 2021, the authorized equity amounted to $10,092'098,079.00 - which is fully subscribed and paid - represented by 262'132,418 ordinary nominative shares, Series "O", Class I, and 2,621'324,176 ordinary, nominative shares, Series "O", Class II, all with face value of $3.50.

Shares representing subscribed capital are classified as: Class I shares, (representing the fixed portion of equity) and Class II shares (representing the variable portion of equity).

The variable portion of equity cannot exceed 10 times the fixed portion, and is not subject to withdrawal according to legal and statutory regulations.

According with the Corporate By-laws, total equity will be composed of a common portion and could also include an additional portion. The total common equity will be made up of Series "O" shares. If necessary, additional equity will be represented by Series "L" shares that can be issued up to an amount equivalent to forty percent of the ordinary equity, with the previous authorization of the CNBV. Series "O" and "L" shares will be available to the general public.

In the General Extraordinary Shareholders' Meeting held on March 30, 2011, the merger of Ixe Grupo Financiero, S.A.B. de C.V., with Grupo Financiero Banorte, S.A.B. de C.V. was approved, increasing Grupo Financiero Banorte's variable portion of the total equity to $1,078,035,819.00 pesos, by issuing 308,010,234 ordinary nominative shares, Series "O", with a face value of Ps 3.50 each. Previous to this merger, GFNorte's subscribed equity was represented by 2,018'347,548 ordinary nominative shares, Series "O".

In the General Extraordinary Shareholders' Meeting held on July 3, 2013, an increase in the variable portion of the total equity was approved by issuing 447'371,781 ordinary nominative shares, Series "O", Class II with face value of $3.50, to be subscribed in a Public Offering, which was finalized on 22 July, 2013.

In the Extraordinary General Shareholders' Meeting held on December 5, 2017, the merger of Grupo Financiero Interacciones, S.A.B. of C.V. with Grupo Financiero Banorte, S.A.B. of CV, an increase in the variable part of the Company's capital stock in the amount of $384,044,608.50 by issuing 109,727,031 (one hundred nine million seven hundred and twenty-seven thousand thirty-one) ordinary, registered shares of the "O" Series, with face value of $3.50. Prior to this merger, the subscribed share capital of the Company was represented by 2,773,729,563 ordinary, nominative shares, corresponding to Series "O". Prior to this merger, the Company's subscribed capital stock was represented by 2,773,729,563 ordinary registered shares, corresponding to Series "O".

See Note 30 in Equity in the Audited Financial Statements (Section 8. c) "Annexes- Audited Financial Statements" of this report.

xiii. DIVIDENDS

GFNorte has decreed the following cash dividends for the last three fiscal years as follows:

Meetings' Date (decreed dividend)	Amount of Decreed Dividend (pesos per share)	Date of Payment	Comments
May 30, 2019	Ps. 5.5415	June 7, 2019	Corresponds to the payment necessary to cover the amount of 50% of the net income for the year 2018. This amount was approved by the Board of Directors of the Company, in its session of April 29, 2019.
April 23, 2021	Ps 3.1670	May 4, 2021	Corresponds to the payment necessary to cover the amount of 25% of the net income for the year 2019. This amount was approved by the Board of Directors of the Company, in its session of April 22, 2021.
November 19, 2021	Ps 2.6450	November 30 2021	Corresponds to the payment necessary to cover the amount of 25% of the net income for the year 2020. This amount was approved by the Board of Directors of the Company, in its session of October 21, 2021.

According to the Resolution of the Ordinary General Shareholders' Meeting held on April 30, 2019 it was approved to modify the Dividend Policy in order that the dividend payment can be

1. Between 16% and up to 50% of the net income of the prior year.

For reference, the previous Dividend Policy was approved in accordance with the following:

a) By resolution of the Ordinary General Shareholders Meeting held on November 19, 2015, it was approved to modify the Dividend Policy so that the payment of dividends is by a percentage in accordance with the following:

1. Between 16% and up to 40% of the profit for the previous year.

b) By resolution of the Ordinary General Shareholders Meeting dated October 17, 2011, it contemplated the payment of dividends as follows:

1. 16% of the recurring net profit in case the profit grows between 0% and 10% during the year.
2. 18% of the recurring net profit in the event that profit grows between 11% and 20% during the year.
3. 20% of the recurring net profit in case the profit grows more than 21% during the year.

3. FINANCIAL INFORMATION

When analyzing the information contained herein is important to take the following into consideration:

- ✓ *The financial information contained in this report is based on GFNorte's Audited Financial Statements for the years ended December 31, 2021 and 2020, issued by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited dated February 28, 2022. For the year ended December 31, 2019, financial figures are based on GFNorte's Audited Financial Statements issued by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited, dated February 26, 2019.*
- ✓ *On July 1, 2020, the merger of Sólida (merger that subsists) and Arrendadora (merged that is extinguished) took effect. Additionally, Sólida changed its name to become Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, E.R., Grupo Financiero Banorte; the percentage of participation of the Financial Group in the capital stock of the merging company is 99.9058%.*
- ✓ *Throughout this document there are references to reported and recurring figures that are specified to the usual activity without the effect of the extraordinary movement of the first quarter of 2019 on income related to the recognition of the liquidation of Banorte USA.*
- ✓ *The financial information presented in this report has been calculated in pesos and the tables are in million pesos, thus, differences are the result of rounding effects.*
- ✓ *For comparison purposes, is relevant to consider that GFNorte owns 98.2618% of shares of the Bank, therefore in some cases certain figures may vary when referring to them, both for the Group and the Bank.*

a) SELECTED FINANCIAL INFORMATION

Grupo Financiero Banorte	2021	2020	2019
Net Income Grupo Financiero Banorte (GFNorte)	$35,048	$30,508	$36,528
Total Assets GFNorte	$1,850,879	$1,787,904	$1,580,010
Total Liabilities GFNorte	$1,613,639	$1,562,800	$1,384,012
Stockholders' Equity GFNorte	$237,240	$225,104	$195,998
INFORMATION PER SHARE			
Net income per share Basic (pesos)	$12.25	$10.70	$12.75
Net income per share Diluted (pesos)	$12.16	$10.58	$12.67
Dividend approved per share (pesos) [1)]	$5.81	$0.00	$5.54
Book value per share (pesos) (excluding minority interest) [2)]	$81.23	$77.07	$67.18
Shares outstanding Basic (millions)	2,860.25	2,851.36	2,865.52
Shares outstanding Diluted (millions)	2,883.46	2,871.72	2,878.96
PROFITABILITY RATIOS			
NIM	4.85%	5.30%	5.62%
NIM adjusted for credit risk	4.16%	3.89%	4.55%
NIM adjusted w/o Insurance & Annuities	5.03%	5.28%	5.56%
NIM from loan portfolio	7.70%	8.01%	8.15%
Return on assets (ROA)	1.94%	1.76%	2.30%
Return on equity (ROE)	15.32%	14.78%	20.06%

OPERATIONS			
Efficiency ratio3)	45.43%	41.40%	39.06%
Operating efficiency ratio 4)	2.54%	2.48%	2.55%
Average Liquidity Coverage Ratio for Banorte and SOFOM - Basel III	201.65%	192.52%	133.49%
ASSET QUALITY INDICATORS			
Past due loan ratio	1.03%	1.10%	1.65%
Coverage Ratio	191.07%	223.98%	137.74%
CAPITALIZATION RATIO			
Banco Mercantil del Norte	24.69%	20.18%	18.54%
INFRASTRUCTURE AND EMPLOYEES			
Bank Branches5)	1,151	1,193	1,182
ATMs (automated teller machines)	9,668	9,387	8,919
Points of Sale	154,443	159,780	166,505
Full-time employees	31,173	29,916	30,162
Full-time employees and professional services	31,175	29,920	30,167

Million pesos.

1. Dividends approved by the Shareholders' Assemblies in 2019, 2020, and 2021 were: Total dividend decreed in 2019 was Ps 3.447788386581080 per share to be paid in June 2018. Total dividend decreed in 2019 was Ps 5.54157023974990 per share to be paid in June 2019. During 2020, no dividend payment was made in accordance with the authority's recommendations given the conditions derived from the Covid-19 pandemic.The total dividend payed in 2021 was Ps 5.81212715547904 per share, paid in 2 installments: Ps 3.1670299314214300 per share in May and Ps 2.645097224057610 per share in November 2021.
2. The number of issued shares considered for the 2021 period is 2,883,456,594.
3. Non Interest Expense / (Net Interest Income + Non- Interest Income).
4. Non Interest Expense / Average Total Assets.
5. Includes bank modules and excludes 1 branch in the Cayman Islands.

b) FINANCIAL INFORMATION PER BUSINESS LINE, GEOGRAPHICAL REGION AND EXPORT SALES

a. Total Deposits

By Business Line

	2021	2020	2019
Commercial	594,159	557,533	512,128
Business	44,996	43,416	29,068
Corporate	22,102	29,611	14,699
Government	76,810	94,088	86,677
Patrimonial	7,391	7,438	7,118
Financial Intermediaries	53,566	89,625	74,800
Total Deposits	**$799,025**	**$821,712**	**$724,490**

Million Pesos.

By Geographical Regions

	2021	2020	2019
Mexico City-South	134,583	167,367	123,099
Mexico City-North	68,707	69,644	63,935
Northern	183,608	174,891	151,793
Central	105,947	104,666	93,593
Northwest	98,508	86,609	79,937
West	73,048	69,492	68,248
South	51,375	50,470	50,487
Peninsular	52,269	49,882	46,945
Central Treasury	27,867	42,876	41,668
Foreign	3,113	5,816	4,785
Total Deposits	**$799,025**	**$821,712**	**$724,490**

Million Pesos.

b. Total Loans

By Business Line

	2021	2020	2019
Mortgages	202,536	189,394	172,059
Car Loans	28,020	28,326	26,938
Credit cards	40,451	39,771	41,987
Payroll	56,422	53,093	53,069
Consumer	327,428	310,584	294,053
Commercial	206,508	195,291	176,892
Corporate	140,926	143,595	130,510
Government (1)	154,476	161,600	173,992
Total Loan Portfolio	**$829,338**	**$811,070**	**$775,448**

Million pesos.

1. Government banking includes federal, state, and municipal segments.

By Geographical Regions

	2021	2020	2019
Northern	184,759	169,762	160,168
Mexico City- North	90,703	99,998	134,110
Mexico City- South	200,800	200,307	162,825
West	72,410	69,973	63,655
Central	83,760	80,542	72,492
Northeast	85,013	77,042	74,619
South	47,841	49,095	47,250
Peninsular	64,137	65,112	61,805
FI FCICK 16-1	83	76	31
Interaction Portfolio Valuation	(167)	(837)	(1,506)
Total Loan Portfolio	**$829,338**	**$811,070**	**$775,448**

Million Pesos.

c) REPORT OF RELEVANT LOANS

Financing obtained after December 31, 2021 are:

Arrendadora and Factor Banorte

There are no financing from Arrendadora and Factor Banorte obtained from the investing public after December 31, 2021.

Financing obtained from the investing public as of December 31, 2021 are:

Banorte

Subordinated Obligation D2 BANOA99 999999.

Issuance Date: November 24, 2021.
Call Date: January 24, 2027.
Maturity Date: Perpetual.
Amount Issued: USD 500 million.
Coupon Rate: 5.875%

Subordinated Obligation D2 BANOB72 999999

Issuance Date: November 24, 2021.
Call Date: January 24, 2032.
Maturity Date: Perpetual.
Amount Issued: USD 550 million.
Coupon rate: 6.625%

Stock Certificate 94 BANORTE 20U.

Issuance Date: September 20, 2020.
Maturity Date: September 18, 2030.
Amount Issued: 107 million UDIS.
Coupon Rate: 2.76%

Subordinated Obligation D2 BANOC21 999999.

Issuance Date: July 14, 2020.
Call Date: October 14, 2030.
Maturity Date: Perpetual.
Amount Issued: USD 500 million.
Coupon Rate: 8.375%

Bonds in Swiss Francs, Issued in 2020 (BANO664).

Issuance Date: March 6, 2020.
Maturity Date: December 6, 2024.
Amount Issued: CHF 225 million.
Coupon Rate: 0.50%

Bonds in Swiss Francs, Issued in 2019 (BANO343).

Issuance Date: September 18, 2019.
Maturity Date: December 18, 2023.
Amount Issued: CHF 160 million.
Coupon Rate: 0.45%

Subordinated Obligation D2 BANOB48 999999.

Issuance Date: June 27, 2019.
Call Date: June 27, 2029.
Maturity Date: Perpetual.
Amount Issued: USD 500 million.
Coupon Rate: 7.50%

Subordinated Obligation D2 BANOA64 999999.

Issuance Date: June 27, 2019.
Call Date: September 27, 2024.
Maturity Date: Perpetual.
Amount Issued: USD 600 million.
Coupon Rate: 6.75%

Stock Certificate 94 BANORTE 19.

Issuance Date: May 17, 2019
Maturity Date: May 13, 2022.
Amount Issued: Ps 5.40 billion
Coupon Rate: TIIE +0.13%

Stock Certificate 94 BANORTE 19-2.

Issuance Date: May 17, 2019.
Maturity Date: May 10, 2024
Amount Issued: Ps 1.50 billion.
Coupon Rate: TIIE + 0.17%

Bond in Swiss Francs, Issued in 2019 (BANO397).

Issuance Date: April 11, 2019.
Maturity Date: October 11, 2022.
Amount Issued: CHF 250 million.
Coupon rate: 1.55%

Subordinated Obligation D2 BANOD19 999999.

Issuance Date: July 6, 2017.
Call Date: July 6, 2022.
Maturity Date: Perpetual.
Amount Issued: USD 350 million.
Coupon rate: 6.875%

Subordinated Obligation D2 BANOE91 999999.

Issuance Date: July 6, 2017.
Call Date: January 10, 2028.
Maturity Date: Perpetual.
Amount Issued: USD 550 million.
Coupon Rate: 7.625%

Stock Certificate 94 BINTER 16U.

Issuance Date: October 13, 2016.
Maturity Date: October 1, 2026.

Amount Issued: 365 million UDIS.
Coupon Rate: 4.97%

Subordinated Obligation D2 BANOC36 311004.
Issuance Date: October 4, 2016.
Call Date: October 4, 2026.
Maturity Date: October 4, 2031.
Amount Issued: USD 500 million.
Current Amount: USD 294 million.
Coupon Rate: 5.75%

Subordinated Obligation Q BANORTE 08U.
Issuance Date: March 11, 2008.
Call Date: February 25, 2023.
Maturity Date: February 15, 2028.
Amount Issued: 494.50 million UDIS.
Coupon Rate: 4.95%

All GFNorte financial entities are up to date in the payment of interest and / or principal on all their cost liabilities.

Loan or tax liabilities

The tax credits listed below are currently in litigation:

	As of December 31, 2021
AFORE XXI BANORTE	**Ps 2**
Loan # 4429309391 Payroll Tax of the state of Coahuila	
PENSIONES BANORTE	**Ps 364**
Tax credit revision for 2014 fiscal year	
Seguros Banorte, SA de CV	**Ps 1,076**
Tax credit revision for 2017 fiscal year	
Seguros Banorte, SA de CV	**Ps 1,749**
Tax credit revision for 2017 fiscal year	

Million Pesos

Banorte's liabilities financed in foreign currency.

	December 2021	
CONCEPT IN FOREIGN CURRENCY	**Capital (Average)**	**Cost**
Core deposits	4,194.84	0.21%
Non-traditional deposits	3,844.22	0.43%
Total interbank loans	72.14	1.52%
Total Resources in Foreign Currency	**USD 8,111.20**	**0.33%**

Thousand US dollars.

d) MANAGEMENT ANALYSIS AND COMMENTS ON OPERATING RESULTS AND THE COMPANY'S FINANCIAL SITUATION

The following analysis should be read together with the Audited Financial Statements and with the notes that accompany them. Regarding the items in the Financial Statements that were re-expressed using ratios different than the Mexican Consumer Price Index, refer to the corresponding Note of the audited financial statements for the years ending December 31, 2021 and 2020, and the independent auditors' opinion of February 26, 2021. (Note 4: "Significant Accounting Policies- Recognition of the effects of inflation in the financial information".)

Relevant transactions not registered in the Balance Sheet or Income Statement, do not apply since there are no registered relevant transactions.

i. OPERATING RESULTS

Grupo Financiero Banorte

Consolidated Income Statement of the Group

	2021	2020	2019
Interest income	$ 134,725	$ 133,593	$ 150,514
Premium income (Net)	45,570	36,849	32,537
Interest expense	(40,772)	(47,898)	(68,693)
Increase in technical reserves	(33,818)	(17,793)	(15,003)
Casualty rate, Claims and other Contractual Obligations (Net)	(25,664)	(21,920)	(18,778)
NET INTEREST INCOME (NII)	**80,041**	**82,831**	**80,577**
Loan Loss Provisions	(11,351)	(21,930)	(15,347)
NET INTEREST INCOME ADJUSTED FOR CREDIT RISK	**68,690**	**60,901**	**65,230**
Fees Charged	27,589	24,003	24,063
Fees Paid	(13,627)	(10,784)	(10,052)
Trading Income	4,396	4,854	5,289
Other Operating Income	2,714	2,982	4,264
Non-Interest Income	**21,072**	**21,055**	**23,564**
Administration and promotional expenses	(45,940)	(43,013)	(40,678)
OPERATING INCOME	**43,822**	**38,943**	**48,116**
Subsidiaries' Net Income	2,273	2,003	1,716
PRE-TAX INCOME	**46,095**	**40,946**	**49,832**
Income Tax	(7,174)	(9,247)	(10,524)

Deferred Income Tax (Net)	(3,382)	(802)	(2,271)
Taxes	**(10,556)**	**(10,049)**	**(12,795)**
INCOME BEFORE MINORITY INTEREST	**35,539**	**30,897**	**37,037**
Minority interest	(491)	(389)	(509)
NET INCOME	**$ 35,048**	**$ 30,508**	**$ 36,528**

Million pesos.

The following is the **net income registered accordingly to the percentage of GFNorte's participation** in each subsidiary business sector:

Net Income by Segment	2021	2020	2019
Consolidated Bank	$25,633	$20,029	$26,994
Brokerage	$1,621	$1,492	$1,260
Long-Term Savings	$6,056	$7,310	$6,556
Afore XXI Banorte	1,920	1,875	1,609
Seguros Banorte (Insurance)	2,103	3,844	3,918
Pensiones Banorte (Annuities)	2,007	1,551	1,030
Long-Term Savings Holding	27	39	0
SOFOM and Other Finance Companies	$670	$641	$786
Almacenadora (Warehouse)	23	37	3
Solida and AyF Banorte Merger	669	605	784
Ixe Servicios *	(22)	(2)	(1)
Holding	$1,068	$1,036	$932
GFNORTE	**$35,048**	**$30,508**	**$36,528**

Million pesos.
Breakdown for informational purposes

* Ixe Servicios is not a SOFOM or an Auxiliary Credit Organization, however it is classified from a business perspective within this Sector.

Comparative Analysis: Summary of the years ended December 31, 2021 and 2020 and 2020 vs 2019

GFNorte reported a recurring net income of Ps 35.05 billion at the end of 2021, an increase of 15% compared to 2020. For 2020, the net income totaled Ps 30.51 billion, a (16%) decrease vs. 2019.

Consolidated Bank totaled Ps 25.63 billion during 2021, up by Ps 5.60 billion or 28% vs. 2020, contributing with 73.1% of the recurring net income of GFNorte. For 2020 with reported numbers, net income of Ps 20.03 billion decreased (6.97) billion or (26%) vs. 2019.

Long Term Savings sector, constituted by Afore XXI Banorte (a 50% subsidiary), Seguros Banorte and Pensiones Banorte recorded profits towards Ps 6.03 billion in 2021 (17%) lower than 2020. The accumulated income of Seguros Banorte excluding Afore XXI Banorte amounted to Ps 2.10 billion, (45%) lower than those reported in 2020. According to the total of Seguros Banorte, Afore XXI Banorte (a 50% subsidiary), and Pensiones Banorte participation, the contributed net income to the Group totaled Ps 7.27 billion in 2020, 11% higher compared to 2019.

The accumulated profit of Seguros Banorte excluding Afore XXI Banorte amounted to Ps 3.84 billion, (2%) lower than that reported in 2019.

In 2021, the Brokerage Sector (Casa de Bolsa Banorte and Operadora de Fondos Banorte) reported net income of Ps 1.62 billion, 9% higer than 2020. Net income for the year represented 4.6% of the Financial Group's net income.

For 2020, the Brokerage Sector reported net income of Ps 1.49 billion, 18% higher than 2019, and net income for the year represented 4.9% of the Financial Group's net income.

The SOFOM and other Finance Companies' sector, constituted by Almacenadora Banorte, Solida Administradora de Portafolios and Ixe servicios, had a net income of Ps 670 million, an increase of 5% compared to 2020. It is important to consider that on July 1, 2020 the merger took effect de Sólida (merger that subsists) and Arrendadora (merged that is extinguished). Additionally, Sólida changed its name to become Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, E.R., the percentage of participation of the Financial Group in the capital stock of the merging company is 99.9058%. For 2020, the result was Ps 641 million, a fall of (18%), compared to Ps 786 million during 2019.

Grupo Financiero Banorte Results for 2021 vs 2020, and 2020 vs 2019

The following is a breakdown of the most important items of the Consolidated Income Statement and the Balance Sheet.

Net Interest Income-NII (Financial Margin)

	2021	2020	2019
Interest Income	$ 111,507	$ 119,479	$ 138,752
Interest Expense	(39,464)	(46,741)	(67,533)
Fees Charged	1,470	1,440	1,406
Fees Paid	(1,308)	(1,156)	(1,160)
Net Interest Income without Insurance and Annuities	**72,205**	**73,019**	**71,465**
Premium Income (Net)	45,570	36,849	32,537
Technical reserves	(33,818)	(17,793)	(15,003)
Damages, Claims and Other Obligations	(25,664)	(21,920)	(18,779)
Technical Result	**(13,912)**	**(2,863)**	**(1,244)**
Net Interest Income (Expense)	21,748	12,673	10,356
Net Interest Income for Insurance and Annuities	**7,837**	**9,810**	**9,112**
Net Interest Income GFNorte	**80,041**	**82,832**	**80,577**
Credit Provisions	(11,351)	(21,931)	(15,347)
Net Interest Income Adjusted for Credit Risk	**$ 68,690**	**$ 60,901**	**$ 65,230**
Average Earnings Assets	$ 1,651,127	$ 1,564,112	$ 1,434,764
NIM [1)]	**4.85%**	**5.30%**	**5.62%**
NIM adjusted for Credit Risk [2)]	**4.16%**	**3.89%**	**4.55%**
NIM adjusted w/o Insurance and Annuities	**5.03%**	**5.28%**	**5.56%**
NIM from loan portfolio [3)]	**7.70%**	**8.01%**	**8.15%**

Million pesos.

1. NIM (Net Interest Margin) = Annualized Net Interest Income / Average Earnings Assets.
2. NIM adjusted for Credit Risk = Annualized Net Interest Income adjusted for Credit Risk / Average Earnings Assets.
3. NIM from loan portfolio = Annualized Net Interest Margin from loan portfolio / Average Performing Loans.

GFNorte's Net Interest Income (NII) decreased (3%) in the year, hence, **the NIM dropped (45bps)** in the year ending at **4.85%**, considering that the last increments in the reference rate taken place in November and December-reaching 5.50%-are not yet reflected in this year's results.

Compared to 2020, **NII excluding Insurance and Annuities decreased (1%),** due to an adjustment of (111bps) in the average reference rate TIIE28d, going from 5.73% to 4.62%; but with greater efficiency in the funding cost due to a (16%) decrease in interest expenses. The **NIM from the loan portfolio went from 8.01% to 7.70%, decreasing (31bps)**; while the **adjusted NIM w/o Insurance and Annuities contracted (25bps)** reaching **5.03% at the end of 2021.**

Compared to 2020, **NII from Insurance and Annuities fell (20%)** derived from a 101% increment in reserves, equal to Ps 14.98 billion, in the Annuities business. The following, associated with business growth, the valuation impact of inflation, and an increase of 36%, or Ps 1,050 million, in technical reserves related to the renewal of insurance policies.

Comparing 2020 figures vs. 2019, GFNorte's Net Interest Income (NII) increased 3% annually. Amid a reduction in rates, the NIM decreased (32bps) in the year, reaching 5.30%; while the Banxico reference rate decreased (300bps) in the year, ending at 4.25%. In the annual comparison, NII excluding insurance and annuities increased 2% due to greater cost efficiency in funds as well as an increase of 1% in the NII of the loan portfolio. In the annual comparison, NII for insurance and annuities increased 8%, derived from an increment of 22% in NII, in spite of an increase in Technical Results- driven by a Ps 4.31 billion increase in premium income, not offseted by greater technical reserves due to annuities-, as well as a 17% increase in damages.

Non-Interest Income

	2021	2020	2019
Service Fees	13,962	13,219	$ 14,011
Trading	4,396	4,854	5,289
Other Operating Income (Expenses)	2,714	2,983	4,264
Non-Interest Income	**$ 21,072**	**$ 21,056**	**$ 23,564**

Million pesos.

In 2021, **Non-Interest Income remained stable vs 2020,** mainly due to the recovery in Net Service Fees, driven by a sound presence from Banorte in the e-commerce acquiring business, and the seasonal effect in the last quarter resulting from the "Buen Fin" sales, as well as lower trading income.

In 2020, **NII declined (11%)** driven by the recognition of the extraordinary Ps 1.66 billion income related to the conversion effect of Banorte USA in 1Q19. Excluding this effect, recurring non-interest income would have declined only (4%). In addition, net service fees declined as a result of the pandemic, while Trading was down due to lower securities and derivatives transactions.

Service Fees

	2021	2020	2019
Fund Transfers	$ 2,073	$ 1,878	$ 1,636
Account Management Fees	1,957	2,163	2,366
Electronic Banking Services	13,423	9,775	9,432
Basic Banking Services Fees	**$ 17,453**	**$ 13,816**	**$ 13,434**
For Commercial and Mortgage Loans	1,247	1,384	1,317
For Consumer Loans	5,240	4,732	5,163
Fiduciary	529	487	486
Income from Real Estate Portfolios	75	42	276
Mutual Funds	2,007	1,953	1,811
Trading & Financial Advisory Fees	660	542	513

Other Fees Charged (1)	378	1,048	1,063
Fees Charged on Services	**$ 27,588**	**$ 24,003**	**$ 24,063**
Interchange Fees	7,974	5,157	4,676
Insurance Fees	1,128	1,371	1,350
Other Fees Paid	4,524	4,257	4,026
Fees Paid on Services	**($ 13,626)**	**($ 10,784)**	**($ 10,052)**
Service Fees	**$ 13,963**	**$ 13,219**	**$ 14,011**

Million Pesos

1. Includes fees from letters of credit, transactions with pension funds, warehousing services, among others.

During 2021, **Fees Charged on Services increased 15%** as a consequence of better dynamics in the economic activity; as well as a steady growth in the acquiring business, the seasonal effect driven by the "Buen Fin", and the higher income from consumer loan origination.

On the other hand, **Fees Paid on Services increased 26%,** mainly due to the economic activity reactivation and, consequently, better dynamics in the acquiring business. It is worth mentioning that fees paid to external sales force for auto and mortgage loan origination were reclassfiedi to the cost line as of September 2021. As a conclusion**, Net Services Fees grew 6% annually,** with accumulated figures.

During **2020**, **Fees Charged on Services remain stable** as a consequence of the decline in economic activity brought by the pandemic. However, there was a relevant 3% increase in basic banking services fees and mutual funds fees, which overall were offset by the decline in origination fees from consumer loans and mortgages. In addition, Fees Paid on Services increased 7%, mainly attributed to increased activity in the card-present acquirer business and the payment of commissions for guarantees granted by public trusts. In sum, Service Fees decreased (6%) compared to 2019.

Trading

	2021	2020	2019
Currency and Metals	$ (69)	$ (1,059)	$ (8)
Derivatives	879	742	(855)
Negotiable Instruments	286	(106)	440
Valuation	$ 1,096	$ (423)	$ (423)
Currency and Metals	3,156	2,306	1,120
Derivatives	(267)	1,252	2,358
Negotiable Instruments	412	1,718	2,233
Trading	$ 3,301	$ 5,277	$ 5,712
Trading Income	**$ 4,396**	**$ 4,854**	**$ 5,289**

Million pesos

Trading Income contracted (9%) mainly due to lower derivative transactions, despite the positive valuation effect and higher currency & metals trading, on FX volatility.

In **2020, Trading Income decreased (8%)** primarily by exchanges between derivative transactions, currencies and metals trading, and a lower securities' position.

Other Operating Income (Expense)

	2021	2020	2019
Loan Portfolios	$ 370	$ 301	$ 286
Income from foreclosed assets	501	514	545
Impairment of Assets	(372)	(55)	(132)

Lease Income	231	250	417
From Insurance	1,369	1,048	1,004
Result from Valuation in Securitization Transaction	0	16	106
Others	614	909	2,038
Other Operating Income (Expenses)	**$ 2,714**	**$ 2,982**	**$ 4,264**

Million pesos

Other Operating Income (Expenses) declined (9%) due to the impairment of assets and lower recovery income.

In **2020**, Other Operating Income (expenses) declined (30%) as a result of the recognition of Ps 1.66 billion in additional income due to the conversion effect of Banorte USA during 1Q19, and Ps (167) million lower Leasing Income. Excluding these effects, the recurring figure for 2020 increased 15%.

Non-Interest Expense

	2021	2020	2019
Personnel	$ 17,348	$ 16,517	$ 15,862
Professional Fees	3,360	3,373	3,100
Administrative and Promotional	8,833	8,630	8,693
Rents, Depreciation & Amortization	8,973	8,203	7,001
Taxes other than income tax & non-deductible expenses	2,298	2,126	2,221
Contributions to IPAB	3,596	3,630	3,297
Employee Profit Sharing (PTU)	1,532	535	504
Non-Interest Expense	**$ 45,940**	**$ 43,013**	**$ 40,678**

Million pesos

Non-Interest Expense increased 7% -below inflation- driven by higher personnel expenses derived from operational restructures, the reclassification effect of fees paid to external sales forces into the expense line-as of September 2021-, along with higher Employee Profit Sharing derived from a change in methodology from the labor reform. Thus, the **Efficiency Ratio stood at 45.4%** for the year, **increasing 403 bps.**

In **2020, Non-Interest Expense increased 6% annually** due to higher personnel expenses related to operating restructures implemented to face the new economic scenario brought by the pandemic, and to higher professional fees and rents. Consequently, the efficiency ratio reached 41.4%, up 234bps vs. 2019.

Net Income

	2021	2020	2019
Operating Income	$ 43,822	$ 38,943	$ 48,116
Subsidiaries' Net Income	2,273	2,003	1,716
Pre-tax income	**$ 46,095**	**$ 40,946**	**$ 49,832**
Taxes	(10,557)	(10,049)	(12,795)
Minority Interest	(491)	(389)	(509)
Net Income	**$ 35,048**	**$ 30,508**	**$ 36,528**

Million Pesos

Net Operating Income grew 13%, benefitting from better dynamics at the Bank, Brokerage business, and Annuities. **Taxes increased 5%** compared to 2020, driven by methodology changes derived from the labor reform. **ROE increased 53bps, reaching 15.3%,** from 14.8%. **ROA** increased 18bps to **1.9%,** from 1.8% in 2020.

In **2020**, **Net Operating Income declined (19%)** in the year due to lower profit, as a result of the additional provisions registered in the year. Based on recurring figures, net income was down (1%). With reported figures, **taxes decreased (21%)** with accumulated figures for the year, on lower net income resulting from additional provisions registered in the year. With recurring figures, taxes were down (1%). **ROE closed at 14.8**%, decreasing 5.3pp vs. 2019; while **ROA** falls 50bps going from 2.3% to **1.8%** in 2020.

Performing Loan Portfolio

	2021	2020	2019
Mortgage	$ 200,459	$ 187,736	$ 170,086
Car Loans	27,792	28,165	26,669
Credit Cards	39,108	36,651	39,700
Payroll	54,975	51,668	51,311
Consumer	**$ 322,334**	**$ 304,220**	**$ 287,766**
Commercial	203,256	192,927	172,729
Corporate	140,925	143,429	128,159
Government	154,318	161,563	173,988
Total Performing Loans	**$ 820,833**	**$ 802,138**	**$ 762,642**
Past due loans	8,505	8,931	12,806
% NPL Ratio	**1.03%**	**1.10%**	**1.65%**

Million pesos.

During the year, **consumer loans grew 6%, boosted by a 7% increase in mortgage and credit card loans**, followed by **payroll with 6% growth**, reflecting an improvement in consumer confidence driven by the gradual economic recovery, while **auto loans were down (1%). Commercial loans** showed better **growth** dynamics **5%** yearly, whereas the **corporate book** was down **(2%),** and relevant prepayments in the **government portfolio** resulted in a **4%** decline in the year for this book.

For 2020, the **consumer portfolio increased 6**%, reflecting a **10% growth in mortgages** supported by favorable dynamics in a low-rate environment, a **moderate 6% increase auto loans** on the back of the economic reactivation, **payroll increased 1%,** and **credit cards contracted (8%)** as expected given the challenges derived from the pandemic and coupled with the support program effect. The **Corporate and Commercial portfolios stood out with 12% growth**, mainly because companies drew their lines of credit to overcome the pandemic.

Market share position (CNBV records as of December 2021):

Banorte experienced a fall of (37bps) in market share, standing at 14.8%.

- ✓ **Mortgages:** Banorte showed an 18.9% market share, losing (61bps) in the year, but holding onto second place within the industry.
- ✓ **Credit Card:** Banorte increased its market share by +23bps, reaching 10.4%.
- ✓ **Auto Loans:** Given lower sale dynamics of new cars, derived from the lack of supply in the industry, Banorte decreased its market share (7bps), standing at 19.3%. The Group stills holds second place in the market.
- ✓ **Payroll Loans:** The portfolio decreased (34bps) annually and reached a 20.2% market share, ranking second in the market.

- ✓ **Commercial:** The portfolio (including corporate and SMEs according to the CNBV classification) reported an 11.7% market share, losing (6bps) in the last 12 months, and ranking third in the system.

- ✓ **Government:** Banorte experienced a (381bp) decrease in market share, standing at 24.5%, and withholding second place in the system.

In **2021**, within the commercial portfolio, the **SMEs portfolio had a (2%) decrease** over the year. **The NPL ratio improved (19bps), reaching 1.8%**

SME Loans	2021	2020	2019
Performing Portfolio	37,118	37,741	32,735
% of Performing Commercial Portfolio	18.3%	19.6%	19.0%
% of Total Perfoming Portfolio	4.5%	4.7%	4.3%
NPL Ratio	1.8%	2.0%	6.6%

GFNorte's **corporate loan book** is well diversified by industry and by regions, showing low concentration risk. The 20 main private sector corporate borrowers accounted for 10.9% of the group's total portfolio. The group's largest corporate exposure represented 1.0% of the total performing book, whereas number 20 represented 0.4% of it. Out of these 20 borrowers, all 20 companies have an A1 credit rating.

Regarding **infrastructure loans**, the **infrastructure book contratected (4.52) billion, or (9%), in the year.**

The **government book** totaled Ps 154.32 billion, **a (4%) annual decrease**, driven by high prepayments at year-end. GFNorte's government portfolio is well diversified by region, showing an adequate risk profile, given that 27.3% of the portfolio is Federal Government exposure and 86.4% of municipal and state government loans are backed by fiduciary guarantees.

Market share position (CNBV records as of December 2020):

The performing loan portfolio reflected strong annual growth of 5.2% against a reduction of (2.3%) in the Mexican banking system, therefore increasing market share by 108bp to 15.1%.

- ✓ **Mortgages:** Banorte showed a 10.4% annual growth, slightly above that of the banking system, holding 19.5% market share and gaining 28bps in the year, keeping the second place within the industry.

- ✓ **Credit Cards:** The portfolio had a (7.7%) annual contraction compared with the system's (10.5%) decline. Banorte holds 10.2% market share and gained 42bps during the period.

- ✓ **Auto Loans:** Despite an industry-wide reduction in new car sales, Banorte holds 19.3% market share after increasing 140pbs in the year, still ranks second in the market and grew 5.4% annually, above the banking system that declined (2.3%)**.**

- ✓ **Payroll Loans:** The portfolio increased 4.2% annually and the system drops by (2.5%). Banorte ranks second with a 20.5% market share, increasing 133bps above the peers.

- ✓ **Commercial:** The portfolio shows a 11.5% annual increase and the system fell (2.4%). Banorte's 11.8% market share in the commercial portfolio (including corporate and SMEs according to the CNBV classification) increased 146bps in the last 12 months, ranking third in the system.

- ✓ **Government:** this portfolio had a (8.3%) contraction in 2020, totaling a 28.3% market share, (212bps) below 2019, ranking second in the market.

Within the commercial portfolio, the **SMEs portfolio had a 15% increase** over the year, essentially reflecting the rigorous selection of customers that were offered a support program. NPL for this sector jumped 8bps in the quarter to 2.02%, as a result of clients that came out of the support program.

Corporate Loans: The portfolio reached an ending balance of Ps 143.43 billion, 12% annual growth. GFNorte's corporate loan book is well diversified by industry and by regions, showing low concentration risk. The 20 main private sector corporate borrowers accounted for 11% of the group's total portfolio. The group's largest corporate exposure represented 0.8% of the total performing book, whereas number 20 represented 0.4% of it. Out of these 20 borrowers, all 20 companies have an A1 credit rating.

Regarding **infrastructure loans,** during the year, the **infrastructure book grew 12%**, up Ps 5.13 billion due to the growing demand from clients.

The **Government Book** totaled **Ps 161.56 billion**, **(7%) drecreased** considering that in 2019 the ending balances were higher reflecting more demand from clients. GFNorte's government portfolio is well diversified by regions, showing adequate concentration risk given that 29% of the portfolio is Federal Government exposure. Additionally, regarding municipal and states government loans, 83.7% of the loans are backed by fiduciary guarantees.

Past Due Loans

In 2021, the **past due portfolio balance was down by Ps (426) million,** due to a strong improvement in the credit card line for Ps (1.78) billion, as well as an strong reduction in corporate. The **NPL ratio** remained under normal pre-pandemic levels. In the year, there was an **(8bp)** improvement, driven by strict loan origination controls.

In **2020**, the past due portfolio balance was **down by Ps (3.87) billion** due to early write-offs of Ps 3.35 billion during the year, and also because the full effect of the ending support programs has not fully materialized. **The NPL ratio improved (55bps)** compared to 2019, aided by support programs and the write-off effects previously explained.

	2021	2020	2019
Credit Card	$ 1,343	$ 3,120	$ 2,287
Payroll	1,447	1,425	1,758
Car Loans	228	161	269
Mortgage	2,077	1,658	1,973
Commercial	3,252	2,364	4,164
Corporate	0	166	2,351
Government	159	38	4
Total	**$ 8,506**	**$ 8,931**	**$ 12,806**

Million pesos.

The NPL Ratios by segment showed the following trends:

	2021	2020	2019
Credit Card	3.3%	7.8%	5.4%
Payroll	2.6%	2.7%	3.3%
Car Loans	0.8%	0.6%	1.0%
Mortgage	1.0%	0.9%	1.1%
Commercial	1.6%	1.2%	2.4%

SME	*1.8%*	*2.0%*	*6.4%*
Commercial	*1.5%*	*1.0%*	*1.4%*
Corporate	0.0%	0.1%	1.8%
Government	0.1%	0.0%	0.0%
Total	**1.0%**	**1.1%**	**1.7%**

Deposits

	2021	2020	2019
Non-Interest Bearing Demand Deposits	$ 384,997	$ 341,309	$ 297,379
Interest Bearing Demand Deposits	153,226	192,022	140,158
Total Demand Deposits	**538,224**	**533,331**	**437,537**
Time Deposits – Retail	**211,310**	**217,272**	**229,036**
Money Market	**56,679**	**92,650**	**77,698**
Total Bank Deposits	**806,213**	**843,253**	**744,271**
GFNorte's Total Deposits	**799,025**	**821,712**	**724,490**
Third Party Deposits	257,118	151,228	152,648
Total Assets Under Management	**$ 1,063,331**	**$ 994,481**	**$ 896,919**

Million pesos.

Core deposits reported a slight reduction, but with notorious **13% increase in non-interest-bearing demand deposits and a (20%) reduction in interest-bearing deposits**, in line with strategic efforts to improve the cost of deposits.

Money market operations and securities decreased (39%) annually. Altogether, **GFNorte's Total Bank Deposits dropped (4%) in the year.**

In **2020**, **Core deposits** were down **(5%),** while **demand deposits grew 22%** mainly in interest-bearing demand accounts, as result of strategies focused on increasing customer balances and consequently lowering interbank funds, which have a higher cost, in line with the strategy to improve the margin. Money market operations and securities issued, increased 19% annually and reduced (12%) in the quarter. Altogether, total bank deposits grew 13% in the year.

Consolidated Bank

The **Consolidated Bank's Net Income increased Ps 25.63 million**, increasing Ps 5.60 billion or 28% vs. 2020, representing 73.1% of the Group's results. During 2021, **ROA increased from 1.6% to 2.1%,** while **ROE increased from 16.6% to 18.7%.**

The **Consolidated Bank's Net Income in 2020** amounted to Ps 20.03 billion, an annual decrease of 6.97 billion or (26%) vs. 2019; representing 65.7% of the Group's results. ROA decreased from 2.4% to 1.6% and ROE from 24.2% to 16.6%.

Consolidated Bank's Financial Ratios

	2021	2020	2019
Profitability			
NIM [1)]	5.9%	5.9%	6.4%
ROA [2)]	2.1%	1.6%	2.4%
ROE [3)]	18.7%	16.6%	24.2%
Operation			
Efficiency Ratio [4)]	48.3%	45.0%	42.3%
Operating Efficiency Ratio [5)]	3.4%	3.2%	3.3%
Average Liquidity Coverage Ratio Banorte and SOFOM – Basel III [6)]	201.7%	192.5%	133.5%
Asset Quality			
PDL Ratio	1.0%	1.1%	1.6%
Coverage Ratio	200.9%	226.9%	137.9%
Growth [7)]			
Performing Loan Portfolio [8)]	(2.3%)	5.2%	(1.9%)
Core Deposits	(0.1%)	12.6%	23.7%
Total Deposits	(2.8%)	13.4%	(4.2%)

1. Annualized Net Interest Margin / Average Productive Assets.
2. Annualized earnings as a percentage of the average quarterly assets over the period (without minority interest).
3. Annualized earnings as a percentage of the average quarterly equity over the period (without minority interest).
4. Non-Interest Expense / Total Income = Net Interest Income + Non-Interest Income
5. Non-Interest Expense / Average Total Assets.
6. Liquid Assets / Liquid Liabilities. (Liquid Assets = Cash and due from Banks + Negotiable Instruments + Securities held for sale) / (Liquid Liabilities = Demand Deposits + Loans from banks and other organizations with immediate call option + Short term loans from banks).
7. Growth compared to the same period of the previous year.
8. Excludes Fobaproa / IPAB and portfolio managed by the recovery bank.

Consolidated Bank Income Statement

	2021	2020	2019
Interest income	$ 104,870	$ 110,674	$ 127,208
Interest expense	(36,919)	(41,292)	(58,621)
NET INTEREST INCOME (NII)	**67,951**	**69,382**	**68,587**
Loan Loss Provisions	(11,107)	(21,864)	(15,104)
NET INTEREST INCOME ADJUSTED FOR CREDIT RISK	**56,844**	**47,518**	**53,483**
Fees Charged	26,486	22,884	22,906
Fees Paid	(12,212)	(9,176)	(8,516)
Trading Income	4,192	4,217	4,560
Other Operating Income	499	1,549	2,624
Non-Interest Income	**18,965**	**19,474**	**21,574**
Administration and promotional expenses	(41,935)	(39,982)	(38,095)
OPERATING INCOME	**33,874**	**27,010**	**36,962**
Subsidiaries' Net Income	327	104	128
PRE-TAX INCOME	**34,201**	**27,114**	**37,090**
Income Tax	(5,573)	(6,809)	(8,021)
Deferred Income Tax (Net)	(2,541)	79	(1,576)
Taxes	(8,115)	(6,730)	(9,597)
INCOME BEFORE DISCONTINUED OPERATIONS	**26,086**	**20,384**	**27,493**
Discontinued operations	-	-	-
INCOME FROM CONTINUOUS OPERATIONS	**$ 26,086**	**$ 20,384**	**$ 27,493**

Million pesos.

Net Interest Income – NII

	2021	2020	2019
Interest Income	$ 103,400	$ 109,236	$ 125,803
Interest Expense	(35,610)	(40,137)	(57,464)
Fees Charged	1,470	1,439	1,405
Fees Paid	(1,308)	(1,155)	(1,156)
Net Interest Income	**$ 67,951**	**$ 69,382**	**$ 68,587**
Credit Provisions	(11,107)	(21,864)	(15,104)
Net Interest Income Adjusted for Credit Risk	**$ 56,844**	**$ 47,518**	**$ 53,483**
Average Earnings Assets	$ 1,147,133	$ 1,167,562	$ 1,077,412
NIM [1)]	**5.9%**	**5.9%**	**6.3%**
NIM adjusted for Credit Risk [2)]	**5.0%**	**4.1%**	**4.9%**

Million pesos.
1. NIM (Net Interest Margin) = Annualized Net Interest Income / Average Earnings Assets.
2. Annualized Net Interest Income adjusted for Credit Risk / Average Earnings Assets.

Net Interest Income fell (2%) for the year due to lower income from the loan portfolio, and a controlled cost of funds, but already reflecting the recent increase in the reference rate. Thus, **NIM remained stable at 5.9%.** During the year, average TIIE 28d reference rate was adjusted downwards (111bps), to 4.62, from 5.73%.

For **2020, Net Interest Income grew 1%,** in a greater extent due to improvements in the cost of funds, coupled with the (300 bps) sharp drop in reference rates which ended at 4.25%, but reflecting also the 5% increase in the loan portfolio (ex-government 9% increase). Thus, **NIM dropped (42bps) and reached 5.9%.**

Provisions

Provisions declined (49%) or (Ps 10.76) billion, considering the constitution of additional anticipated reserves of Ps 5 billion and anticipated write-offs of Ps 2.27 billion in 2020. The latter, in addition to moderate loan growth, affected by higher prepayments on the government portfolio at year-end, and better quality in the loan book. **NIM improved 89bps to 5.0%, from 4.1% in 2020.**

In **2020, provisions increased 45% or Ps 6.76 billion in the year**, mainly due to the recognition of additional anticipated provisions recorded during 2Q20 and 4Q20 to cope with the COVID-19 contingency, which together totaled Ps 7.27 billion, of which Ps 5.00 billion correspond to additional provisions, and Ps 2.27 billion were allocated to early write-offs coming from different products of the portfolio. Of the Ps 5.00 billion additional reserves booked in 4T20, only 14% has been consumed. Had no advance provisions been recorded in 2020, provision expenses would have been (3%) lower than in 2019. **NIM adjusted for credit risks stood at 4.1%, down by (89bps), but adjusted recurring NIM ended at 4.4%.**

Non-Interest Income

	2021	2020	2019
Net Service Fees	$ 14,274	$ 13,708	$ 14,390
Trading	4,192	4,217	4,560
Other Operating Income (Expense)	499	1,549	2,624
Non-Interest Income	**$ 18,965**	**$ 19,474**	**$ 21,574**

Million pesos.

Non-interest income was down (3%), with an increase of 4% in net service fees, better trading income, and lower figures in other operating income.

For 2020, non-interest income was down (10%), mainly due to Ps (682) million lower net fee income and Ps (343) million lower trading income.

Non-Interest Expense

	2021	2020	2019
Personnel	$ 15,779	$ 15,782	$ 15,162
Professional Fees	2,897	2,892	2,529
Administrative and promotional expenses	7,786	7,449	8,011
Rents, depreciations and amortizations	8,572	7,875	6,674
Other Taxes and Non-deductible Expenses	1,851	1,830	1,926
Contributions to IPAB	3,596	3,630	3,297
Employee Profit Sharing (PTU)	1,455	524	496
Non-Interest Expense	**$ 41,935**	**$ 39,982**	**$ 38,095**

Million pesos.

Non-Interest Expense increased 5.0% in the year, mainly due to a 5% increase in administrative and promotional expenses derived from operational restructures, 9% higher amortization of capitalized projects, as well as the increase in Employee Profit Sharing. Therefore, the **efficiency ratio increased 325bps reaching 48.2%** in 2021.

In 2020, **Non-Interest Expense increased 5.0%,** mainly due to a Ps 1.20 billion increase in Rents, Depreciation and Amortizatin, followed by higher personnel expenses associated with restructuring operations in order to face the pandemic, anticipating severance payments, and also due to higher advisory fees. Altogether, **efficiency ratio rose 274bps to 45.0%.**

Performing Loan Portfolio

	2021	2020	2019
Commercial	$ 186,299	$ 176,871	$156,961
Consumer	322,329	304,213	286,314
Corporate	146,498	145,332	130,077
Government	147,734	156,115	170,155
Subtotal	802,861	782,532	743,507
Recovery Bank	-	-	-
Total Performing Loans	**$ 802,861**	**$ 782,532**	**$ 743,506**
Past due loans	7,836	8,580	12,392
Total Loans	**$ 810,697**	**$ 791,112**	**$ 755,899**
% NPL Ratio	1.0%	1.1%	1.6%

Million Pesos.

Consumer Portfolio	**2021**	**2020**	**2019**
Mortgage	$ 200,459	$ 187,736	$ 170,086
Car Loans	27,787	28,158	26,661
Credit Cards	39,108	36,651	39,700
Payroll	54,975	51,668	49,868
Consumer loans	**$ 322,329**	**$ 304,213**	**$ 286,314**

Million Pesos.

The **Performing Portfolio increased 3%,** due to a 5% increase in commercial loans and a 6% increase in consumer loans. In 2021, past due loans decreased Ps (744) million. **The NPL ratio of the bank improved 10bps,** reaching **1.0%.**

In 2020, **Past due Loans decreased Ps (3.81) billion** due to the combined effect of prepaid write-offs of Ps 3.35 billionapplied during the year and because the effect of the extension of the support programs had not yet fully materialized. The **Bank's Past Due Portfolio ratio** reflects a constant improvement during the year to reach **1.1%** vs. 1.6% in 2019.

Deposits

	2021	2020	2019
Non-Interest Bearing Demand Deposits	$ 384,997	$ 341,309	$ 297,379
Interest Bearing Demand Deposits	153,226	192,022	140,158
Total Demand Deposits	**538,224**	**$ 533,331**	**$ 437,537**
Time Deposits – Retail	**211,310**	**217,272**	**229,036**
Money Market	**56,679**	**92,650**	**77,698**
Total Bank Deposits	**$ 806,213**	**$ 843,253**	**$ 744,271**

Million pesos.

In 2021, **time deposits decreased (3%),** while **demand deposits grew 1%.** Interest-bearing demand deposits decreased (20%). **Trading desk and credit instruments issued in the year decreased (39%).** In sum, the **Bank's comprehensive deposits decreased (4%) in the year.**

In **2020**, time deposits decreased (5%), while demand deposits grew 22%, to a greater extent in view of interest, as a result of efforts focused on increasing balances with clients and the consequent reduction of higher cost interbank funding, in line with the strategy to improve the margin. Trading desk and credit instruments issued in the year grew 19%. In sum, the Bank's comprehensive deposits increased 13% in the year.

Brokerage

	2021	2020	2019
Net Income	$ 1,621	$ 1,492	$ 1,260
Stockholders´ Equity	7,635	6,130	4,634
Total Assets	297,859	245,860	189,972
Assets Under Management	956,344	889,022	919,985

Million pesos.

In 2021, the **Net Income of the Brokerage business** (Casa de Bolsa Banorte and Operadora de Fondos) reached **1.62 billion, increasing 8.6%,** due to higher interest income and fees charged. Net Income of the Brokerage business represented 4.6% of the Group's net income.

In **2020,** The Brokerage business (Casa de Bolsa Banorte and Operadora de Fondos) reported **net income of Ps 1.49 billion, 18% higher for the year**. In addition, it is worth highlighting the (10%) lower non-interest expense for the year. Regarding securities transactions, it reflected (30%) lower trading in the year, and (118%) lower valuation. Net income from the brokerage business in 2020 accounted for 6.0% of the group's net income.

Assets Under Management

At the end of 2021, AUMs totaled Ps 956 billion, 7.6% higher vs. 2020. AUMs by mutual funds totaled Ps 222 billion, reporting a 1.1% annual increase. Assets held in fixed income funds totaled Ps 194 billion, (1.6%) lower in the in the year; while assets held in equity funds amounted to Ps 27 billion, or 26% higher in the year. As of 2021, Banorte holds a 7.95% share in the mutual fund market: 10.62% in fixed income funds and 2.84% in equity funds.

In **2020**, **AUMs totaled Ps 889 billion, decreasing (3%) vs 2019**. Assets under management by mutual funds totaled Ps 220 billion, up 8% annually. Assets held in fixed income funds totaled Ps 198 billion, 5% higher in the year. Assets held in equity funds amounted to Ps 22 billion, up 4% in the quarter and 38% higher in the year. As of 2020, Banorte held an 8.5% share of the mutual fund market: 10.7% of fixed income funds, and 3% of equity funds.

Long-Term Savings

The following figures correspond to what was reported in the Financial Statements of each company. The total of the sector are not consolidated figures. *See note 28 of the Audited Financial Statements.*

	2021	2020	2019
Long-Term Savings Sector			
Net Income	$ 6,056	$ 7,239	$ 6,427
Stockholders' Equity	31,071	35,915	28,613
Total Assets	271,137	233,007	190,602
Seguros Banorte*			
Net Income	$ 4,022	$5,719	$5,526
Stockholders' Equity	22,468	28,325	22,634
Total Assets	62,714	65,038	53,610
Afore XXI Banorte			
Net Income	$ 3,909	$ 3,818	$ 3,275
Stockholders' Equity	26,000	25,551	25,466
Total Assets	28,176	28,049	27,820
AUM 1)	1,093,819	1,016,188	882,314
Pensiones Banorte			
Net Income	$ 2,007	$ 1,551	$ 1,030
Stockholders' Equity	8,439	6,448	4,870
Total Assets	208,506	167,078	136,092

Million pesos.
Source: CONSAR
* Consolidated Insurance: Includes Insurance and Afore XXI (50%).

Seguros Banorte

In 2021, Interest Income decreased (28%) mainly due to lower interest income from valuation effects, given rate volatility. Premium Income increased 2% due to renewals and issuance of policies. **Reserves increased 36%** in the year, considering that in 2021 reserves were adjusted in relation to the increase in COVID-related claims, which are evident in the 13% increase in claims, mainly in the life portfolio. Reserves include a Ps 298 million increase from the Principal portfolio acquisition in December. As a result, technical results dropped (40%).

Net Operating Income in 2021, amounted to Ps 2.85 billion, showing a clear effect on claims incurred given COVID, contacting (48%). Following the portfolio acquisition from Principal, there was a Ps 455 million revenue recognition in 4Q21, with a net effect of Ps 110 million. At the end of 2021, the effect in claims related to COVID was Ps 3.54 billion.

Net Income for 2021 was (30%) lower than the accumulated net income of 2020. The annual Net Income for Seguros Banorte, excluding Afore XXI Banorte, was Ps 2.10 billion, representing a (45%) contraction.

Net Income for the quarter from Seguros Banorte, excluding its subsidiary Afore XXI Banorte, contributed 6.0% of the Group´s net income in the year.

ROE for the Insurance business, excluding Afore XXI Banorte has a (19.8pp) decline, reaching and 22.6% in 2021**.**

In 2020, Interest income (Net) increased 11% annually, explained by the valuation of investment a ssets. Compared to 2019, technical result fell (6%), reflecting a 4% increase in premium income, lower reserve constitutions, and 16% lower claims in Life and Health premiums. Acquisition costs compared to 2019, decreased (2%).Net Operating Income amounted to Ps 5.48 billion for 2020, down (2%) vs. the previous year, while the annual net income increased 3%. Net Income for Seguros Banorte, excluding its subsidiary Afore XXI Banorte, totaled Ps 3.84 billion, accounting for 12.6% of GFNorte' s net income on 2020. ROE for the Insurance business ex-Afore XXI stood at 42.4%.

Regarding the disclosure requested by the General Provisions applicable to Financial Groups' holding companies, for this reporting period:

i. Risks assumed through the issuance of insurance premiums and bonds, with respect to operations and authorized branches of cancelled operations.

- *No cancellations were registered during 2021 that involved any technical risk.*

ii. Damages and claims, as well as compliance of reinsurers and bonding companies with their obligations.

- *In 2021 damage ratios remained under control and reinsurers complied with their obligations.*

iii. Costs generated from issuance of insurance policies and bonds.

- *There were no relevant events to disclose in 2021.*

iv. Transfer of risks through reinsurance and bonding contracts

- *In the Life and Damages book, risks were transferred to reinsurers, for the most part to foreign reinsurers under which there were 5 relevant businesses: 2 related to the government, 2 to the transformation industry, and 1 regarding tourism services.*

v. Contingencies arising from non-compliance of reinsurers and bonding companies.

- *There were no relevant issues related to non-compliance during 2021.*

Regarding the disclosure requested by the General Provisions applicable to Financial Groups' holding companies, for this reporting period:

vi. Risks assumed through the issuance of insurance premiums and bonds, with respect to operations and authorized branches of cancelled operations.

- *No cancellations were registered during 2020 that involved any technical risk.*

vii. Damages and claims, as well as the fulfillment with reinsurers and bonding companies according to their participation.

- *In 2020 damage ratios remained under control, and reinsurers complied with their obligations.*

viii. Costs derived from placement of insurance policies and bonds.

- *There were no relevant events to disclose in 2020.*

ix. Transfer of risks through reinsurance and bonding contracts

- *In the Damages books, 4 important businesses were transferred to foreign reinsurers: 2 related to transformation, 2 related to services, and 1 related to retail, sectors respectively.*

x. Contingencies arising from non-fulfillment by reinsurers and bonding companies.

- *There were no relevant issues related to non-fulfillment during 2020.*

Afore XXI Banorte

In 2021, Afore XXI Banorte reported net income of Ps 3.91 billion, 2% greater vs. 2020 due to a 2% higher income and a decline in operating costs. ROE reached 15.9%, up 0.3pp vs. 2020. Excluding goodwill, Return on Tangible Equity (ROTE) stood at 49.62%. Afore XXI Banorte represented 5.5% of the Financial Group’s net income during 2021. Afore XXI Banorte’s assets under management totaled Ps 1.09 trillion, reflecting a relevant 8% increase in the year.

For **2020, Afore XXI Banorte reported net income of Ps 3.82 billion, 17% greater vs. 2019** mainly explained by capital gains in the Afore special reserve in its (SIEFORES) due to market volatility. ROE reached 15.6%, up 2.1pp vs. 2019. Excluding goodwill, Return on Tangible Equity (ROTE) stood at 49.4%. Afore XXI Banorte represented 6.1 % of the Financial Group's net income during 2020. Afore XXI Banorte's assets under management of as of December 2020 totaled Ps 1.02 trillion, reflecting a relevant 15% increment vs. 2019.

Pensiones Banorte

Interest Income increased 89%, or Ps 9.60 billion, out of which, Ps 8.42 billion were related to the valuation effect and Ps 1.18 billion to earned interests. Compared to 2020, issuance grew strongly 58%, and technical reserves rose 101%, out of which, Ps 8.34 billion are due to business growth, and Ps 6.10 billion due to the valuation effect on inflation; claims increased 24%. As a result, Net Interest Income in 2021 was 47% higher.

Other Operating Income (Expenses) includes the gain from the acquisition of HSBC´s annuity portfolio for Ps 34 million, while in 2020 SURA's portfolio acquisition was registered for Ps 148 million.

Net income for Pensiones Banorte increased 29%, or Ps 665 million, of which Ps 512 million are explained by the reserves release associated to the incremental mortality of COVID-19. Net income of Pensiones Banorte represented 5.7% of the Financial Group's net income. ROE of Pensiones Banorte dropped (68bps) to 27.0%, from 27.7% in 2020.

In **2020, net interest income reached Ps 10.78 billion and increased 25%** primarily explained by the valuation effect and the increase in interest income. Technical results were down by (25%) generated by Ps 3.38 billion higher reserves, in addition to 17% higher claims or Ps 1.19 billion, which was not offset by the Ps 2.85 billion growth in premium issuance. Net Income from Pensiones Banorte rose 51% vs. 2019 driven by a greater issuance, an upward variation in the financial result, higher other operating income, and adequate cost control. Net income from Pensiones Banorte during 2020 represented 5.1% of the Financial Group's net income. ROE for the quarter stood at 27.7% in 2020, up 4pp annually.

SOFOM and Other Finance Companies

The following figures correspond to what was reported in the Financial Statements of each company. The total of the sector are not consolidated figures. *See note 28 of the Audited Financial Statements.*

On July 1, 2020, the merger of Sólida (merger that subsists) and Arrendadora (merged that is extinguished) took effect. Additionally, Sólida changed its name to become Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, E.R., Grupo Financiero Banorte; the percentage of participation of the Financial Group in the capital stock of the merging company is 99.9058%.

	2021	2020	2019
SOFOM and Other Finance Companies			
Net Income (loss)	$ 670	$ 641	$ 786
Stockholders' Equity	11,908	9,753	9,299
Total Portfolio	40,754	38,725	34,870
Past Due Loans	669	351	415
Loan Loss Provisions	(507)	(540)	(556)
Total Assets	50,257	47,014	47,187

Leasing and Factoring (previous Sólida Administradora de Portafolios*)[1)]			
Net Income	$ 669	$ 605	$ (173)
Stockholders' Equity	10,005	9,335	3,009
Total Portfolio*	40,754	38,725	1,723
Past Due Loans	669	351	71
Past Due Loans Ratio	1.6%	0.9%	4.1%
Loan Loss Provisions	(507)	(540)	(132)
Total Assets	47,254	45,725	9,221
Warehousing			
Net Income	$ 23	$ 37	$ 3
Stockholders' Equity	305	283	245
Inventories	1,026	945	677
Total Assets	1,224	1,154	852
Fusión Sólida AyF (Historic Consolidation Exercise*)			
Net Income (loss)	$ 669	$ 605	$ 784
Stockholders' Equity	10,005	9,335	8,917
Total Portfolio*	40,754	38,725	37,677
Past Due Loans	669	351	415
Past Due Loans Ratio	1.6%	0.9%	1.1%
Loan Loss Provisions	(507)	(540)	(556)
Total Assets	47,254	45,725	46,198
Ixe Servicios			
Net Income (loss)	$ (22)	$ (2)	$ (1)
Stockholders' Equity	1,598	135	137
Total Assets	1,779	135	137

Million pesos.

* Includes pure leasing portfolio and fixed asset amounting to registered in property, furniture and equipment (net).

1) Breakdown for informational purposes

Leasing and Factoring

Results shown result from the merger that took place on July 1st, 2020 and from a historic exercise for comparison purposes.

Net Income in 2021 totaled Ps 669 million and improved 11% due to a 15% growth in the financial margin as well as 86% higher other operating income.

The Non-Performing Loan ratio reached 1.6%, reporting an increase of 70bps vs 2020. The Capital ratio totaled 23.04%, considering total risk weighted assets of Ps 36.03 billion. The Leverage Ratio as of December 2021 totaled 16.70%, considering adjusted assets of Ps 49.71 billion. Net Income from Leasing and Factoring represented 1.3% of the group's total results.

As of September 2021, Arrendadora y Factor Banorte continues to rank second in terms of portfolio size among the 64 companies in this sector, according to the Asociación Mexicana de Sociedades Financieras de Arrendamiento, Crédito y Factoraje, A.C. (AMSOFAC).

In 2020, results shown are those resulting from the merger, as well as those from a historic exercise for comparison purposes. Net income during 2020 totaled Ps 605 million down (23%) annually mainly due to a reduction in the value of assets from Investment Projects and Foreclosed Assets. The Past due loans ratio reached 0.9%, the Coverage ratio totaled 153.7%, and the Total Capital ratio for 2020 totaled 19.12%, considering total risk weighted assets of Ps 39.37 billion.The leverage ratio as of December 2020 was 15.83%, considering adjusted assets of Ps 47.56 billion. In 2020, Net Income from Leasing and Factoring represented 2% of the group's total results. Arrendadora y Factor Banorte continues to rank second in terms of portfolio size among the 59 companies in this sector, according to the Asociación Mexicana de Sociedades Financieras de Arrendamiento, Crédito y Factoraje, A.C. (AMSOFAC).

Warehousing

In 2021, the Warehousing business reported a net income of Ps 23 million, (39%) lower against 2020, mainly due to lower income from services and an increase in expenses. ROE reached 7.7%.

Almacenadora Banorte ranked third place among the warehousing businesses in the sector in terms of net income as of June 2021.

In 2020, the Warehousing business reported net income of Ps 37 million, 1336% higher against 2019, mainly due to tax provisions for reported net income for the period. ROE reached 14.2%, and the capital ratio totaled 191% considering a net capital of Ps 237 million, and negotiable certificates of deposit issued in active warehouses totaled Ps 2.48 billion. Almacenadora Banorte ranked in third place among the warehousing businesses in the sector in terms of certificates of deposit as of December 2020.

ii. FINANCIAL SITUATION, LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The function of liquidity administration is to ensure sufficient resources to fulfill financial obligations. These obligations arise from the withdrawal of deposits, payment of short term notes maturing, loans granted and other forms of financing and working capital needs. A significant element of liquidity administration is to fulfill Bank of Mexico's regulation requirements for reserves and liquidity coefficients.

The Bank of Mexico's regulations require that we maintain certain levels of reserves in connection with liabilities denominated in pesos. On the other hand, reserves for deposits denominated in foreign currency continue to be mandatory. As of December 31, 2021 and December 31, 2020, GFNorte fulfilled all the reserve and liquidity coefficient requirements requested by the authority. Furthermore, GFNorte's management considers that the cash flow generated by operations and other sources of liquidity will be sufficient to fulfill liquidity requirements in the next 12 months.

Liquidity Risk and Balance

In order to provide a global measurement of liquidity risk, as well as follow up in a consistent manner, GFNorte (through its banking subsidiary Banorte) relies on various methodologies, among them, liquidity gaps, survival horizon, and the regulatory calculation of the Liquid Coverage Ratio. Banorte's and SOFOM's Average LCR under CNBV criterion amounted to 201.65%, this ratio at the end of the fourth quarter of 2021 was 246.10%, both ratios above the minimum regulatory and the Profile Risk approved by the Board of the Institution.

The "investment regime for foreign currency transactions and conditions to satisfy within the terms of operations in such currency" designed by the Mexican Central Bank for credit institutions, establishes the mechanism to determine the liquidity ratio of liabilities denominated in foreign currency.

In accordance with the aforementioned regime, during 2021 and 2020 the Holding Company generated an average monthly liquidity requirement of 576,042 and 865,864 thousand USD, respectively, and maintained an average investment in liquid assets for 3,471,125 and 2,391,939 thousand USD; having on average an excess of 3,029,830 and 1,525,998 thousand USD; and having on average shortage of 0 and 2,493 thousand USD respectively.

Internal and external sources of liquidity

Internal sources of liquidity in local and foreign currency come from diverse deposit products that the institution offers to clients. That is to say, it receives funds through checkbook accounts and time deposits.

Regarding external sources of liquidity, it has diverse mechanisms to access debt and capital markets. The Institution obtains resources through the issuance of debt securities, loans from other institutions - including the Central Bank and international organisms -, as well as from the issuance of subordinated debt. Also considered is the liquidity that the Institution obtains through its proprietary repos' securities that qualify for this type of transactions. It also has the alternative of obtaining resources through the issuance of shares representing capital.

Currently, the Institution has diverse sources of liquidity. Deposits, including interest bearing and non-interest bearing demand and time deposits, are the bank's main source of liquidity. Negotiable and short term instruments, such as government securities and deposits in the Central Bank and other banks, are liquid assets that generate interest. Liquid assets also include deposits in foreign banks, which are denominated mainly in US dollars.

Detailed information related to liquidity sources is found under the different items of the bank's General Balance Sheet in this Annual Report.

Below is the GFNorte's level of consolidated debt for the last 3 years:

As of December 31:

	2021	**2020**	**2019**
Short-term Debt	$25,898	$22,499	$22,786
Long-term Debt			
Interbank Loans	13,589	13,522	14,275
Other long-term debt (subordinated debt and others)	108,374	89,477	74,957
Total Debt	$147,861	$125,498	$112,018

Million Pesos.

Funding

Our main and most economic source of funding comes from client deposits. As of December 31, 2021, GFNorte's client deposits totaled Ps 768.20 billion, a (2%) annual decrease vs. Ps 786.80 billion in 2020; Banorte's client deposits amounted to Ps 775.39 billion in 2021.

Repos are important securities in the Mexican Money Market, providing bank clients with short term investments, mainly instruments issued by the federal government and to a lesser extent, securities issued by banks and companies. GFNorte has used repos to achieve cost efficiencies and be more competitive. As of December 31, 2021, the balance of repos registered by GFNorte was Ps 377.07 billion, 7% higher vs. 2020. Furthermore, Banorte registered a balance of Ps 108.59 billion at the end of 2021, (6%) lower vs the Ps 115.96 billion in 2020.

Another source of long term funding is long term debt. This is used to fund long term loans and investments and to reduce liquidity risk. As of December 31, 2021, GFNorte's total long term debt maturing in more than one year was Ps 121.96 billion, an 18% increase vs. Ps 102.99 billion in 2020.

Our current funding strategy seeks to reduce funding costs by taking advantage of our extensive branch network to attract clients' deposits. Although we are constantly monitoring the needs of long term loans and opportunities for long term funding under favorable conditions, we anticipate that our clientele will continue demanding for short term deposits (especially demand deposits), and therefore we will maintain our focus on the use of clientele deposits to fund loan activity.

Federal government UDI denominated deposits continue to fund the assets we maintain in the UDI off balance sheet trust funds. In return for these deposits, we have acquired Special CETES from the federal government that pay an interest rate indexed to the rate of CETES, with maturities and face values similar to the loans in the UDI trusts. These Special CETES pay cash interest as the trusts' loans expire. Government UDI denominated deposits have a real fixed interest rate that varies depending on the type of loan in the UDI trusts.

Our assets denominated in foreign currency, mainly denominated in US dollars, are funded through different sources, mainly clients' deposits and medium and large exporting companies, inter-bank deposits and fixed-rate instruments. In the case of financing operations for external trade, facilities of the Mexican development banks and other foreign banks focused on financing exports, are used. The interest rate for this type of funding is usually indexed to LIBOR.

POLICIES GOVERNING TREASURY ACTIVITIES OF THE BANK

Regulatory Framework

All operations carried out by the Treasury will be executed in strict accordance with regulations established by Banking Institution regulatory authorities, such as Banco de México (BANXICO), Comisión Nacional Bancaria y de Valores (CNBV), Secretaría de Hacienda y Crédito Público (SHCP), as well as those set forth in the Law of Credit Institutions.

Moreover, the Treasury is subject to the policies regarding the management of liquidity, market and counterparty credit risks established by the Risk Policy Committee and which are set according to limits established annually to the following operation parameters:

Market Risk:

- VaR (Value at Risk)
- DV01 (sensitivity by security, term and currency)

Liquidity Risk:

- LCR (Liquidity Coverage Ratio)
- ACLME (Regime of liabilities admission and investment in foreign currency and limit of FX risk position)
- NSFR(Net Stable Financial Ratio)
- Survival horizon

Credit Risk:

- Lines with Counterparties

Capital Management:

- Tier 1, Core Tier 1 and Net Capital (these are monitoring thresholds, the Treasury will set mechanisms to the extent that the Bank or any of its subsidiaries approaches the limits established by the CPR).

Treasury Management

In order to maintain a prudent strategy for the management of assets and liabilities through stable funding sources, constitute and maintain liquid assets at optimum levels, the Treasury applies the following limits:

1. Diversification of funding sources in national and international markets.
2. Structure liabilities in such a way as to avoid the accumulation of maturities that significantly influence the administration and control of the Treasury's resources.
3. Ensure liquidity by tapping mid and long-term liabilities.
4. Manage and maintain liquid assets to total assets considering its effects on profitability and liquidity needs.
5. Determine and propose to the General Management the Transfer Costs Policy according to the current business plan.

Treasury's Funding sources

Sources of financing for the Treasury must be classified indicating by the following way

1. Public:
    - Deposits
    - Term Deposits

2. Market:
    - Commercial paper
    - Cross Currency Swaps
    - Syndicated Loans.
    - Securitizations
    - Deposit Certificate
    - Issuance Programs
    - Interbank loans

3. National Banks and Development Funds:
    - National Banks
    - Funds

4. Correspondent Banks:
    - Foreign Banks

5. Available credit lines: (available and not disposed)
    - Commercial paper
    - Call Money
    - Correspondent banks

Through diverse Long Term Financing Programs, proposals will be studied, analyzed and implemented, in order to consolidate an adequate debt profile.

The Treasury, in coordination with the Head of Risk Management, will monitor the results of its daily calculations of liquidity coefficients established by the CPR and authorities.

Loan or tax liabilities

See this information in section "c) Report of Relevant Loans" of this Annual Report.

GFNorte's Equity

	2021	2020	2019
Paid-in Capital	14,957	14,919	14,992
Premium of Subscribed & Issued Shares	48,292	48,269	47,979
Subscribed Capital	**$63,249**	**$63,188**	**$62,971**
Capital Reserves	8,835	9,215	6,486
Retained Earnings	130,076	118,773	90,084
Surplus (Deficit) from Valuation of Securities Available for Sale	1,594	3,801	1,763
Results from Valuation of Hedging Instruments	(2,661)	(887)	(2,246)
Results from Valation of the reserve for unexpired risks on changes in rates	(118)	(231)	(85)
Results from Conversions	168	134	77
Remeasurements on defined benefits for employees	(1,957)	(2,259)	(1,861)
Net Income	35,048	30,508	36,528
Earned Capital	**$170,985**	**$159,054**	**$130,746**
Minority Interest	**3,006**	**2,862**	**2,281**
Total Shareholders' Equity	**$237,240**	**$225,104**	**$195,998**

Million pesos.

Reported shareholder's equity had an ending balance of Ps 237.24 billion, a 5% increase vs. the previous year.

In 2020, reported shareholder's equity had an ending balance of Ps 225.10 billion, a 15% increase vs. 2019.

Banco Mercantil del Norte's Capitalization Ratio.

See Note 30 of GFNorte's 2021 Audited Financial Statements

	dec-21	dec-20	dec-19
Tier 1 Capital	204,495	179,701	139,655
Tier 2 Capital	7,800	8,894	8,783
Net Capital	**$212,295**	**$188,595**	**$148,438**
Credit Risk Assets	609,709	706,611	627,281
Market & Operational Risk Assets	250,089	227,823	173,163
Total Risk Assets	**$859,798**	**$934,435**	**$800,445**
Net Capital / Credit Risk Assets	**34.82%**	**26.69%**	**23.66%**
Capitalization Ratio			
Tier 1	23.78%	19.23%	17.45%
Tier 2	0.91%	0.95%	1.10%
Total Capitalization Ratio	**24.69%**	**20.18%**	**18.54%**

Million pesos.

Banorte has fully adopted the capitalization requirements established to date by Mexican authorities and international standards, so-called Basel III, which came into effect as of January 2013.

In 2021, Banorte was confirmed as Level II - Domestic Systemically Important Financial Institution, which implies that Banorte must maintain a capital buffer of 0.90 pp. Therefore, starting in 2019, the **minimum Capital Adequacy Ratio required for Banorte amounts to 11.40%** (corresponding to the regulatory minimum of 10.5% plus the 0.90 pp capital supplement), which includes a minimum requirement of Core Equity Tier 1 (CET1) of 7.90%.

Banorte, as a Systemically Important Financial Institution, is subject to the net capital supplement incorporated in the regulation during 2021, and effective as of December 2022, with annual increases of 1.65 pp, up to 6.5 pp in December 2025, taking the minimum Capital Adequacy Ratio required for Banorte to 17.90% from 11.40%

The CAR increased 4.51 pp against 2020 due to the following:

		2021 vs 2020
		+4.51pp
1.	Net Income in the period	+3.03 pp
2.	Capital Notes (1)	+2.17 pp
3.	Growth in Risk Assets- Credit (2)	+1.19 pp
4.	Growth in Risk Assets-Credit (Others)	+0.74 pp
5.	Other Capital Effects (3)	+0.05 pp
6.	Growth in Risk Assets-Operation	-0.09 pp
7.	Securities' mark-to-market valuation and Hedging Derivatives (4)	-0.32 pp
8.	Growth in Risk Assets-Market	-0.40 pp
9.	Intangibles effects on Capital (5)	-0.68 pp
10.	Dividend to the Financial Group	-1.18 pp

(1) Includes AT1 issuance for USD $1.05 billion – Nov´21
(2) Includes benefits from internal models' calibration.
(3) Includes actuarial changes from employee liability and variation of permanent intangibles and investments.
(4) Includes derivatives for hedging positions not valued with market prices
(5) In 3Q20 an investment in software was registered in fixed assets, therefore the adjustment to equity did not apply as of that date

At the end of 2021, the estimated Capital Adequacy Ratio (CAR) for Banorte was 24.69% considering credit, market, and operational risks; and 34.82% considering only credit risk. Moreover, the Core Equity Tier 1 reached 15.32%, Total Tier 1 Capital 23.78%, and Total Tier 2 Capital 0.91%.The aforementioned, corresponding to a Systemically Important Institution Level I under CNBV classification.

CASH FLOW STATEMENT

The cash flow statement reveals cash available to the institution at a certain point in time in order to meet its obligations with creditors. The structure of the cash flow statement provides details of the cash generated by the operation, and uses of resources for net financing and the investment program. As of December 2021, available cash amounted to Ps 9.84 billion, (9.57%) lower than the Ps 109.31 billion registered in December 2020.

GFNorte's Cash Flow Statement

	2021	2020
Net income	**$35,048**	**$30,508**
Items not requiring (generating) resources:		
Depreciation and amortization	2,590	2,287
Technical reserves	33,818	17,793
Provisions	(684)	124
Current and deferred income tax	10,556	10,049
Subsidiaries' Net Income	(1,782)	(1,614)
	79,546	**59,147**
OPERATING ACTIVITIES:		
Changes in margin accounts	10,100	(12,172)
Changes in investments in securities	(88,276)	(74,742)
Changes in repo debtors	(450)	(966)
Changes in derivatives (assets)	21,307	(25,924)
Change in loan portfolio	(22,022)	(33,257)
Changes in acquired collection rights	580	(15)
Changes in accounts receivable from insurance and annuities, net	(465)	(476)
Changes in debtor premiums, net	69	121
Changes in reinsurance (net) (asset)	(182)	517
Changes in receivables generated by securitizations	110	28
Change in foreclosed assets	(320)	(399)
Change in other operating assets	2,120	(7,669)
Change in deposits	(22,687)	97,222
Change in interbank and other loans	3,467	(1,040)
Change in creditor balances under repurchase and sale agreements	23,974	7,136
Collateral sold or pledged	10	(84)
Change in liability position of derivative financial instruments	(21,655)	23,345
Change in technical reserves (net)	8,761	15,567
Changes in reinsurance (net) (liability)	245	764
Change in subordinated debentures	23,422	9,102
Change in other operating liabilities	2,497	6,648
Change in hedging instruments related to operations	2,570	(1,112)
Income tax	(11,587)	(7,034)
Net cash generated or used from operations	**11,134**	**54,707**
INVESTING ACTIVITIES:		
Proceeds on disposal of property, furniture and equipment	1,519	2,884
Payments for acquisition of property, furniture and equipment	(4,523)	(7,435)
Charges on acquisitions of Subsidiaries and associated companies	4	-
Payment on acquisitions of Subsidiaries and associated companies	-	(139)
Charges for cash Dividends	1,818	1,969
Net cash flows from investment activity	**(1,182)**	**(2,721)**
FINANCING ACTIVITIES:		
Dividends paid	(16,759)	-
Repurchase of shares	-	(2,146)
Interest payments on subordinated obligations	(3,689)	(3,342)
Net financing activity cash flows	**(20,448)**	**(5,488)**
Net (decrease) increase in cash and cash equivalents	(10,496)	46,498
Effects from changes in the value of cash and cash equivalents	32	11
Cash and cash equivalents at the beginning of the year	109,306	62,797
Cash and cash equivalents at the end of the year	**$98,842**	**$109,306**

Million pesos.

iii. INTERNAL CONTROL

Grupo Financiero Banorte, S.A.B. de C.V. (GFNORTE) regards Internal Control as a shared responsibility among each of its constituents. Thus, the Board of Directors, the different Corporate Governance entities, senior management members, as well as each of the executives and employees are all part of the Internal Control System (SCI in Spanish).

SCI is the general framework established by the Board of Directors with the objective of cooperating to the proper fulfillment of institutional objectives through guidelines, policies, procedures and control and monitoring activities that have a positive impact on risk management, on the trustworthiness of the financial information that is produced, and on regulations compliance.

The SCI establishes objectives and general guidelines which delineate the activities and responsibilities of all personnel in regards to origination, processing and execution of operations, which are in turn monitored by areas specialized in the risks that are identified and on the controls which mitigate them.

The SCI is structured into three main lines of defense:

A. **First**: The owners of business and support processes, who are ultimately responsible for the internal control function in their activities.

B. **Second**: Risk, Credit, Legal and Comptroller areas, who permanently provide monitoring and controlling activities.

C. **Third**: Internal Audit, acting independently thanks to its direct report to the Audit and Corporate Affairs Committee, monitors activities and the adequate execution of functions across all areas.

At GFNorte we are convinced that keeping a proper control is a competitive advantage that supports our footprint and market share in the domestic financial market; this is why all executives and employees perform their duties with discipline, and under strict compliance with regulations, while operating with the philosophy of getting things done right from the very beginning, without relying other areas to perform their reviews.

During 2021, there were activities related to strengthening a controlled environment, risk assessment and management, establishment and monitoring of controls, and information quality assurance. Among the most relevant activities were:

A. The different Corporate Governance Committees have had the necessary financial, economic, accounting and legal information, in order to have an adequate decisión making process.

B. The Corporate Governance documents related to Internal Control were reviewed and updated, which were presented through the CAPS to the Board of Directors for authorization.

C. Policy and procedures handbooks were kept up to date due to changes in external regulations, client support programs, new products, changes in the institution or improvements in internal controls.

D. Requirements from different internal areas were addressed, either those related to supporting new institutional products, as well as those related to regulatory changes.

E. The different business and support processes that constitute GFNorte's operation are monitored through Process and Management Comptrollers, informing periodically on compliance and if applicable, identifying areas of opportunity for its timely remediation.

F. During this period, various activities regarding internal accounting control were carried out and concluded, in accordance with the work plan established at the beginning of the year.

G. There were effectiveness tests related to the Business Continuity Plan. In this matter, regarding the global contingency represented by COVID 19, the Continuity Plan was activated under its Pandemic section. The actions implemented have responded to the considerations of each moment and are consistent with the assessment of an incremental risk.

H. The Information Security Officer (CISO) carried out his duties based on the Master Plan, reporting the findings found and the details of the activities carried out to the General Director of GFNorte and to the Corporate Governance Committees corresponding, keeping a matrix coordination with the Comptroller as part of the SCI.

I. There was continued follow-up on the improvement activities related to observations noted by the different members of the SCI.

J. Requirements from supervisory authorities were addressed, ordinary inspection visits were attended and followed up correctly, and the required information requested by External regulation was provided in a timely manner.

e) CRITICAL ACCOUNTING ESTIMATES, PROVISIONS OR RESERVES

GFNorte's key accounting policies are in accordance with the accounting criteria required by the CNBV through the issuance of accounting provisions and other applicable laws, which require Management to make certain estimates and use certain assumptions to determine the valuation of some of the items included in the consolidated financial statements and to make the disclosure required. Even though they can differ from their final effect, Management believes that the estimates and assumptions used were appropriate under current circumstances.

According to the CNBV's Accounting Criteria A-1 "Basic framework of the set of accounting standards applicable to credit institutions", accounts of institutions shall be subject to financial reporting standards (NIF), defined by the Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C. (formerly, Mexican Board for Research and Development of Financial Reporting Standards), except when in the opinion of the CNBV, it is necessary to implement a regulatory framework or a specific accounting criteria taking into account the specialized operations Credit Institutions need to perform.

For more information regarding our policies and critical accounting estimates, see Note 4 of the Audited Consolidated Financial Statements to December 31, 2021. (Section 8 c - "Annexes-Financial Statements" of this Annual Report).

GFNorte has identified the main critical accounting estimates described in this section as follows:

Investment in Securities

Investments in debt or capital securities are classified based on the intention for use at the time of acquisition and fair value is determined according to the type of financial instrument concerned, in accordance with the following:

Trading Securities

Trading securities are securities owned by GFNorte, acquired with the intention of selling them for a profit derived from the price differences in short-term purchase and sale operations made by GFNorte as a market participant.

At the time of the acquisition they are initially recorded at fair value, which may include either a discount or premium. These securities are stated at fair value, which is determined by the price vendor. The valuation includes both capital and accrued interest. The trading securities valuation result is recorded in the results of the period.

Securities available for sale

Securities available for sale are debt or equity securities; acquired with no intention of obtaining earnings from short term trading operations and, in the case of debt securities, neither with the intention nor capacity of holding them to maturity. Therefore, they represent a residual category, that is to say, they are acquired with an intention different than that of trading or holding them to maturity.

They are valued in the same way as trading securities, recognizing the result from valuation in other headings of net income within stockholders' equity.

If, in a later period, the fair value of a debt security classified as available for sale increased and said effect of reversal of the impairment may be objectively related to an event that occurs after the impairment was recognized in the income statement, the impairment loss must be reversed in the current results of the year.

The impairment loss recognized in the results for the year of an equity instrument classified as available for sale should not be reversed.

Securities held to Maturity

Securities held to maturity consist of debt instruments whose payments are fixed or can be determined with a set maturity, which are acquired by GFNorte with the intent and capability to hold them to maturity.

They are initially recorded at fair value and valued at amortized cost, which means that the amortization of the premium or discount (included in the fair value at which they were initially recorded), is part of the earned interest.

General valuation standards

Upon the sale of trading securities, the valuation result previously recorded in the year's results is reclassified as part of the gain or loss on the sale. Similarly, upon the sale of securities available for sale, the cumulative valuation result recorded in the comprehensive result in stockholders' equity is reclassified as part of the gain or loss on the sale.

Accrued interest on debt instruments is determined using the effective interest method and is recorded in the corresponding category of investments in securities and in the year's results.

Dividends on equity instruments are recorded in the corresponding category of investments in securities and in the year's results when the right to receive such dividends is established.

The foreign exchange gain or loss on investments in securities denominated in foreign currency is recorded in the year's results.

Reclassification of securities held to maturity to available for sale is allowed, provided there is no intention or ability of holding them to maturity. In the case of reclassifications to securities held to maturity or from trading securities to securities to available for sales securities, which can be done in extraordinary circumstances (lack of market liquidity, absence of an active market for such securities, among others), the CNBV will evaluate such circumstances and, if it determines they are valid, it will issue its express authorization for their reclassification.

If securities held to maturity are reclassified as available for sale, the corresponding valuation result on the reclassification date is recorded in the comprehensive result within stockholders' equity.

When the debt instruments reclassification is authorized from securities available for sale to securities held to maturity, the valuation result on the transfer date continues to be reported in stockholders' equity, and it is amortized based on such instrument's remaining life.

Regarding authorized reclassifications from trading securities to any other category, the valuation result on the reclassification date is already acknowledged in the year's results.

An impairment loss on a security is recorded against the year's results if there is objective evidence of such impairment as a result of one or more events, occurring after the initial recording of the security, that have had an impact on the estimated future cash flows that can be reliably determined. The effect of recording the impairment of securities is shown in Note 6 of the GFNorte's audited consolidated financial statements as of December 31, 2021.

A previously recorded impairment loss is reversed against the year's results if, in a later period, the amount of the loss decreases and such decrease is objectively associated with an event occurring after the impairment was recorded.

GFNorte periodically verifies whether its securities available for sale and those held to maturity show any impairment loss, by means of an evaluation on the quarterly balance sheet date or whenever there are indications of an impairment loss.

Securities are deemed as impaired and therefore incurring an impairment loss if and only if there is objective evidence of the impairment loss as a result of a set of events that occurred after their initial value was recorded. Such events should have had an impact on the estimated future cash flows, which can be determined in a reliable manner.

The investments on which impairment losses have been recognized are analyzed on a quarterly basis to identify the possible recovery of their value and, if applicable, reverse the recorded loss in the consolidated Income Statements for the year such recovery is achieved.

These events may be, among others: significant financial difficulties of the issuer; probability that the issuer will be declared bankrupt or other financial reorganization; breach of contractual clauses such as breach of interest or principal payment; disappearance of an active market for the title due to financial difficulties; decrease in the credit rating considered; and a sustained decrease in the listing price of the issue, in combination with additional information.

In addition to the events mentioned above, the objective evidence of impairment for an equity instrument includes information on significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates , and indicates that it is probable that the cost of the investment in the equity instrument will not be recoverable.

The events considered by the model are divided into:

a) Information that GFNorte has on the title (breach of contract clauses, financial, economic or legal problems).
b) Information that GFNorte has about the issuer (probability of bankruptcy or commercial bankruptcy, probability of financial reorganization and financial problems of the issuer).
c) Information that the market has on the title (the rating assigned by the agencies authorized by the Commission).
d) Information that the market has on the issuer (the rating assigned by the agencies authorized by the Commission).

The evaluation model that GFNorte uses to determine impairment has incorporated the events described above, which are incorporated in a weighted manner according to their importance in evaluating impairment and assigns them a rating according to the percentage of severity with which it is estimated would affect the return on investment. Likewise, it incorporates the existence of guarantees, which contributes to reducing the impairment loss.

Investments in respect of which impairment has been recognized continue to be analyzed every quarter in order to identify possible recoveries in their value, and, where appropriate, reverse the recognized loss, which is reversed in the results of the year that its recovery is identified.

Repo Operations

It is an operation by means of which the buyer acquires the ownership of credit titles for a sum of money and is obliged to transfer the ownership of as many titles of the same kind to the seller, within the agreed term and against reimbursement of the same price plus a prize. The award remains for the benefit of the reporter, unless otherwise agreed.

Repo transactions are recorded according to their economic substance, which is that of a financing with collateral, where GFNorte, acting as a buyer, delivers cash as financing, in exchange for obtaining financial assets that serve as protection in the event of default.

On the repurchase agreement transaction contract date, GFNorte acting as the seller, records the cash inflow, or else a settlement debtor account as well as a payable account at its fair value, initially at the agreed price, which represents the obligation to reimburse the cash to the purchaser. The account payable is subsequently valued over the term of the repurchase agreement at amortized cost by recognizing the interest from the repurchase agreement in the year's results using the effective interest method.

As to the collateral granted, GFNorte classifies the financial asset in the Consolidated Balance Sheets as restricted, valuing it according to the criteria described in Note 4 of the audited financial statements of GFNorte to December 31, 2021, until the repurchase agreement's maturity.

Operations with Derivatives

Since the derivatives products operated by GFNorte are considered as conventional (*Plain Vanilla*), the institution uses the standard valuation models contained in derivatives operations and GFNorte risk management systems.

All of the valuation methods that GFNorte uses result in fair value of the transactions and are periodically adjusted. Furthermore, they are audited by independent third parties.

Valuation of the positions is done on a daily basis and a price provider generates the input used by the transaction and risk management systems. The price provider generates these valuations based on daily market conditions.

Forward and Futures Contracts

Forward and Futures Contracts available for sale, are those through which a buy or sell of a financial asset or commodity obligation is set at a future date, with previously set amount, quality and price in the contract. Futures contracts are recorded initially by GFNorte in the balance sheet as an asset and a liability at fair value, which represents the price agreed in the contract in order to acknowledge the right and obligation of receiving and/or delivering the underlying, as well as the right and obligation of receiving and/or delivering the cash equivalent to the underlying, object of the contract.

Derivatives are presented in a specific item of assets or liabilities, depending on whether their fair value (as a consequence of established rights and/or obligations) corresponds to a debtor or creditor balance, respectively.

Debtor or creditor balances in the Consolidated Balance Sheets are offset if GFNorte has the contractual right to offset the stated amount, the intention of liquidating the net amount or to realize the assets and cancel the liability, simultaneously.

In the case of transactions for trading purposes, their balance represents the difference between the fair value of the contract and the established "forward" price.

Options Contracts

Options are contracts that, through the payment of a premium, grant the right, but not the obligation, to buy or sell a financial or underlying asset at a specific price called the exercise price, on an established date or period.

Due to the rights they grant, the options are divided into: call options and put options. Both can be used as trading or hedging instruments.

Options can be exercised on a defined date or within a specified period of time; the exercise price is the one agreed upon in the option, and which will be exercised if it is convenient for the option buyer. The instrument on which this price is set is the reference or underlying security. The premium is the price paid by the holder to the issuer for the rights conferred by the option.

The holder of a call option has the right, but not the obligation, to buy from the issuer a certain financial or underlying asset, at a fixed price (exercise price), within a specified period.

The holder of a put option has the right, but not the obligation, to sell a certain underlying or financial asset, at a fixed price (exercise price), within a specified period.

GFNorte records the option premium as an asset or liability at the transaction date. The fluctuations resulting from market valuation of the option's premium are recorded by affecting the Consolidated Income Statement in the account "Trading results" and the corresponding Consolidated Balance Sheet account.

Swaps

They are contracts between two parties, through which the bilateral obligation is established to exchange a series of cash flows, for a specified period of time and on pre-established dates, over a nominal or reference value.

Are recorded at fair value which corresponds to the net amount between the asset and liability portion for the rights and obligations agreed upon; they are subsequently valued at fair value using the present value of the future flows to receive or grant according to the projections for future implicit applicable rates, discounting the market rate on the valuation date with yield curves given by the price provider. The result of such valuation is recorded in the year's results.

Allowance for loan losses

Internal policy credit portfolio consumer credit rating and other revolving credits

On November 15, 2017, the regulator (CNBV) authorized in Official Letter 111-3 / 706/2017 the methodology for the qualification of the consumer credit card portfolio and other revolving credits.

This internal model improves the comprehensive management of credit risk, estimating the risk parameters through the experience of the GFNorte, and they have been applied as of February 2018 (with figures from January). The internal methodology describes that the determination of the rating and estimation of the reserve of the consumer credit card portfolio and other revolving credits are considered as following credit risk parameters:

Ri = PIi * SP * EIi

Where:
Ri = Amount of reserves to be constituted for the i - th credit
PIi = Probability of default for the i - th credit
SPi = Severity of loss for the i - th credit
EIi = Exposure at default for the i - th credit

To determine the reserve, it is necessary to use the probability of default, the severity of the loss and the exposure to default, according to the following:

1. Probability of Default of the Internal Model

The Probability of Default (PI) measures how likely it is that a borrower will fail to fulfill their contractual obligations and is assigned with the information in the following table according to their level of risk previously determined by the internal model of Credit Card.

Risk Level	PI
A-01	0.00646233
A-02	0.00668129
A-03	0.00770357
A-04	0.00899237
B-01	0.01008105
B-02	0.01538093
B-03	0.01962636
B-04	0.02590753
C-01	0.03379690
C-02	0.04619679
C-03	0.06073381
C-04	0.08180872
D-01	0.11804428
D-02	0.17143767
D-03	0.30358352
D-04	0.71565748
E	1

2. Acquired Loan Portfolios

Loss Severity (SP) is defined as the percentage of exposure at risk that is not expected to be recovered in the event of default. The values used to calculate reserves according to the level of default of the account is:

Classification	Past Due Payments	SP
Complied	0 - 3	87.16%
Defaulted	4	87.16%
	5	90.30%
	6 and above	100%

3. Exposure to Breach of the Internal Model

The Exposure at Default (EI) is defined as the amount to which the bank is exposed at the time of default on a credit and an account in default in the Credit Card portfolio is one in which 90 or more days past due have elapsed. regarding your due payments.

The allocation of the Credit Conversion Factor (FCC) to estimate the EI is made according to the following table:

Mora_Rama	Factor
01	1.8475
02	2.0624
03	1.2974
04	1.1693
05	1.2167
06	1.0985
11	1.2583
12	1.1074
13	1.0398
14	1.0790
15	1.0247
21	1.1145
22	1.0907
23	1.0385
24	1.0161
25	1.0241
31	1.0129
32	1.0086
33	1.0053
5	0.6549

The Mora_Rama segment is defined by the internal model.

With the value of the Factor assigned to each segment, the Exposure to default is classified.

When the accounting balance is greater than zero: EI = Factor_Arbol * Saldo_Contable

When the accounting balance is less than or equal to zero and the credit limit is different from empty: EI = 0.6549 * Limit_Credit

Enforcement of portfolio rating provisions

The loan portfolio is rated according to the rules issued by the SHCP and the methodology established by the Commission.

The Provisions also establish general methodologies for the classification and constitution of preventive estimates for each type of credit.

The commercial credit portfolio qualification procedure establishes that the Credit Institutions apply the established methodology with information regarding the quarters that conclude in the months of March, June, September, and December of each year and record in their financial statements the preventive estimates at closing of each month. Likewise, for the months after the end of each quarter, the rating corresponding to the credit in question, which was used at the end of the immediately previous quarter, may be applied to the balance of the debt, registered on the last day of the mentioned months. Preventive estimates for credit risks that exceed the amount required by the portfolio rating are canceled on the date the next quarterly rating is made against the results for the year, also, recoveries of previously written-off loan portfolio are applied against the results of the exercise.

General Description of the Regulatory Methodologies established by the Commission

The regulatory methodologies to qualify the consumer loan portfolio, home mortgage loan and the commercial loan portfolio (excluding credits destined to investment projects with their own source of payment), establish that the reserve of said portfolios is determined based on the loss estimate. expected regulatory credit for the following twelve months.

Said methodologies stipulate that in the estimation of said expected loss the probability of default, the severity of the loss and the exposure to default are evaluated, and that the result of the multiplication of these three factors is the estimate of the expected loss that is equal the amount of reserves that need to be constituted to face credit risk.

Depending on the type of portfolio, the probability of default, the severity of the loss and the exposure to default in regulatory methodologies are determined considering the following:

Probability of Default

• Non-revolving consumption. - It takes into account the current delinquency, the payments made with respect to the balance of the last receivables, the times the original value of the property is paid, the type of credit, the remaining term, among others.
• Revolving consumption. - considering the current situation and historical behavior regarding the number of defaulted payments, the age of the accounts, the payments made with respect to the balance, as well as the percentage of use of the authorized line of credit.
• Home mortgage .- takes into account the current delinquency, maximum number of arrears in the last four periods, willingness to pay and the value of the home with respect to the credit balance.
• Commercial. - considering according to the type of borrower, the factors of payment experience, INFONAVIT payment experience, evaluation of rating agencies, financial risk, socioeconomic risk, financial strength, country and industry risk, market positioning, transparency and standards and corporate governance.

Loss Severity

• Non-revolving consumption. - according to the number of missed payments.
• Revolving consumption. - according to the number of missed payments.
• Home mortgage. - considers the amount of the housing subaccount, unemployment insurance and the federal entity where the credit was granted.

• Commercial. - considering financial and non-financial real guarantees and personal guarantees.

Exposure to Default

• Non-revolving consumption. - considers the credit balance at the rating date.
• Revolving consumption. - takes into account the current level of use of the line to estimate how much the use of said line would increase in the event of non-compliance.
• Home mortgage. - considers the credit balance at the rating date.
• Commercial. - for revocable credits, the balance of the credit at the rating date is considered. For irrevocable credits, the current level of use of the line is taken into account to estimate how much the use of said line would increase in the event of default.

The regulatory methodology established by the CNBV to qualify debtors for commercial loan portfolios destined for investment projects with their own payment source, establishes that the qualification must be carried out by analyzing the risk of the projects in the construction and operation stage, evaluating the extra cost of the work and the project's cash flows.

General description of the internal methodologies

Internal qualification models for constitution of reserves and capital

Applicable Portfolios

GFNorte has an Internal Rating Model for the Revolving Consumption portfolio, for the constitution of reserves and capital under an Advanced Approach estimating the three parameters required for its calculation: Probability of Default (PI), Severity of Loss (SP) and Exposure to Default (EI). Additionally, it has an Internal Qualification Model for the Companies portfolio, for the constitution of reserves and capital under a Basic Approach, estimating only the Probability of Default (PI) parameter.

The positions considered in the Companies portfolio are those of legal entities clients (other than Federal Entities, Municipalities and Financial Institutions) and individuals with business activity, both with annual sales greater than or equal to 14 million UDIs.

The methodology used by GFNorte in the estimation of the parameters and the calculation of reserves and capital has the guidelines established by the Commission, regarding the general provisions applicable to credit institutions stipulated in the Single Bank Circular.

On November 30, 2018, the CNBV obtained approval for the use of the Internal Business Model for the constitution of reserves and regulatory capital requirements for credit risk with a basic focus (Official Letter 111-3 / 1472 / 2018) at Banco Mercantil del Norte, and on March 1, 2019 for Arrendadora and Factor Banorte, and Solid Portfolio Manager (Official Letters 111-1 / 160/2019 and 111-1 / 161/2019, respectively).

The Internal Models used by GFNorte, like the Standard Models, have an expected loss approach for the following twelve months.

The Internal Models allow for comprehensive credit risk management, considering the portfolio's own risk so that the resulting models show greater predictability, derived from the use of specific attributes for each of the segments.

One of the uses of internal estimates is to calculate the Reserves and Capital of the Credit Card and Business Portfolios, which must be classified according to the provisions of the General Provisions Applicable to Credit Institutions.

Internal Qualification Process

Business Portfolio

For the Companies portfolio, the Probability of Default (PI) is calculated using the Internal Model with Basic Approach, based on internal and external variables.

Once the PI is determined, the Severity of Loss (SP) and Exposure to Default (EI) parameters are considered under the Standard Method and once the above factors are obtained, the Expected Loss (PE) is calculated from the following way:

PE = PI * SP * EI

Credit Card Portfolio

In the Credit Card portfolio, the scale of the Rating System allows GFNorte to have better credit risk management by considering the portfolio's own risk, in order to continuously monitor borrowers and prevent or lessen adverse events.

Its main purpose is to divide the population into homogeneous subsets (buckets), so that the resulting models show greater predictability, derived from the use of specific attributes for each of the segments.

Individual Auto Loans

Since January 2020, the Institution has been authorized to use an internal methodology under an advanced approach for the Physical Person Auto portfolio. This methodology is used to estimate reserves and capital requirements for credit risk, in accordance with what is established in the regulation.

The probability of default, the severity of the loss and the exposure to default of this methodology are determined considering the following:

Probability of Default

It takes into account overdue payments, seniority in the institution and the age of the loan, as well as variables of external behavior: maximum delinquency and use in other financial institutions observed in different time periods.

Loss Severity

There are different models for each segment based on the ratio of the Book balance/Amount of the guarantee, that through different time windows, brings the costs associated with recovery (recoveries, deductions and discounts) to present value, and is expressed as a percentage of exposure at default.

Exposure to Default

As it is a non-revolving credit, the amount of the accounting balance is taken at the time of qualification.

Estimation of Variables of the Internal Models

Probability of Default

The Probability of Default (PI) is the measure that indicates how likely it is that a borrower will fail to fulfill its contractual obligations considering a horizon of 12 months after the reference month. Default is defined when 90 or more days past due have elapsed in the due payments of a credit.

For its estimation, information from internal and external variables is used with which a score is obtained, which is mapped to a rating scale that measures the level of risk.

Loss Severity

Loss Severity (SP) measures the intensity of the loss in case of default expressed as a percentage of the Exposure to Default (EI), once the value of the guarantees and the costs associated with the implementation processes are taken into account (judicial, administrative collection and deed, among others).

The estimation of the Severity of Loss (SP) involves calculating the present value of the flows at the date of default, allowing to have a comparable measure for credits that have different recovery periods.

Exposure to Default

The Exposure to Default (EI) is defined as the amount to which the Institution is exposed at the time of default of a loan.

Its estimate is based on the conversion factor, which considers the relationship between the balance and the undrawn amount of the credit lines.

In the particular case of the Companies portfolio, the Severity of Loss (SP) and Exposure to Default (EI) parameters are used according to what is established in the CUB for Standard Models.

Probability of Default

• There are differentiated models according to the current default, which take into account aspects such as utilization, internal transactionality, client attachment with the institution, age of the account and external behavior variables such as maximum delinquency and utilization in other observed financial institutions. in different time windows.

Acquired Collection Rights

This item is represented by the acquisition cost of the various credit asset packages acquired by GFNorte, applying in each package one of the three valuation methods described below:

Cost recovery method. The recoveries made on the collection rights are applied against the account receivable until its balance is exhausted. Surplus recoveries are recognized in results.

Method of interest. The amount resulting from multiplying the unpaid balance of the collection rights by the estimated rate of return is recognized in results. The difference with respect to the collections actually made decrease the account receivable.

Cash-based method. The amount that results from multiplying the estimated rate of return by the amount actually charged is recognized in results, as long as it is not greater than what would be recognized under the interest method. The difference between what is recognized in results and the collection made reduces the balance of the account receivable; once the entire initial investment has been amortized, any subsequent recovery will be recognized in profit or loss.

In interest-value-based credit asset packages, GFNorte evaluates on a semi-annual basis whether the estimate of expected cash flows from collection rights is highly effective. For those collection rights in which the estimation of the expected cash flows is not highly effective, GFNorte uses the cost recovery method. The estimate of expected cash flows is considered to be highly effective if the quotient resulting from dividing the sum of the flows actually collected by the sum of the expected cash flows, remains in a range between 0.8 and 1.25 at the time of the evaluation of said effectiveness.

Impairment of credit assets.

GFNorte performs an evaluation of the expected cash flows periodically during the term of the collection rights, and in case that based on events and information determines that said expected cash flows will decrease, it constitutes an estimate for irrecoverability or difficult collection against results for the year, for the amount in which said expected cash flows are less than the book value of the account receivable.

Premium Receivable

This balance represents premium receivables at the balance sheet date. In accordance with the provisions of the Insurance Companies Law (Ley General de Instituciones y Sociedades Mutualistas de Seguros) and those of the CNSF, premiums more than 45 days old must be canceled against the results of the fiscal year, including, if the case, technical reserves, acquisition cost and the relative ceded reinsurance, and should not be considered in the computation of the coverage of technical reserves.

Based on the internal policy approved by the CEO, certain issued policies older than 45 days and whose premiums have not been fully or partially collected are excluded from the cancellation process; this is due to the fact that various negotiations are currently being carried out with insured parties, with whom our experience has indicated that these accounts are collectible. As of December 31, 2021 and 2020, the premiums older than 45 days that were not paid amount to approximately Ps 270 and Ps 449, respectively, excluding debts borne by agencies and entities of the federal public administration, amount to which should reduce the unearned net premium, commissions and corresponding reinsurance to determine its net effect on results. Said amount was not computed to cover technical reserves.

Reserve for Uncollectable Accounts

GFNorte performs a study to quantify the different future events that could affect the amount in accounts receivable over 90 days and thus determine the percentage of non-recoverability in order to calculate its allowance for doubtful accounts. The remaining balance of accounts receivable is reserved at 90 calendar days from the initial recognition.

The investment projects' balances represent financing to investment projects' trusts (especially in the development of social housing). GFNorte acknowledges a yield from the trust financing disposal, which is related to the construction project's progress compliance and/or sale as stated in each trust's agreement. Failure to meet the construction project's progress and/or sale as stipulated in the agreement, GFNorte stops recording the funding yield.

To assess investment projects, each project's expected value is determined according to the expected flow of the sale of investment project's potential inventory or that of a portfolio of investment projects of GFNorte based on the current business plan.

The impairment of investment projects is determined based on the projection of cash flows to be recovered discounted at present value using an appropriate interest rate, in accordance with the policy mentioned in Note 3.

Foreclosed Assets, Net.

Foreclosed property or property received as payments in kind are recorded at the lower of their cost or fair value minus the strictly necessary costs and expenses disbursed in the foreclosure. Cost is determined as the forced sale value established by the judge upon foreclosure or, in the case of payments in kind, the price agreed between the parties involved.

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is higher than the foreclosed property, the difference is recorded in the period's results under "Other Operating Income (expenses)."

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is lower than the foreclosed property, its value is adjusted to the asset's net value.

The carrying value is only modified when there is evidence that the fair value is lower than the recorded carrying value. Reductions in the carrying value of the loan are recorded in the current earnings as they occur.

The provisions applicable to the new valuation methodology for the allowance for loan losses mentioned above define the valuation methodology for reserves related to either foreclosed property or those assets received as payment in kind, establishing that additional quarterly provisions must be created to recognize the potential decrease in value over time of property awarded under legal proceedings, out-of-court or received as payment in kind and the investments in securities received as foreclosed goods or payment in kind.

When problems are identified regarding the realization of the value of the foreclosed property, GFNorte records additional reserves based on management's best estimates. As of December 31, 2021, Management has not identified signs of deterioration or problems to realize foreclosed assets, consequently, has not created reserves in addition to those created by the percentage applied based on the accounting criteria.

Property, furniture and equipment, Goodwill and Other Intangible Assets.

Property, furniture and equipment

Property, furniture and equipment are recorded at acquisition cost. The balances of acquisitions made until December 31, 2007 are restated using factors derived from the value of the UDI of that date. Depreciation is calculated using the straight-line method based on the useful lives of the assets as estimated by independent appraisers.

Goodwill and Other Intangible Assets

As goodwill is considered an intangible asset with an indefinite life, it is subject to impairment tests at least annually according to NIF C-15 "Impairment in the value of long-lasting assets and their disposal."

Intangible assets are recognized in the consolidated balance sheets provided they are identifiable and generate future economic benefits that are controlled by GFNorte. The amortizable amount of the intangible asset is assigned on a systematic basis during its estimated useful life. Intangible assets with indefinite lives are not amortized and both, with defined and indefinite lives, their value are subject to annual impairment tests.

GFNorte maintains criteria for identifying and, where appropriate, recording intangible losses for deterioration or decline in value for those financial and other long-term assets, including goodwill. No indicators of impairment of goodwill have been identified as of December 31, 2021.

Income Taxes (ISR)

The provisions for ISR and PTU are recorded in the results of the year in which they are incurred. Deferred taxes are recognized based on financial projections. Deferred taxes are calculated by applying the corresponding tax rate to the applicable temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carry-forwards and certain tax credits. The deferred tax assets are recorded only when there is a high probability of recovery. The net effect of the aforementioned items is presented in the Consolidated Balance Sheet under the "Deferred taxes, net" line.

Technical Reserves

By provision of the CNSF, all technical reserves must be ruled annually by independent actuaries. On February 11 (Insurer) and February 8 (Pensions) 2022, the actuaries have confirmed that in their opinion the amounts of the reserves recorded by GFNorte as of December 31, 2021, are reasonably acceptable based on their obligations, within the parameters that the actuarial practice indicates and in accordance with the criteria that the authorities in this matter consider.

Technical reserves are constituted pursuant to the terms set forth by the Law, as well as to the provisions issued by the CNSF. To value the technical reserves, the Financial Group used the valuation methods found in the provisions set forth in Chapter 5 “Technical Reserves” in the Insurance Circular published in the DOF on December 19, 2014.

Provisions

Provisions are recognized when a current obligation that results from a past event and are likely to result in the use of economic resources and can be reasonably estimated.

Labor Obligations

Defined Benefit Plans

Seniority bonuses, pensions, and medical expenses after retirement are recognized as they are accrued, and are based on third party actuarial calculations that use the projected unitary credit, using nominal interest rates. Therefore this liability consists of the present value of a future obligation that will be paid at the estimated retirement date of all GFNorte’s employees, together with liabilities derived from currently retired personnel.

Defined contribution plan

GFNorte has a defined contribution pension plan. Employees that are eligible for this plan are those who joined the company after January 2001, as well as all others who joined before that date, but voluntarily signed up for this plan. This pension plan is invested in a fund which is included under “Other Assets”.

Labor obligations derived from the definite contribution plan do not require an actuarial valuation as per NIF D-3 regulation, as the cost of this plan is equivalent to the individual periodic contributions made under this plan for each participating employee.

These estimations are further described in note 25 to the Consolidated Financial statements as of December 31, 2021. This note includes the expected revenue of retirement plans, the discount rate and the growth rate used for future labor expenses. These estimates depend on economic circumstances in Mexico.

Employee Profit Sharing provisions (PTU) are recognized in the results of the year in which they are accrued as non-interest expense. GFNorte calculates PTU according to the guidelines established in the Mexican Constitution.

4. ADMINISTRATION

a) EXTERNAL AUDITORS

External auditors are appointed with the Board of Directors' approval, which is based on the recommendations presented by the Audit and Corporate Practices Committee.

As of 2005, the firm Galaz, Yamazaki, Ruiz Urquiza, S. C., has audited GFNorte's Financial Statements. During this period, the firm of auditors has not issued a negative opinion or opinion with exception, nor have they abstained from issuing an opinion about GFNorte's Financial Statements. It is worth mentioning that the Partner responsible for signing the opinion is rotated every 6 years by internal policy of GFNorte.

In 2021, GFNorte hired the firm of external auditors mentioned In the prior paragraph, for an amount of Ps. 29.1 million, corresponding to the auditing services for the financial statements.

Moreover, each of the Group's subsidiaries also make payments to the external auditor on account of the auditing services of their financial statements and provide additional services which are approved by the Board of Directors under presented recommendations by the respective Audit Committee.

b) OPERATIONS WITH RELATED PARTIES AND CONFLICTS OF INTEREST

At Banco Mercantil del Norte, GFNORTE's main subsidiary, the amount of the portfolio traded with related individuals and entities does not exceed the established limit of 35% of the basic portion of net capital for December 2021, 2020 and 2019.

	Banorte		
	Dic-21	**Dic-20**	**Dic-19**
Portfolio Art. 73 Banorte*	$13,353	$14,844	$11,306
Portfolio Art. 73 / Tier 1 Capital	7.5%	8.3%	7.9%
Portfolio Art. 73 / Limit established of Tier 1 Capital	21.5%	23.6%	22.5%

Million Pesos

*Institution that grants the loan.

The granted loans are under the limit set forth by the LIC.

Banorte

As of **December 31st, 2021**, total loans granted to related parties, under Article 73 of the Law of Credit Institutions, was $13,353 million pesos (including $1,617 million pesos in Letters of Credit "CC", which are registered in memorandum accounts), representing 1.6% of Banorte' s total loan portfolio (excluding the balance of CC). Of the total related loans balance, $12,706 million pesos were loans granted to clients linked to members of the Board of Directors, and $647 million pesos were linked to companies related to GFNORTE. At the end of December 2021, there are no loans granted to clients related to shareholders.

In accordance with Article 73 of the Law for Credit Institutions, the balance of GFNORTE' s related party loan portfolio for individuals and corporations at the end of December 2021 was 7.5% of Core Equity.

Related party loans have been granted under market conditions and rated in accordance with the policies, procedures and rating systems applicable to the rest of GFNORTE' s loan portfolio based on the general dispositions applicable to credit institutions regarding rating of loan portfolios issued by CNBV. Additionally, 100% of the related party loans are rated in Category "A", and most of these loans were classified as commercial loans.

Banorte

As of December 31, 2020, total loans granted to related parties, under Article 73 of the Law of Credit Institutions, was $14.84 billion pesos (including $2.66 billion pesos in — Letters of Credit “CC”, which are registered in memorandum accounts), representing 1.9% of Banorte’ s total loan portfolio (excluding the balance of CC). Of the total related loans balance, $11.02 billion pesos were loans granted to clients linked to members of the Board of Directors; $3.27 billion pesos were granted to clients linked to shareholders and $552 million pesos were linked to companies related to GFNORTE.

In accordance with Article 73 of the Law for Credit Institutions, the balance of GFNORTE’ s loan portfolio for individuals and corporations at the end of December 2020 was 8.3% of Tier1 Capital.

Related party loans have been granted under market conditions and rated in accordance with the policies, procedures and rating systems applicable to the rest of GFNORTE’ s loan portfolio based on the general dispositions applicable to credit institutions regarding rating of loan portfolios issued by CNBV. Additionally, 92% of the related party loans are rated in Category "A", and most of these loans were classified as commercial loans.

Business Relations

GFNorte maintains the practice of identifying balances and operations that it carries out with its subsidiaries. All balances and transactions with consolidated subsidiaries that are shown below have been eliminated in the consolidation process. These transactions are also set using studies of transfer pricing.

As of December 31, 2021, 2020, and 2019, GFNorte’s participation in the equity of its consolidated subsidiaries is as follows:

	2021	2020	2019
Banco Mercantil del Norte, S.A. y Subsidiarias	98.26%	98.26%	98.26%
Arrendadora y Factor Banorte, S.A. de C.V. SOFOM, ER y Subsidiaria	99.91%	99.91%	99.98%
Almacenadora Banorte, S.A. de C.V. y Subsidiaria	99.99%	99.99%	99.99%
Banorte Ahorro y Previsión, S.A. de C.V. y Subsidiarias	99.99%	99.99%	99.99%
Casa de Bolsa Banorte Ixe, S.A. de C.V. y Subsidiaria	99.99%	99.99%	99.99%
Operadora de Fondos Banorte Ixe S.A. de C.V.	99.99%	99.99%	99.99%
Ixe Servicios, S.A. de C. V.	99.99%	99.99%	99.99%
Sólida Administradora de Portafolios y Subsidiarias	-	-	99.72%

As of April 29, 2016, the Sub holding Company Banorte Ahorro y Previsión, S.A. de C.V. was constituted in terms of the Law Regulating Financial Groups. On September 1, 2016, GFNorte transferred in kind its holding of representative shares of Pensiones Banorte and Seguros Banorte equity towards BAP, given the increase in the variable portion of its equity.

	2021	2020	2019
Seguros Banorte, S.A. de C.V.	99.99%	99.99%	99.99%

Pensiones Banorte, S.A. de C.V.	99.99%	99.99%	99.99%

Moreover, on October 17, 2016, Banorte's spin-off became effective, creating Banorte Futuro, S.A. de C.V. ("Banorte Futuro"), a new company, to which Banorte transferred shares representing Afore XXI Banorte's equity as assets. That day, GFNorte transferred in kind its holding of Banorte Futuro's shares to Banorte Ahorro y Previsión, given the increase in the variable portion of its equity. Immediately afterwards, Banorte Ahorro y Previsión transferred in kind its holding of Banorte Futuro's shares to Seguros Banorte, given the increase in the fixed portion of its equity.

c) MANAGERS AND SHAREHOLDERS

Board of Directors

The Board of Directors of Grupo Financiero Banorte is constituted by 14 Proprietary Members, and if the case, by their respective Alternates, of which 10 are independent. Alternate Members can only replace their respective proprietary members in the event of a temporary vacancy, with the understanding that Alternates of Independent Board Members have the same capacity.

Frequency of sessions: The Board meets every quarter and under extraordinary circumstances at the request of the Board's Chairman, 25% of Proprietary Members, or the President of the Audit and Corporate Practices Committees.

Quorum: 51% of the Board Members which should include at least one independent member.

- All proprietary members of the Board have voice and vote in the meetings.
- In the absence of a proprietary member, the alternate is entitled to vote, and his/her presence is considered part of the required quorum.
- When a proprietary member is present, the alternate is not entitled to vote, and his/her presence is not considered part of the required quorum.
- Decisions are made by the majority of votes of those present.

Policy that promotes gender equality: GFNorte has a policy to promote equality between men and women in its social bodies. This is within the rules of operation and operation of the Nominating Committee and incorporates provisions that promote dignity, equity, inclusion and diversity (gender, race, nationality, culture, beliefs, language, marital status, ideology, political opinions or any other personal, physical or social condition, etc.), in order to foster an inclusive work environment, respect and freedom from discrimination, within the Board of Directors.

The Board of Directors was designated by the Annual General Shareholders' Meeting held on April 23, 2021. The Board of Directors is comprised by the following members:

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
Carlos Hank González	Chairman of the Board of Directors Proprietary Member	October 2014	Male	• He is Vice Chairman of the Board of Directors at Gruma. • He is a member of the Board of Directors of the Mexican Stock Exchange. • He is an Independent member of the Board of Directors of Televisa, • He is Chairman of the Board of Directors of Cerrey. • He is CEO of Grupo Hermes. • He was CEO of Grupo Financiero Interacciones, and Interactions Casa de Bolsa. • He was Deputy General Director of Grupo Financiero Banorte. • He has a degree in Business Administration, from Universidad Iberoamericana.
Juan Antonio González Moreno	Proprietary Member	April 2004	Male	• He is Chairman of the Board and CEO of Gruma and Gimsa. • He has been Managing Director of Gruma Asia and Oceania, Senior Vice Chairman of Special Projects of Gruma Corporation, Chairman of the Board and CEO of CarAmigo, Vice President of Central and East Regions of MissionFoods, Chairman and Vice President of sales of Azteca Milling. • He graduated in Business Management from Universidad Regiomontana and holds an MBA from San Diego University.
David Juan Villarreal Montemayor	Proprietary Member	October 1993	Male	• CEO and major shareholder of Artefactos Laminados, S. A. de C.V. • He is Chairman of the Board of Directors and Deputy CEO of Inmobiliaria Montevi, S.A. de C.V. and Inmobiliaria Monyor S.A. de C.V. • He is a regional Advisor of Banco Nacional de Mexico, S.A. (Banamex) and Financial Advisor and Business Developer for SISMEX, Sistemas Mexicanos S.A. de C.V. • He is a Mechanical and Electrical Engineer from Instituto Tecnológico y de

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				Estudios Superiores de Monterrey (ITESM), holds a Master's Degree in Science in Automatic Control from the same institution, and participated in the Advanced Management program from Instituto Panamericano de Alta Direccion (IPADE).
José Marcos Ramírez Miguel	Proprietary Member	July 2011	Male	• CEO of Grupo Financiero Banorte and Banco Mercantil del Norte. • He held positions as Managing Director of Wholesale Banking and Chief Corporate Officer at Grupo Financiero Banorte. • He was Chairman of Asociacion Mexicana de Intermediarios Bursatiles. He also worked at Nacional Financiera, S.N.C., Banque Nationale de Paris and Banque Indosuez Mexico. Founded Finventia and served as interdisciplinary consultant at Peat Marwick Mexico. • He was CFO, Managing Director of Wholesale Banking, Managing Director of Santander Brokerage, and Executive Vice President of Grupo Financiero Santander. • He holds a Bachelor's Degree in Actuarial Science from Universidad Anahuac, a Post-graduate Degree in Finance from Instituto Tecnológico Autónomo de México (ITAM) and an MBA from E.S.A.D.E. in Barcelona, Spain.
Carlos de la Isla Corry	Proprietary Member	April 2016	Male	• He is Director of the Chairman´s Office in Grupo Hermes. • He was Managing Director of Risk and Credit Administration of Grupo Financiero Banorte. • He was Director of Administration and Finance of Hermes Group from 2003 to 2014, responsible for the industrial corporate, including tourism, transportation, construction and concessions' operations. He was member of the Board of Directors of the Industrial Group

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				• He was member of the Board of Directors of Grupo Financiero Interacciones companies. • He also served as Chairman of the Credit Committee of Banco Interacciones and in the Financial Group as Chairman of the Risk Committee and member of the Audit, Compensations and Corporate Practices Committees. • He is an Engineer in Electronics and Digital Systems from the Universidad Nacional Autónoma de México (UNAM) and holds an MBA from Texas University in Austin.
Everardo Elizondo Almaguer	Proprietary Independent Member	April 2010	Male	• He is an independent member of the Board of Directors of Compañía Minera Autlán. • He is an independent member of the Cemex Board of Directors. • He is an independent member of the Board of Directors of Gruma. • Founder and Director of the Graduate School of the Faculty of Economics, at Universidad Autónoma de Nuevo León. He is Professor of International Finance at EGADE, Business School, ITESM. • He was Director of Economic Studies of Grupo Industrial Alfa (Alfa Group). • He founded Consulting Agency Index, Economia Aplicada S.A. • He was Deputy Governor of the Mexican Central Bank. • He is Doctor Honoris Causa by Universidad Autónoma de Nuevo León, and graduated in Economics from the same institution. He holds a Master's Degree and Ph.D. in Economics, both from the University of Wisconsin-Madison.
Clemente Ismael Reyes Retana Valdés	Proprietary Independent Member	April 2017	Male	• He is a Managing Partner of the firm Reyes Retana Consultores, S.C. as of February 2008. • He was a consultant for Grupo Bal, Indeval, Envases y

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				Laminados, GNP Seguros and other companies engaged in real estate development, vehicle financing, pharma, manufacturing, and information technology. • He has acted as an independent professional director and chairman of several Auditing and Corporate Practices Committees in various companies, like Bolsa Mexicana de Valores and Grupo Comercial Chedraui. • He was Director of Administration and Finance (1992 to 1994) and Deputy General Director (1994 to 2008) at Invex Grupo Financiero, S.A.B. de C.V. • He has a degree in Actuarial Sciences from the National Autonomous University of Mexico.
Alfredo Elías Ayub	Proprietary Independent Member	April 2012	Male	• He is Chairman of the Board of Promociones Metropolis S.A de C.V. and is member of the Board of Iberdrola USA and Rotoplas. • He was CEO of the Comision Federal de Electricidad (Mexican Federal Electricity Commission, CFE), of Aeropuertos y Servicios Auxiliares (Airports and Auxiliary Services, ASA) and held several positions within the Ministry of Energy and Mining. • He was a member of the Alumni Council at Harvard Business School, Nacional Financiera, Multibanco Mercantil de Mexico and Banco Internacional. • He was Chairman of the Board of the Mexican Institute of Electric Research and of the Mexico Foundation at Harvard. • He is a Civil Engineer from Universidad Anahuac and holds an MBA from Harvard Business School.
Adrián Sada Cueva	Proprietary Independent Member	April 2013	Male	• He is Executive Managing Director and member of the Board of Directors of Vitro,

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				S.A.B. de C.V. and has held several Managerial positions within the Industrial Group. • He is a Member of the Board of Directors of Comegua, Club Industrial de Monterrey, Universidad de Monterrey and Camara de la Industria de Transformacion (CAINTRA) and GFNorte's Northern Regional Board. • He graduated in Business from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and holds an MBA from Stanford Business School.
David Peñaloza Alanís	Independent Regular Director	April 2019	Male	• He is CEO and Chairman of the Board of Directors of Promotora y Operadora de Infraestructura, S.A.B. de C.V. (PINFRA). • Formerly, worked at Société Générale, GBM and Serfín. • Bachelor's Degree in Public Accounting from Universidad Anáhuac and Graduate Degree in Business Administration from the University of Harvard.
José Antonio Chedraui Eguía	Proprietary Independent Member	April 2015	Male	• He is CEO of Grupo Comercial Chedraui. • He has held positions as Commercial Director and then as CEO of Comercial Las Galas. • He participates in the organizations Fundacion Chedraui, Young Presidents' Organization and Mexico Nuevo. • He holds a Bachelor's Degree in Accounting and Finance from Universidad Anahuac.
Alfonso de Angoitia Noriega	Proprietary Independent Member	April 2015	Male	• He is Executive Co-president and Chairman of the Finance Committee at Grupo Televisa, S.A.B. de C.V. He has served on the Board and Executive Committee and has held the position of Executive Vice President of Administration and Finance at Grupo Televisa. • He is member of the Board of Directors of Cablevision, S.A. de C.V., Innova, S. de R.L. de

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				C.V. (Sky), Cablemás Telecomunicaciones, S.A. de C.V., Operbes, S.A. de C.V. (Bestel), Televisión Internacional, S.A. de C.V., Grupo Axo, S.A.P.I. de C.V. and The Americas Society. • He is Chairman of the Board of Kardias Foundation and member of the UNAM Foundation and the Mexican Health Foundation. • Co-founder of the Law firm Mijares, Angoitia, Cortes y Fuentes, S.C. • He was a member of the Board of Grupo Modelo, S.A.B. de C.V. and The American School Foundation. • He holds a Bachelor's Degree in Law from the Universidad Autónoma de México (UNAM).
Thomas Stanley Heather Rodríguez	Proprietary Independent Member	April 2016	Male	• Partner at Creel, García-Cuellar, Auza y Nicolau Enriquez, S.C. and specializes in external funding, restructurings and securities offerings. • He is Legal Advisor of the Consejo Coordinador Empresarial (CCE) and is permanent member of the Committee for drafting the CCE's Code of Best Corporate Practices. • He is Independent member and Chairman of the CAPS at Gruma, S.A.B. de C.V. and Grupo Industrial Maseca, S.A.B. de C.V. • He is member of the Board of Directors and of the Audit and Corporate Practices Committee (CAPS) of Grupo Bimbo, S.A.B. de C.V. • He holds a Bachelor´s Degree in Law from Escuela Libre de Derecho with a Masters Degree from Texas (Austin) University - “Master o Comarative Jurispriudence- Financial Law”. Moreover, he holds several specialties from Universidad Panamericana, Universidad

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				Nacional Autónoma de México and New York University.
Graciela González Moreno	Alternate Member	April 2013	Female	• She is private accountant, graduated from Universidad Labastida in Monterrey, N.L. • She was accountant at the air conditioning factory Trane-Realven in Monterrey from 1967 to 1970. • From 1988 to 2010, she participated as founding partner and member of the Board of Directors of Asociacion Gilberto, A.C., being Vice President of it from 2007 to 2010.
Juan Antonio Gonzalez Marcos	Alternate Member	April 2014	Male	• He was Director of Marketing Projects at Mission Foods. • He holds a Bachelor's Degrees in Audio Production from SAE Institute of Melbourne and in Fine Arts from the University of North Texas. Furthermore, holds a Master in Fine Arts from University of Texas at Dallas.
Alberto Halabe Hamui	Independent Alternate Director	April 2014	Male	• He is Deputy General Director of Inmobiliaria IHM, S.A. de C.V. Director of Comercializadora de Viviendas Albatros, S.A. de C.V. and Nueva Imagen Construcciones, S.A. de C.V. • Also, member of the Administration and Operations Committee of St. Regis México. Formerly, member of the Board of Directors of Micro Financiera Finsol. • He holds a bachelor's Degree in Economics from Instituto Tecnológico Autónomo de México (ITAM), and has graduate studies in the Building and Real Estate Companies Management Program from the same Institution.
Gerardo Salazar Viezca	Independent Alternate Director	April 2019	Male	• He is the Managing Director of Risk and Credit Management of GFNorte. • CEO of Banco Interacciones from 2004 to 2018 and Risk Management Corporate Director of Grupo Financiero Interacciones from 2002 to 2004.

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				• Previously, he performed as Corporate Banking Director, at Bancomer and BBVA-Bancomer. • He holds a bachelor's Degree in Economics from Universidad Iberoamericana. • He has also stood out in academics as teacher and by virtue of his graduate studies, including PhD, master's degrees and specializations in Economics, Business Administration, Finance, and Social Science in institutions such as Tec de Monterrey, UIA (of which he was the Economics Department Director), ITAM, Harvard University, and New York Institute of Finance. • He has been the recipient of grants from different Boards and Foundations such as Conacyt and Fulbright. In terms of Corporate Governance, he is certified by the National Association of Corporate Directors (NACD) and the Director Consortium of the Universities of Stanford, Chicago and Darmouth.
Alberto Pérez-Jácome Friscione	Alternate Member	April 2020	Male	• He is the CEO of Hermes Infraestructura, S.A. de C.V., a company constituted in 2012 from the merger of Hermes Construcción, S.A. de C. V., Hermes Concesiones, S.A. de C.V. and Hermes Operación, S.A. de C.V. • He was CEO of Hermes Construcción, S.A. de C.V. from 2010 to 2012. • He was Executive Director of Hermes Corporativo, S.A. de C.V. from 2006 to 2010. • He served as Minister in the Permanent Representation of Mexico in the Organization for Economic Cooperation and Development (OECD) from 2003 to 2005. • He is an Industrial Engineer with Honors from Universidad Iberoamericana, holds a

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				Masters in Business from the Massachusetts Institute of Technology and a Masters in Public Administration from Harvard University (Fulbright).
Diego Martínez Rueda Chapital	Independent Alternate	April 2019	Male	• He is a Partner of the DLA Piper México, S.C. Law Firm, where he practices in Corporate Law with an emphasis on Banking and Capital Markets. • He has extensive experience in mergers and acquisitions and in real estate, especially in the Tourism, Industrial and Housing branches. • He was a Partner in the Cervantes Sainz office. • He was Director of Stock Market Projects at the National Banking and Securities Commission. • He has a Law Degree from Universidad Panamericana and a Masters in Laws from Georgetown University, with a specialization in banking, securities, and regulation of financial entities.
Roberto Kelleher Vales	Alternate Independent Member	April 2014	Male	• He is Chairman and partner in Volkswagen, Seat, and Audi dealerships and a tire company in Merida. • He is shareholder and Vice President of Inmobilia Desarrollos. • He was Chairman and member of the Volkswagen National Dealers Association and member of the Mexican Association of Car Dealers. • He is Industrial and Systems Engineer from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and has several financial and management specializations from the same institution. He also participated in the Advanced Management program from Instituto Panamericano de Alta Dirección (IPADE).
Cecilia Goya de Riviello Meade	Alternate Independent Member	April 2021	Female	• She is the Founding Partner and CEO of Balanceship Consultores, S.C., a firm

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				focused on the development and coaching of high-performance Teams and Leaders. • She is CEO of Grupo Acritus (Zapaterias Capa de Ozono and Dorothy Gaynor). • She has been a member of the board of public and private companies such as: Sicrea Autofinanciamiento, Grupo Ruz, Grupo Acritus, Ipeth, and Aguas Zoe; and currentl, member of the Board of Grupo Chedraui, Novelty, Bizarro Joyerias, Iluméxico, and Provive. • She has 30 years of experience in managing international and national business in areas such as general management, strategic planning, marketing and sales. She is also an expert in the management of financial statements and efficiency in business profitability. • She is a member of the IWF (International Women Forum), WCD (Women Corporate Directors), Vital Voices and an independent advisor to NGOs (Casa Hogar Alegria, Mitz and Wish-México, where she is also the President of the Board); She has been an active Mentor at Endeavor since 2004.
Isaac Becker Kabacnik	Alternate Independent Member	April 2002	Male	• Chairman of the textile company Becktel S.A. de C.V. and the jewelry company Becker e Hijos, S.A. de C.V. • He served as member of the Board of Directors of Multibanco Mercantil de Mexico. Participated as an active partner in Seguros Atlantida Multiba S.A. and as a member of its Executive Committee. • He was member of the Board of Directors of Multifac, S.A. de C.V., advisor of Value Casa de Bolsa S.A., and member of the board of the Asociacion de Joyeros de Mexico A.C.

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				• He is Civil Engineer graduated from Universidad Nacional Autónoma de México.
José María Garza Treviño	Alternate Independent Member	April 2014	Male	• Chairman of Grupo Garza Ponce. • He was member of the Board of Directors in Grupo Financiero BITAL, Finanzas Monterrey, Banca Afirme, and Banca Confia - Abaco Grupo Financiero. • He served as Vice President of the Mexican Camera of the Construction Industry and of the Mexican Association of Industrial Parks (A.M.P.I. P), as an adviser in COPARMEX and in the Owners of Real Estate Camera, and as Chairman of Civil Engineers Ex a Tec. • He is Civil Engineer from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and holds an MBA from the same institution.
Carlos Césarman Kolteniuk	Independent Alternate Director	April 2019	Male	• Currently, Member of the Board of Directors, Corporate Finance Director and Investor Relations Director of Promotora y Operadora de Infraestructura, S.A.B. de C.V. (PINFRA). • He worked at Industrias Campos Hermanos. • He foundend Inovamed, a company dedicated to the health industry. • He holds a bachelor's Degree in Economics from Universidad Anáhuac and is a professor in the Business Administration and Economics in Universidad Iberoamericana.
Humberto Tafolla Núñez	Alternate Independent Member	April 2018	Male	• He is the Director of Administration and Finance of Grupo Comercial Chedraui, S.A.B. of C.V. • He has more than 20 years of experience in financial areas. • He held the Finance Department of Industrias Mabe for 8 years. • He holds a degree in Business Administration from the Instituto

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				Tecnológico Autónomo de México (ITAM), a Diploma in Corporate Finance from the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and a Postgraduate in Business Administration and Management by the Instituto de Empresas (IE) of Madrid.
Guadalupe Phillips Margain	Alternate Independent Member	April 2015	Female	• She is CEO at ICA, and formerly, its Restructuring Director. • She is member of the Board of Directors of Más Fondos, S.A. de C.V., Grupo Televisa, S.A.B., Evercore Casa de Bolsa, S.A. and Innova, S. de R.L. de C.V. • She was Vice President and Director of Finance and Risk at Grupo Televisa, furthermore, she has held several positions such as Deputy Director of Foreigners Financial Intermediaries in the Minister of Finance (Secretaria de Hacienda y Crédito Público), Finance Director in Empresas Cablevisión. • She holds a Bachelor's degree in Law from Instituto Tecnológico Autónomo de México (ITAM) and a Master's degree and Ph.D. from Tufts University.
Ricardo Maldonado Yáñez	Alternate Independent Member	April 2016	Male	• He is a partner of the Law firm Mijares, Angoitia, Cortés y Fuentes, S.C. since 1999. • Member of the Board of Directors of several companies, such as: Biossman Group, Endeavor México, and Seadrill Couragious and Secretary of the Board of Directors of companies such as: Grupo Televisa, Consorcio Ara, Controladora Vuela Compañia de Aviación (Volaris) and Cablevisión. • He was an Associate of the Law firm, White & Case, New York Office from 1993 to 1995. • He holds a Bachelor's degree in Law from Universidad Nacional

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				Autónoma de México (UNAM) and a Master's degree in Law from the Law School of Chicago University

It is informed through this Annual Report that the Annual Ordinary General Shareholders' Meeting was held on April 22, 2022, in which was approved - among other resolutions - the Board of Directors for the fiscal year 2022 which will be comprised by 14 Proprietary and their respective Alternate members, accordingly:

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
Carlos Hank González	Chairman of the Board of Directors Proprietary Member	October 2014	Male	• He is Vice Chairman of the Board of Directors at Gruma. • He is a member of the Board of Directors of the Mexican Stock Exchange. • He is an Independent member of the Board of Directors of Televisa, • He is Chairman of the Board of Directors of Cerrey. • He is CEO of Grupo Hermes. • He was CEO of Grupo Financiero Interacciones, and Interactions Casa de Bolsa. • He was Deputy General Director of Grupo Financiero Banorte. • He has a degree in Business Administration, from Universidad Iberoamericana.
Juan Antonio González Moreno	Proprietary Member	April 2004	Male	• He is Chairman of the Board and CEO of Gruma and Gimsa. • He has been Managing Director of Gruma Asia and Oceania, Senior Vice Chairman of Special Projects of Gruma Corporation, Chairman of the Board and CEO of CarAmigo, Vice President of Central and East Regions of MissionFoods, Chairman and Vice President of sales of Azteca Milling. • He graduated in Business Management from Universidad Regiomontana and holds an MBA from San Diego University.
David Juan Villarreal Montemayor	Proprietary Member	October 1993	Male	• CEO and major shareholder of Artefactos Laminados, S. A. de C.V.

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				• He is Chairman of the Board of Directors and Deputy CEO of Inmobiliaria Montevi, S.A. de C.V. and Inmobiliaria Monyor S.A. de C.V. • He is a regional Advisor of Banco Nacional de Mexico, S.A. (Banamex) and Financial Advisor and Business Developer for SISMEX, Sistemas Mexicanos S.A. de C.V. • He is a Mechanical and Electrical Engineer from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM), holds a Master's Degree in Science in Automatic Control from the same institution, and participated in the Advanced Management program from Instituto Panamericano de Alta Direccion (IPADE).
José Marcos Ramírez Miguel	Proprietary Member	July 2011	Male	• CEO of Grupo Financiero Banorte and Banco Mercantil del Norte. • He held positions as Managing Director of Wholesale Banking and Chief Corporate Officer at Grupo Financiero Banorte. • He was Chairman of Asociacion Mexicana de Intermediarios Bursatiles. He also worked at Nacional Financiera, S.N.C., Banque Nationale de Paris and Banque Indosuez Mexico. Founded Finventia and served as interdisciplinary consultant at Peat Marwick Mexico. • He was CFO, Managing Director of Wholesale Banking, Managing Director of Santander Brokerage, and Executive Vice President of Grupo Financiero Santander. • He holds a Bachelor's Degree in Actuarial Science from Universidad Anahuac, a Post-graduate Degree in Finance from Instituto Tecnológico Autónomo de México (ITAM) and an MBA from E.S.A.D.E. in Barcelona, Spain.

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
Carlos de la Isla Corry	Proprietary Member	April 2016	Male	• He is Director of the Chairman´s Office in Grupo Hermes. • He was Managing Director of Risk and Credit Administration of Grupo Financiero Banorte. • He was Director of Administration and Finance of Hermes Group from 2003 to 2014, responsible for the industrial corporate, including tourism, transportation, construction and concessions' operations. He was member of the Board of Directors of the Industrial Group • He was member of the Board of Directors of Grupo Financiero Interacciones companies. • He also served as Chairman of the Credit Committee of Banco Interacciones and in the Financial Group as Chairman of the Risk Committee and member of the Audit, Compensations and Corporate Practices Committees. • He is an Engineer in Electronics and Digital Systems from the Universidad Nacional Autónoma de México (UNAM) and holds an MBA from Texas University in Austin.
Everardo Elizondo Almaguer	Proprietary Independent Member	April 2010	Male	• He is an independent member of the Board of Directors of Compañía Minera Autlán. • He is an independent member of the Cemex Board of Directors. • He is an independent member of the Board of Directors of Gruma. • Founder and Director of the Graduate School of the Faculty of Economics, at Universidad Autónoma de Nuevo León. He is Professor of International Finance at EGADE, Business School, ITESM. • He was Director of Economic Studies of Grupo Industrial Alfa (Alfa Group). • He founded Consulting Agency Index, Economia Aplicada S.A.

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				• He was Deputy Governor of the Mexican Central Bank. • He is Doctor Honoris Causa by Universidad Autónoma de Nuevo León, and graduated in Economics from the same institution. He holds a Master's Degree and Ph.D. in Economics, both from the University of Wisconsin-Madison.
Alicia Alejandra Lebrija Hirschfeld	Proprietary Independent Member	April 2022	Female	• She is currently Executive President of Fundación Televisa, a position she was appointed to in 2011. • She founded programs such as Bécalos - which has benefited more than 500 thousand students and teachers, and through technological programs that has benefited more than 2.5 million children, and through programs such as Tecnolochicas and Cuantrix she seeks to close gender gaps. She was Professor of Economics at ITAM in 1994 and was appointed Director of International Relations at the same institution on 1996. She left ITAM in 2006 to become Director of Education at Fundación Televisa. She was founder and director of the Institute for European Integration Studies, a joint program developed between the European Commission and ITAM (January 1999-December 2000); School Director (August 1995-August 1996) and Professor of the Economics Department, (January 1994-January 2003). At the Centro de Investigación y Docencia Económica (CIDE), she was Visiting Professor in the Department of International Studies (January-June 2000). At the Matías Romero Institute, at the Ministry of Foreign Affairs, she was Visiting Professor (April 1995-June 1997). And, at the Center for Economic Analysis and Research (CAIE), she was

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				Research Assistant (January-December 1989).
Clemente Ismael Reyes Retana Valdés	Proprietary Independent Member	April 2017	Male	• He is a Managing Partner of the firm Reyes Retana Consultores, S.C. as of February 2008. • He was a consultant for Grupo Bal, Indeval, Envases y Laminados, GNP Seguros and other companies engaged in real estate development, vehicle financing, pharma, manufacturing, and information technology. • He has acted as an independent professional director and chairman of several Auditing and Corporate Practices Committees in various companies, like Bolsa Mexicana de Valores and Grupo Comercial Chedraui. • He was Director of Administration and Finance (1992 to 1994) and Deputy General Director (1994 to 2008) at Invex Grupo Financiero, S.A.B. de C.V. • He has a degree in Actuarial Sciences from the National Autonomous University of Mexico.
Alfredo Elías Ayub	Proprietary Independent Member	April 2012	Male	• He is Chairman of the Board of Promociones Metropolis S.A de C.V. and is member of the Board of Iberdrola USA and Rotoplas. • He was CEO of the Comision Federal de Electricidad (Mexican Federal Electricity Commission, CFE), of Aeropuertos y Servicios Auxiliares (Airports and Auxiliary Services, ASA) and held several positions within the Ministry of Energy and Mining. • He was a member of the Alumni Council at Harvard Business School, Nacional Financiera, Multibanco Mercantil de Mexico and Banco Internacional. • He was Chairman of the Board of the Mexican Institute of

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				Electric Research and of the Mexico Foundation at Harvard. • He is a Civil Engineer from Universidad Anahuac and holds an MBA from Harvard Business School.
Adrián Sada Cueva	Proprietary Independent Member	April 2013	Male	• He is Executive Managing Director and member of the Board of Directors of Vitro, S.A.B. de C.V. and has held several Managerial positions within the Industrial Group. • He is a Member of the Board of Directors of Comegua, Club Industrial de Monterrey, Universidad de Monterrey and Camara de la Industria de Transformacion (CAINTRA) and GFNorte's Northern Regional Board. • He graduated in Business from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and holds an MBA from Stanford Business School.
David Peñaloza Alanís	Independent Regular Director	April 2019	Male	• He is CEO and Chairman of the Board of Directors of Promotora y Operadora de Infraestructura, S.A.B. de C.V. (PINFRA). • Formerly, worked at Société Générale, GBM and Serfín. • Bachelor’s Degree in Public Accounting from Universidad Anáhuac and Graduate Degree in Business Administration from the University of Harvard.
José Antonio Chedraui Eguía	Proprietary Independent Member	April 2015	Male	• He is CEO of Grupo Comercial Chedraui. • He has held positions as Commercial Director and then as CEO of Comercial Las Galas. • He participates in the organizations Fundacion Chedraui, Young Presidents’ Organization and Mexico Nuevo. • He holds a Bachelor’s Degree in Accounting and Finance from Universidad Anahuac.
Alfonso de Angoitia Noriega	Proprietary Independent Member	April 2015	Male	• He is Executive Co-president and Chairman of the Finance Committee at Grupo Televisa,

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				S.A.B. de C.V. He has served on the Board and Executive Committee and has held the position of Executive Vice President of Administration and Finance at Grupo Televisa. • He is member of the Board of Directors of Cablevision, S.A. de C.V., Innova, S. de R.L. de C.V. (Sky), Cablemás Telecomunicaciones, S.A. de C.V., Operbes, S.A. de C.V. (Bestel), Televisión Internacional, S.A. de C.V., Grupo Axo, S.A.P.I. de C.V. and The Americas Society. • He is Chairman of the Board of Kardias Foundation and member of the UNAM Foundation and the Mexican Health Foundation. • Co-founder of the Law firm Mijares, Angoitia, Cortes y Fuentes, S.C. • He was a member of the Board of Grupo Modelo, S.A.B. de C.V. and The American School Foundation. • He holds a Bachelor's Degree in Law from the Universidad Autónoma de México (UNAM).
Thomas Stanley Heather Rodríguez	Proprietary Independent Member	April 2016	Male	• Partner at Creel, García-Cuellar, Auza y Nicolau Enriquez, S.C. and specializes in external funding, restructurings and securities offerings. • He is Legal Advisor of the Consejo Coordinador Empresarial (CCE) and is permanent member of the Committee for drafting the CCE's Code of Best Corporate Practices. • He is Independent member and Chairman of the CAPS at Gruma, S.A.B. de C.V. and Grupo Industrial Maseca, S.A.B. de C.V. • He is member of the Board of Directors and of the Audit and Corporate Practices Committee (CAPS) of Grupo Bimbo, S.A.B. de C.V.

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				• He holds a Bachelor´s Degree in Law from Escuela Libre de Derecho with a Masters Degree from Texas (Austin) University - “Master o Comarative Jurispriudence- Financial Law”. Moreover, he holds several specialties from Universidad Panamericana, Universidad Nacional Autónoma de México and New York University.
Graciela González Moreno	Alternate Member	April 2013	Female	• She is private accountant, graduated from Universidad Labastida in Monterrey, N.L. • She was accountant at the air conditioning factory Trane-Realven in Monterrey from 1967 to 1970. • From 1988 to 2010, she participated as founding partner and member of the Board of Directors of Asociacion Gilberto, A.C., being Vice President of it from 2007 to 2010.
Juan Antonio Gonzalez Marcos	Alternate Member	April 2014	Male	• He was Director of Marketing Projects at Mission Foods. • He holds a Bachelor's Degrees in Audio Production from SAE Institute of Melbourne and in Fine Arts from the University of North Texas. Furthermore, holds a Master in Fine Arts from University of Texas at Dallas.
Alberto Halabe Hamui	Independent Alternate Director	April 2014	Male	• He is Deputy General Director of Inmobiliaria IHM, S.A. de C.V. Director of Comercializadora de Viviendas Albatros, S.A. de C.V. and Nueva Imagen Construcciones, S.A. de C.V. • Also, member of the Administration and Operations Committee of St. Regis México. Formerly, member of the Board of Directors of Micro Financiera Finsol. • He holds a bachelor’s Degree in Economics from Instituto Tecnológico Autónomo de México (ITAM), and has graduate studies in the Building and Real Estate Companies Management Program from the same Institution.

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
Gerardo Salazar Viezca	Independent Alternate Director	April 2019	Male	• He is the Managing Director of Risk and Credit Management of GFNorte. • CEO of Banco Interacciones from 2004 to 2018 and Risk Management Corporate Director of Grupo Financiero Interacciones from 2002 to 2004. • Previously, he performed as Corporate Banking Director, at Bancomer and BBVA-Bancomer. • He holds a bachelor's Degree in Economics from Universidad Iberoamericana. • He has also stood out in academics as teacher and by virtue of his graduate studies, including PhD, master's degrees and specializations in Economics, Business Administration, Finance, and Social Science in institutions such as Tec de Monterrey, UIA (of which he was the Economics Department Director), ITAM, Harvard University, and New York Institute of Finance. • He has been the recipient of grants from different Boards and Foundations such as Conacyt and Fulbright. In terms of Corporate Governance, he is certified by the National Association of Corporate Directors (NACD) and the Director Consortium of the Universities of Stanford, Chicago and Darmouth.
Alberto Pérez-Jácome Friscione	Alternate Member	April 2020	Male	• He is the CEO of Hermes Infraestructura, S.A. de C.V., a company constituted in 2012 from the merger of Hermes Construcción, S.A. de C. V., Hermes Concesiones, S.A. de C.V. and Hermes Operación, S.A. de C.V. • He was CEO of Hermes Construcción, S.A. de C.V. from 2010 to 2012. • He was Executive Director of Hermes Corporativo, S.A. de C.V. from 2006 to 2010.

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				• He served as Minister in the Permanent Representation of Mexico in the Organization for Economic Cooperation and Development (OECD) from 2003 to 2005. • He is an Industrial Engineer with Honors from Universidad Iberoamericana, holds a Masters in Business from the Massachusetts Institute of Technology and a Masters in Public Administration from Harvard University (Fulbright).
Diego Martínez Rueda Chapital	Independent Alternate	April 2019	Male	• He is a Partner of the DLA Piper México, S.C. Law Firm, where he practices in Corporate Law with an emphasis on Banking and Capital Markets. • He has extensive experience in mergers and acquisitions and in real estate, especially in the Tourism, Industrial and Housing branches. • He was a Partner in the Cervantes Sainz office. • He was Director of Stock Market Projects at the National Banking and Securities Commission. • He has a Law Degree from Universidad Panamericana and a Masters in Laws from Georgetown University, with a specialization in banking, securities, and regulation of financial entities.
Roberto Kelleher Vales	Alternate Independent Member	April 2014	Male	• He is Chairman and partner in Volkswagen, Seat, and Audi dealerships and a tire company in Merida. • He is shareholder and Vice President of Inmobilia Desarrollos. • He was Chairman and member of the Volkswagen National Dealers Association and member of the Mexican Association of Car Dealers. • He is Industrial and Systems Engineer from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and has several financial and management

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				specializations from the same institution. He also participated in the Advanced Management program from Instituto Panamericano de Alta Dirección (IPADE).
Cecilia Goya de Riviello Meade	Alternate Independent Member	April 2021	Female	• She is the Founding Partner and CEO of Balanceship Consultores, S.C., a firm focused on the development and coaching of high-performance Teams and Leaders. • She is CEO of Grupo Acritus (Zapaterias Capa de Ozono and Dorothy Gaynor). • She has been a member of the board of public and private companies such as: Sicrea Autofinanciamiento, Grupo Ruz, Grupo Acritus, Ipeth, and Aguas Zoe; and currentl, member of the Board of Grupo Chedraui, Novelty, Bizarro Joyerias, Iluméxico, and Provive. • She has 30 years of experience in managing international and national business in areas such as general management, strategic planning, marketing and sales. She is also an expert in the management of financial statements and efficiency in business profitability. • She is a member of the IWF (International Women Forum), WCD (Women Corporate Directors), Vital Voices and an independent advisor to NGOs (Casa Hogar Alegria, Mitz and Wish-México, where she is also the President of the Board); She has been an active Mentor at Endeavor since 2004.
Isaac Becker Kabacnik	Alternate Independent Member	April 2002	Male	• Chairman of the textile company Becktel S.A. de C.V. and the jewelry company Becker e Hijos, S.A. de C.V. • He served as member of the Board of Directors of Multibanco Mercantil de Mexico. Participated as an active partner in Seguros Atlantida Multiba

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				S.A. and as a member of its Executive Committee. • He was member of the Board of Directors of Multifac, S.A. de C.V., advisor of Value Casa de Bolsa S.A., and member of the board of the Asociacion de Joyeros de Mexico A.C. • He is Civil Engineer graduated from Universidad Nacional Autónoma de México.
José María Garza Treviño	Alternate Independent Member	April 2014	Male	• Chairman of Grupo Garza Ponce. • He was member of the Board of Directors in Grupo Financiero BITAL, Finanzas Monterrey, Banca Afirme, and Banca Confia - Abaco Grupo Financiero. • He served as Vice President of the Mexican Camera of the Construction Industry and of the Mexican Association of Industrial Parks (A.M.P.I. P), as an adviser in COPARMEX and in the Owners of Real Estate Camera, and as Chairman of Civil Engineers Ex a Tec. • He is Civil Engineer from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and holds an MBA from the same institution.
Carlos Césarman Kolteniuk	Independent Alternate Director	April 2019	Male	• Currently, Member of the Board of Directors, Corporate Finance Director and Investor Relations Director of Promotora y Operadora de Infraestructura, S.A.B. de C.V. (PINFRA). • He worked at Industrias Campos Hermanos. • He foundend Inovamed, a company dedicated to the health industry. • He holds a bachelor's Degree in Economics from Universidad Anáhuac and is a professor in the Business Administration and Economics in Universidad Iberoamericana.
Humberto Tafolla Núñez	Alternate Independent Member	April 2018	Male	• He is the Director of Administration and Finance of

NAME	POSITION	WITH THE COMPANY SINCE	GENDER	PROFESSIONAL BACKGROUND
				Grupo Comercial Chedraui, S.A.B. of C.V. • He has more than 20 years of experience in financial areas. • He held the Finance Department of Industrias Mabe for 8 years. • He holds a degree in Business Administration from the Instituto Tecnológico Autónomo de México (ITAM), a Diploma in Corporate Finance from the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and a Postgraduate in Business Administration and Management by the Instituto de Empresas (IE) of Madrid.
Guadalupe Phillips Margain	Alternate Independent Member	April 2015	Female	• She is CEO at ICA, and formerly, its Restructuring Director. • She is member of the Board of Directors of Más Fondos, S.A. de C.V., Grupo Televisa, S.A.B., Evercore Casa de Bolsa, S.A. and Innova, S. de R.L. de C.V. • She was Vice President and Director of Finance and Risk at Grupo Televisa, furthermore, she has held several positions such as Deputy Director of Foreigners Financial Intermediaries in the Minister of Finance (Secretaria de Hacienda y Crédito Público), Finance Director in Empresas Cablevisión. • She holds a Bachelor's degree in Law from Instituto Tecnológico Autónomo de México (ITAM) and a Master's degree and Ph.D. from Tufts University.
Ricardo Maldonado Yáñez	Alternate Independent Member	April 2016	Male	• He is a partner of the Law firm Mijares, Angoitia, Cortés y Fuentes, S.C. since 1999. • Member of the Board of Directors of several companies, such as: Biossman Group, Endeavor México, and Seadrill Couragious and Secretary of the Board of Directors of companies such as: Grupo

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				Televisa, Consorcio Ara, Controladora Vuela Compañia de Aviación (Volaris) and Cablevisión. • He was an Associate of the Law firm, White & Case, New York Office from 1993 to 1995. • He holds a Bachelor's degree in Law from Universidad Nacional Autónoma de México (UNAM) and a Master's degree in Law from the Law School of Chicago University

According with Article Thirty-three of the Corporate By-laws, the functions and faculties of the Board of Directors are:

I. Establish the general strategies of the Financial Group and the general strategies for the management, direction and execution of the business of the Company, Financial Entities and, as the case may be, Subholding Companies.

II. Oversee, through the Corporate Practices Committee, the management and direction of the Company, the Financial Entities and, as the case may be, Subholding Companies of which the Company has control, considering for that purpose the importance of the latter in the financial, administrative and legal standing of the Financial Group as a whole, as well as the performance of the Relevant Senior Officers, upon the terms of Articles 56 to 58 of the Law to Regulate Financial Groups.

III. Approve, upon prior opinion of the relevant Committee:

a) The policies and guidelines for the use by related parties of the assets that comprise the wealth of the Company and Financial Entities and of all the other persons controlled by it.

b) The acts, individually, with related parties intended to be executed by the Company.

The acts stated below shall not require approval of the Board of Directors as long as they meet the policies and guidelines approved to such effect by the Board of Directors:

1. Those which, by virtue of their amount, are not important for the Financial Group as a whole, upon the terms of the rules of a general nature that regulate the terms and conditions for the incorporation of holding companies and the operation of financial groups.

2. The acts executed between the Company and Financial Entities members of the Financial Group and, as the case may be, Subholding Companies, as long as: i) They are of the ordinary or customary line of business, and ii) they are deemed to be made at market prices or supported by appraisals made by external specialist agents.

3. Those executed with employees of the Company, Financial Entities members of the Financial Group or, as the case may be, Subholding Companies, provided that they are executed upon the same conditions as with any client or as a result of labor benefits of a general nature.

a) The acts executed either simultaneously or successively, which by virtue of their characteristics may be considered as a single operation and that are intended to be executed by the Company or Financial Entities members of the Financial Group or, as the case may be, by the Subholding Companies, within one fiscal year, whenever they are unusual or non-recurring or their amount represents, based on figures corresponding to the closing of the next preceding quarter, in any of the following events:

   1. The acquisition or disposal of assets with a value equal to or higher than five percent of the consolidated assets of the Financial Group.

   2. The granting of guarantees or the assumption of liabilities by an aggregate amount equal to or higher than five percent of the consolidated assets of the Financial Group.

   Investments in debt securities or in banking instruments are excepted from the foregoing, as long as they are made pursuant to the policies approved by the board of directors itself to such effect.

b) The appointment and, as the case may be, removal of the CEO of the Company and his integral compensation, as well as the designation and integral compensation policies of the other Relevant Senior Officers.

c) The policies for the granting of loans or any type of credits or guarantees to Related Parties.

d) The releases for a director, Relevant Senior Officer or person with a Power of Command to take advantage of business opportunities for himself or in favor of third parties corresponding to the Company, Financial Entities or, as the case may be, Subholding Companies. The releases for transactions which amount is less than that mentioned in subparagraph c) of this section may be delegated to any of the committees of the Company in charge of audit or corporate practices functions referred to in the Law to Regulate Financial Groups.

e) The guidelines concerning internal control and internal audit of the Company and of Financial Entities or, as the case may be, Subholding Companies.

f) The accounting policies of the Company in compliance with the provisions of the Law to Regulate Financial Groups.

g) The financial statements of the Company.

h) The contracting of the legal entity that provides external audit services and, as the case may be, services additional or supplementary to external audit services.

Whenever the determinations of the board of directors are not in line with the opinions provided by the relevant committee, such committee must instruct the CEO to disclose such circumstance to public investors through the securities exchange where the shares of the Company or credit instruments representing them are listed, in compliance with the terms and conditions established by such exchange in its internal regulations, to the general shareholders meeting held after such act, as well as the CNBV, within 10 business days following the corresponding determination.

These authorizations do not release from the compliance with the obligations vis-à-vis related parties established in special laws of each of the financial entities members of the Financial Group.

IV. Submit to the General Shareholders' Meeting held by virtue of the closing of the fiscal year:

a) The reports referred to in Article 58 of the Law to Regulate Financial Groups.

b) The report prepared by the CEO pursuant to Article 59, section X, of the Law to Regulate Financial Groups, accompanied by the opinion of the external auditor.

c) The opinion of the Board of Directors on the contents of the report of the CEO referred to in subparagraph b) above.

d) The report referred to in Article 172, subparagraph B) of the General Law of Business Corporations containing the main accounting and information policies and criteria followed in the preparation of financial information.

e) The report on the operations and activities in which it shall have participated pursuant to the provisions of the Securities Market Law and the Law to Regulate Financial Groups.

V. Monitor the main risks to which the Company and Financial Entities members of the Financial Group and, as the case may be, Subholding Companies, are exposed, identified based on the information provided by the committees, the CEO and the legal entity that provides external audit services, as well as accounting, internal control and internal audit, registration, file or information systems, of the former and the latter, which may be done through the audit committee.

VI. Approve information and communication policies with the shareholders and the market, and with the Board Members and Relevant Senior Officers, in order to comply with the provisions of the Law to Regulate Financial Groups.

VII. Determine the corresponding actions in order to remedy the known irregularities and implement the corresponding corrective measures.

VIII. Establish the terms and conditions to which the CEO shall be subject in exercise of his authorities for acts of ownership.

IX. Direct the CEO to publicly disclose the relevant events known to him. The foregoing, without prejudice of the obligation of the CEO referred to in Article 44, section V, of the Securities Market Law.

X. Represent the Company before all kinds of individuals and legal entities and before administrative, judicial or other authorities, whether municipal, state or federal, and before local or federal labor authorities, before the different Ministries of the State, the Tax Court of the Federation, the Mexican Social Security Institute, regional offices and other agencies of such Institute and before arbiters or arbitrators, with a general power-of-attorney for lawsuits and collections; therefore, the fullest general authorities referred to in Article 2554 of the Civil Code for the Federal District are deemed to be granted, and with the special authorities that require an express reference according to sections I, II, III, IV, V, VI, VII and VIII of Article 2587 of such civil code; therefore, without limitation, it may:

a) Settle and submit to arbitrators;
b) File and withdraw from all kinds of lawsuits and remedies;
c) File “amparo” proceedings and withdraw therefrom;

d) File and ratify criminal claims and complaints and meet the requirements of the latter and withdraw therefrom;
e) Become an assistant of the Federal or Local Public Prosecutor;
f) Grant pardon in criminal proceedings;
g) File or answer interrogatories in all kinds of lawsuits, including labor lawsuits, provided, however, that the authority to answer them may only be exercised through the individuals designated to such effect by the Board of Directors, upon the terms of section X of this Article; therefore, any other officers or attorneys-in-fact of the Company are absolutely excluded from the enjoyment thereof; and
h) Obtain allocations of assets, assign assets, file auction positions, challenge, and receive payments.

XI. Appear before all kinds of labor authorities, whether administrative or jurisdictional, local or federal; act within the corresponding procedural or non-procedural proceedings from the stage of conciliation to the stage of labor execution; and execute all kinds of agreements, upon the terms of Articles 11, 787 and 876 of the Federal Labor Law;

XII. Manage the business and corporate assets with the fullest general power-of-attorney of administration, upon the terms of Article 2554 of the Federal Civil Code;

XIII. Issue, subscribe, grant, accept or endorse credit instruments upon the terms of Article 9 of the General Law of Credit Instruments and Operations;

XIV. Open and cancel banking accounts in the name of the Company, and to make deposits and draw against them and designate persons to draw against them;

XV. Exercise acts of disposal and ownership with respect to the assets of the Company or their real or personal rights, upon the terms of paragraph three of Article 2554 of such Civil Code, with the special authorities provided by sections I, II and V of Article 2554 thereof;

XVI. Grant general or special powers-of-attorney, reserving at all times the exercise thereof, and to revoke the powers-of-attorney it may grant;

XVII. Establish rules on the structure, organization, makeup, functions and authorities of the Executive Commission of the Board of Directors, the Regional Boards, the Internal Committees and labor commissions that may be deemed necessary; designate their members and establish their compensations;

XVIII. Prepare its internal labor regulations;

XIX. Grant the powers-of-attorney it may deem appropriate to the officers of the Company or any other individuals, and revoke those which are granted and, pursuant to the provisions of the applicable laws, delegate their authorities to the CEO or any of them to one or several of the Board Members or the Attorneys-in-Fact designated to such effect, to be exercised in the business and upon the terms and conditions stated by the Board of Directors;

XX. Delegate, in favor of the individuals it may deem appropriate, the legal representation of the Company, grant them the use of the corporate signature and grant them a general power-of-attorney for lawsuits and collections, with the fullest general authorities referred to in the first paragraph of Article 2554 of the Federal Civil Code and the special authorities that require an express reference pursuant to sections III, IV, VI, VII and VIII of Article 2587 thereof, so that, without limitation, they may:

a) Appear as legal representatives of the Company in any administrative, labor, judicial or other proceedings or processes and, in such capacity, take all kinds of actions and, specifically, file or answer interrogatories in the name of the Company, appear, in the conciliatory term, before boards of conciliation and arbitration; participate in the respective formalities; and execute all kinds of agreements with employees;

b) Carry out all the legal acts referred to in section I of this Article;

c) Substitute the powers and authorities in question, without affecting their own, and grant and revoke powers-of-attorney;

XXI. Resolve on the acquisition, lien or transfer of shares owned by the Company, issued by other companies.

XXII. In general, it shall have all the authorities necessary to perform the management entrusted to it and, consequently, may perform all operations and legal and material acts which are directly or indirectly related to the corporate purpose defined in Article Three of these Corporate Bylaws and the supplementary activities listed in Article Four thereof, without limitation. The references made in this Article to the Articles of the Federal Civil Code are deemed to be made to the correlative Articles of the Civil Codes for the states and the Civil Code for the Federal District, according to the territory where the power-of-attorney is exercised, and all the others set forth in the Securities Market Law and the Law to Regulate Financial Groups.

The Board of Directors shall oversee the performance of the resolutions of Shareholders Meetings, which must be done through the committee that exercises the auditing authorities referred to in the Securities Market Law.

Shareholders 2021

There is no direct individual shareholding of the Directors and main officers in the Company, with a position greater than 1%, according to the lists of shareholders prepared by virtue of the Ordinary General Shareholders' Meeting held on November 19, 2021.

According to the shareholder listings prepared for the aforementioned Meetings, the names of the 10 main shareholders of GFNorte are:

BANCO INVEX S A FIDEICOMISO 1204
SSB OM01 CLIENT OMNIBUS A
STATE STREET BANK CLIENT OMNIB OU80
JPMCB NA CLIENT ASSETS NON TREATY
BNYM AS AGT/CLTS
CBNY-GIC PTE LTD
ISHARES NAFTRAC ACTIVOS
THE BANK OF NEW YORK MELLON DR
JPM VANGUARD BBH LENDING ACCOUNT
CBNY GOVERNMENT OF NORWAY

The following Support Committees for the Board of Directors and the CEO are updated as of December 31, 2021:

Support committees for GFNorte's Board of Directors

The established support Committees for the Board of Directors of GFNorte are the:

1. Risk Policies Committee (CPR)
2. Audit and Corporate Practices Committee (CAPS)
3. Human Resources Committee
4. Designation Committee

The Board of Directors have the faculty to designate the members of the referred Committees.

Committees are made up of GFNorte's Board Members (mainly Independent) and, in some of them, officers of the institution. The Board is responsible for authorizing Committees' bylaws and evaluating management.

The Chairman of the Audit and Corporate Practices Committee is designated by GFNorte's General Shareholders' Meeting.

RISK POLICIES COMMITTEE (CPR)

Objective:

To manage the risks that the Institution is exposed to and oversee that its operations are adjusted to meet objectives, policies and procedures for the Comprehensive Risk Management, as well as to the global limitations of risk exposure approved by the Board.

Functions:

1. To propose for approval by the Board of Directors:
    A. Objectives, guidelines and policies for a comprehensive risk management, as well as the amendments made to them.
    B. The overall limits of risk exposure and, if the case, specific risk exposure limits considering Consolidated Risk, broken down by business unit or risk factor, cause or origin of them, taking into account, as appropriate, the provisions of Articles 79 to 86 Bis 2 of the General Provisions applicable to credit institutions as well as, where appropriate, risk tolerance levels.
    C. Mechanisms for the implementation of corrective measures.
    D. Special cases or circumstances in which specific or global limitations could be exceeded.
    E. At least once a year, the assessment of Sufficiency of Capital including the estimation of capital and, where appropriate, the capitalization plan.
    F. A contingency Plan and its amendments.

2. To approve:
    A. Specific risk exposure limits and levels of risk tolerance when the Board delegates any powers for this purpose, as well as the liquidity risk indicators referred to in Article 81, Section VIII of the General provisions applicable to credit institutions.
    B. Methodology and procedures to identify, measure, monitor, limit, control, inform and disclose the different types of risk which the institution is exposed to, as well as their modifications.
    C. Models, parameters, scenarios, assumptions, including those relating to stress tests referred to in Annex 12-B of the General Provisions applicable to credit institutions, which are used to perform the assessment of Capital Sufficiency and that will be used to carry out the valuation, measurement and control of risks proposed by the unit for the comprehensive risk management which must be commensurate with the technology of the institution.
    D. Methodologies for the identification, valuation, measurement and control of the risks of new

operations, products and services that the institution intends to offer to the market.

E. Corrective plans proposed by the CEO under the terms established in Article 69 of the of the General Provisions applicable to credit institutions.
F. The evaluation of aspects of the comprehensive risk management referred to in Article 77 of the General Provisions Applicable to Credit Institutions, for submission to the Board and to the CNBV.
G. The manuals for Comprehensive Risk Management, in accordance with the objectives, guidelines and policies established by the Board, as referred to in the last paragraph of Article 78 of the General Provisions Applicable to Credit Institutions.
H. The designation or removal of the Responsible of the Comprehensive Risk Management Unit, which must be ratified by the Board of Directors.
I. Methodologies to estimate the quantitative and qualitative impacts of the Operating Contingencies referred to in section XI, Article 74 of the General Provisions Applicable to Credit Institutions.

3. Inform the Board of Directors:
   A. At least quarterly, report the risk profile and the fulfillment of the capital estimate contained in the of the institution's Adequacy of Capital Assessment, as well as the negative effects that may occur in the operation of the institution. Likewise, it shall inform the Board in the session immediately following, or in an extraordinary session if necessary, on failure to comply with the desired risk profile, risk exposure limits and risk tolerance levels, as well as, if the case, the capitalization plan referred to in Article 2 Bis 117c of the General Provisions Applicable to Credit Institutions.
   B. Implemented corrective measures, including those on the Equity Forecast Plan and, if the case, capitalization plan, according to Article 69 of the General Provisions Applicable to Credit Institutions.
   C. At least once a year, on the outcome of testing the effectiveness of the Business Continuity Plan.

4. Review at least once a year:
   A. Mechanisms for the implementation of corrective measures.
   B. Specific risk exposure limits and tolerance levels when the Board delegates powers for this purpose, as well as the liquidity risk indicators referred to in Article 81, Section VIII of the General Provisions Applicable to Credit Institutions.
   C. Methodologies and procedures to identify, measure, monitor, limit, control, inform and reveal the various types of risk to which the institution is exposed, as well as their possible modifications.
   D. Models, parameters, scenarios, assumptions, including those relating to stress tests referred to in Annex 12-B of the General Provisions applicable to credit institutions, used to assess capital adequacy and to carry out the valuation, measurement and control of risks proposed by the unit for the comprehensive risk management which must be commensurate with the technology of the institution.

5. Ensure at all times that personnel involved in risk taking is aware of the desired risk profile, desired risk exposure limits, risk tolerance levels, as well as the Capital Projections Plan and, where appropriate, the capitalization plan.

The Risk Policy Committee, with prior approval from the Board of Directors, may, in accordance with the objectives, guidelines and policies for comprehensive risk management, adjust or authorize in an exceptional manner, the exceeding of specific risk exposure limits when the conditions and environment of the institution so require. In the same terms, the Committee may request the governing body to establish or authorize, as an exception, exceeding the overall limits of risk exposure.

Frequency of the sessions: sessions must convene each month. All sessions and agreements must be recorded in the minutes and signed by each and every one of the attendees.

Structure: According to Article 70 of the General Provisions Applicable to Credit Institutions, the CPR should be comprised of at least two proprietary members of the Board of Directors (one of whom will preside); the CEO and the Responsible for the Comprehensive Risk Management Unit. Additionally, the Internal Auditor and invited persons may participate with voice but without vote.

In addition to what's required by the applicable regulation, the Board Members comprising the CPR should be independent members. Each member has the right for a vote, and resolutions must be approved by a majority vote of the attending members.

MEMBERS	
Carlos de la Isla Corry	Proprietary Member (Chairman)
Clemente Ismael Reyes Retana Valdés	Proprietary Independent Member
Everardo Elizondo Almaguer	Proprietary Independent Member
Thomas Stanley Heather Rodríguez	Proprietary Independent Member
Diego Martínez Rueda-Chapital	Proprietary Independent Member
José Marcos Ramírez Miguel	CEO - GFNorte
Gerardo Salazar Viezca	MD Risk and Credit Management/ UAIR/ Secretary

Quorum: Two Proprietary Board Members, CEO of the corresponding entity and the Committee's Secretary.

Decisions will be adopted by the unanimous vote of those present.

AUDIT AND CORPORATE PRACTICES COMMITTEE (CAPS)

Objective: To support the Board of Directors in monitoring the management, performance and execution of the GFNorte's businesses and of the financial entities comprising it, considering the relevance that these have in the financial, administrative, operational, and legal situation of GFNorte; as well as the compliance with the General Shareholders' Meeting's resolutions.

Faculties:

The Committee as the support government body to the Board of Directors, will have the faculty to comply with duties and perform the functions defined in the following operating rules:

1. Request the opinion of independent experts in such cases where it is judged to be convenient, for the appropriate performance of their functions.
2. Have full availability of book, registers, facilities and the support of the employees' entities under its responsibility.
3. Require relevant officers and other employees of GFNorte and the financial entities comprising it, regarding the elaboration of financial and of any other type of information that it considers necessary for the execution of their duties.
4. Do research on the possible non-fulfillment of those with knowledge regarding operational policies and guidelines, the Internal Control System, internal audit and accounting registration system, either of GFNorte or the financial entities, through an examination of documentation, registrations and other proof or evidence,

to the extent necessary to fulfill this supervision.

5. Receive observations expressed by shareholders, Board Members, relevant officers, employees and, by any third party in general, regarding matters referred to in the previous paragraph, as well as to carry out actions that are reasonable in their opinion in connection with such observations.
6. Request periodic meetings with the relevant officers, as well as the delivery of any type of information related to the internal control and internal audit of the Group or the financial entities that comprise it.
7. Meet with the Board of Director, relevant GFNorte's officers, internal comptroller, Internal and external auditor, authorities and investors.

The Committee, in the development of its activities, shall establish the necessary procedures for the general performance of its duties. In any case, Committee members shall take as a basis for their activities, information prepared by the Internal Comptroller, Internal and External Auditors as well as by the Management.

Structure: Comprised exclusively by independent Board Members, with at least three and no more than five board members, all designated by GFNorte's Board of Directors, and proposed by its Chairman.

Each member of the Committee has the right for one vote and resolutions must be approved by a majority vote of the attending members; in the event of a tie, the Chairman of this Committee shall have the deciding vote. In the event that a member or the secretary of this committee has a conflict of interest with any specific matter, should abstain to participate in the voting process, not affecting the required quorum for Committee.

MEMBERS		
Thomas Stanley Heather Rodríguez	Proprietary Independent Member	Chairman*
Everardo Elizondo Almaguer	Proprietary Independent Member	Member
Clemente Ismael Reyes Retana Valdés	Proprietary Independent Member	Member
Diego Martínez-Rueda Chapital	Alternate Independent Member	Member
Anwar Loera Mendoza	Secretary	Not Member

Quorum: Sessions of the CAPS are valid with a majority participation of its members, provided that the Chairman is present or whoever has been designated as his alternate.

Internal Control System

A. Monitor the establishment of mechanisms and internal controls that enable verification that acts by GFNorte and its financial entities adhere to applicable regulations, as well as implement methodologies that make it possible to check compliance with the foregoing. (LRAF Article 57 Section II Subsection p).
B. Report the situation of the Internal Control System to the Board of Directors of GFNorte and the financial institutions it is accountable for or legal entities in which it exercises control, including irregularities detected, if the case. (LRAF Article 57 Section II Subsection d).

Accounting and Financial Information

A. Discuss and revise GFNorte's financial statements with the persons responsible for its preparation, and based on that, to recommend or not the Board's approval. (LRAF Article 57 Section II Subsection c).
B. Review significant accounting and reporting issues, including complex or unusual transactions as well as professional declarations and recent regulations, and understand its impact on the financial statements.
C. Review the verdict of the annual financial statements with Management and with the Internal and External Auditors, prior to submission to regulatory authorities.
D. Select and approve the hiring of the independent expert who will perform impairment testing of goodwill.
E. Review the results of the goodwill impairment test.

Internal Comptrollership

A. Follow-up on the Internal Comptroller's activities, keeping the Board informed of its performance. (CUB Article 144)
B. Review the management report prepared by the responsible for the Internal Comptroller's functions which is delivered to the Committee and to the CEO at least twice a year. (CUB Article 167)
C. Review the reports presented by the Internal Comptroller on the results of the inspection visits, which were carried out by supervising agencies.

Internal Audit

A. Follow-up on the Internal Auditor's activities, keeping the Board informed of its performance. (CUB Article 144)
B. Monitor the independence of the Internal Audit area about the other business and administrative units. Any lack of independence must be reported to the Board. (CUB Article 156 Section IV)
C. Inform the Board of Internal Audit's situation in GFNorte, its financial or legal entities or corporations in which it exercises control, including any detected irregularities, if the case. (LRAF Article 57 Section II Subsection d)
D. Approve the Bylaws of Internal Audit's function.

   With the prior opinion of the CEO, to approve the annual work program of the Internal Audit area. (CUB Article 156 Section VIII). If the case, amendments to the referred annual program should be presented for the approval of the Committee, in the next session.

E. Review, based on reports from the Internal Audit area and the External Auditor, at least once a year or when required by the CNBV, that the Internal Audit program is carried out in accordance with appropriate quality standards in accounting matters and internal controls, and that the activities of the Internal Audit area are carried out effectively. (CUB Article 156 Section III).
F. Review the report prepared by the head of Internal Audit functions on the results of its management, at least every six months or as frequently as the Committee requires. The foregoing, notwithstanding that the head of Internal audit functions learns of, immediately, the detection of any deficiency or deviation identified in the exercise of their functions and that according to the Internal Control System is considered significant or relevant. (CUB article 161).
G. Approve the hiring of service providers for the external evaluation of the quality of Internal Audit's performance.
H. Review the results of internal and external quality assessments carried out for Internal Audit's functions and where appropriate, to follow-up on the implementation of certain recommendations.
I. Review, at least annually, the organization's structure, capabilities and the adequacy of resources allocated to the Internal Audit area for the performance of its functions and, where appropriate, approve actions required in order to ensure the greatest effectiveness in the fulfillment of its objectives and goals.
J. Meet regularly with the Internal Auditor, without the presence of management for comments and observations on the progress of its work. (CMPC Practice 23, Section IV).

External Audit

Designation or annual ratification of the External Auditor

A. Monitor and document that, prior to the designation or annual ratification of the contracting of the Firm that will provide said services, they adhere to the provisions of the provisions.

B. Validate the knowledge and professional experience of the Independent External Auditor, the Manager and Audit Officer who will participate in the external audit, as well as compliance with the requirements established in the provisions by the Firm, Independent External Auditor and participating personnel in the external audit, and must have a documented, transparent and impartial process that allows it to assess compliance with these requirements. In cases in which it is intended to propose the appointment of another Office, you must previously evaluate at least two options and duly justify the preference for one of them, so that there is a possibility of choosing considering compliance with the aforementioned requirements. .

Contracting with the Firm

A. Validate, prior to the appointment of the Firm, that both it and the Independent External Auditor comply with the personal, professional and independence requirements established in the provisions for the provision of the external audit service and, where appropriate, the services other than the external audit of Basic Financial Statements.
B. Obtain from the Office, the statement on compliance with the quality control norm corresponding to the audited exercise, presented before the professional association recognized by the Ministry of Public Education to which said Office belongs or, when the college in question such manifestation does not require, the one issued by the Firm itself regarding the fulfillment of the obligation referred to in the provisions.
C. Opinion, prior to the appointment of the Firm, regarding whether the resources proposed to execute the external audit program are reasonable considering the scope of the audit, the nature and complexity of the Entity's operations and its structure.
D. Review the terms of the audit engagement, prior to signing the service provision contract.

External Auditing activities follow up

A. Contribute to the internal audit area or the internal auditor facilitating the development of external audit activities.
B. Encourage GFNorte to have policies that allow it to have personnel in charge of preparing, reviewing and authorizing accounting, as well as the Basic Financial Statements and their notes, subject to external audit, and with the knowledge of accounting regulations that are applicable to GFNorte. In relation to the external audit:
    1. Know, at the beginning of the external audit work, the focus of the review, taking into account the level of materiality, the scope of the scheduled audit, the hours assigned to each work, its corresponding cost and the significant issues identified.
    2. Ensure that, during the development of the external audit, the Independent External Auditor has all the necessary documentation and in a timely manner to carry out its functions, and must have access to the documentation related to the work of third parties hired by GFNorte, if such documentation is necessary for carrying out the external audit.
    3. Maintain effective communication with the Independent External Auditor that allows the latter to be informed of any matter that, where appropriate, has an impact on regulatory capital, as well as matters relevant to the conduct of the external audit.The Firm and the Independent External Auditor when in the course of the audit they find irregularities or any other situation that, based on their professional judgment, could jeopardize the stability, liquidity or solvency of GFNorte, or have been committed to the detriment Regardless of whether or not it has effects on financial information, they must submit a detailed report on the situation observed to the Committee.

4. During the course of the external audit, you should be aware of the point of view of the Independent External Auditor regarding the important matters identified by the latter and how they impact the approach of the external audit.
5. Inform the Commission, when it becomes aware, of the breaches or risks that affect the independence of the Firm and the Independent External Auditor, through a detailed report.As soon as it becomes aware of these events, the Independent External Auditor shall report to the Committee on threats to independence that arise in the development of the external audit of Basic Financial Statements, as well as the safeguards applied.
6. Convene the Independent External Auditor, as a guest with the right to speak but without vote, to the Committee sessions, when it is deemed appropriate due to the topics to be discussed.
7. Review with the Independent External Auditor, prior to the issuance of the External Audit Report, the statement letter issued by the Director General prepared in accordance with International Standard on Auditing 580 "Written manifestations", with special emphasis on matters in which the Independent External Auditor required specific statements on some item of the Basic Financial Statements.
8. Evaluate, prior to the conclusion of the external audit work, the adherence of the Independent External Auditor to the initial audit program, and in case there are changes, evaluate its reasonableness.

C. Monitor that the necessary corrective measures are implemented to timely address the findings and recommendations of the Independent External Auditor.
D. Follow up on the issuance of the communications and opinions indicated in the provisions, keeping the Board informed regarding the performance of said activities, and the Independent External Auditor must report at the request of the Committee on its activities and the development of the audit. The Independent External Auditor will be obliged to provide the Committee with a statement, prior to the issuance of the External Audit Report, which must include the minimum aspects established in the provisions.
E. Monitor that the Office, in the external audits of Basic Financial Statements, as well as in the issuance of its communications and opinions, maintains a quality control system, which must be available to the Committee during the execution of the audit.
F. Periodically meet with the External Auditor, without the presence of the Administration, to hear their comments and observations on the progress of their work.

Performance Evaluation of the Independent External Audit Firrm and Auditor.

A. It will be responsible for establishing operating policies within GFNorte for the periodic evaluation of the Independent External Auditor that provides External audit services regarding the Basic Financial Statements, and the issuance of statements and opinions mentioned in the guidelines.
B. Evaluate, at the end of its auditing responsibility, the performance of the Independent External Audit firm, as well as the quality of the External Audit Report, and if applicable, the quality of statements and reports mentioned in the guidelines, derived from its external audit service.
C. Review, together with the Independent External Auditor, the results of any statements and opinions mentioned in the previous bullet point, in order to understand the rationale behind its conclusions.
D. The Committee may request the Independent External Auditor firm and/or the auditor, any documents that evidence compliance of the obligations and requirements set form in the guidelines regarding the audit service hired, without affecting the fact that the Committee shall meet with the Auditor at least once per year.
E. The Audit Committee must evaluate the potential substitution of the Audit Firm or the Independent External Auditor when they stop complying with the requirements for the fulfillment of their responsibilities.
F. The Committee, in order to meet the proper development of its obligations pursuant to the guidelines, may seek support from people belonging to areas that are independent from the Management Team or its equivalent. The activities performed by the Committee pursuant to the guidelines, and the result obtained from them must be properly documented.

Agreements between the Shareholders’ Assembly and the Board of Directors

A. Monitor that the CEO fulfills the agreements made between the Shareholders' Meetings and the Board of Directors of GFNorte, according to the instructions which, if the case, are dictated by the Meeting or the Board. (LRAF Article 57 Section II Subsection o).

Authorizations from the Board of Directors and Shareholder rights

A. Monitor that the Board approve the topics that correspond to it and respects the shareholders' rights in accordance that established in the LRAF, as well as policies derived from them to. (LRAF Article 57 Section II Subsection g, in relation to Articles 39 Section III and 65).

The other regulations established by the LRAF or in GFNorte's Bylaws, in accordance with the functions assigned by the LRAF.

Prevention of Conflicts of Interests

A. The implementation of the Conflicts of Interests' Prevention System, aiming at every moment to work according to GFNorte's financial entities' strategies and objectives, taking the preventive and corrective measures to rectify any deficiency detected in a reasonable term, complying with the features of the referred measures. (LARF, Article 14 and General Rules for Financial Groups, article 7).

COMMUNICATION

Provide opinions for approval by the Board of Directors

Give the Board an opinion to approve on the following issues:

Corporate Practices:

A. Policies and guidelines for the use of assets that make up GFNorte's patrimony, as well as financial institutions and other legal entities that exercise control, through related people.
B. Acts, each individually, with Related People, proposed to celebrate with GFNorte.
C. Policies for the granting of joint loans, loans or any type of credit or guarantee to Related People.
D. Acts that are executed, either simultaneously or successively, which by their nature may be considered as one and that are intended to be carried out by GFNorte or financial institutions comprising it, in the span of one fiscal year, when they are unusual or non-recurring, or when their amount fits into any of the cases referred to by the LRAF.
E. The appointment and, if the case, dismissal of GFNorte's CEO and this comprehensive remuneration, as well as policies for the designation and comprehensive remuneration of other relevant managers.
F. Any waivers so that a Board member, relevant officer or person with authority may take advantage of business opportunities for, or on behalf of third parties, corresponding to GFNorte or the financial entities that comprise it.

Audit:

A. Guidelines in the areas of Internal Control and Internal Audit for GFNorte and the financial institutions under its responsibility.
B. GFNorte's accounting policies, adjusted to the LRAF
C. GFNorte's financial statements.
D. Hiring the corporation that will provide the external audit services and, if the case, supplementary or complementary services to the external audit services.

E. When the Board of Directors' decisions are not consistent with the Committee's views, the CEO shall be instructed to disclose such circumstances to the General Shareholders' Meeting that takes place after this Act, as well as the CNBV, within ten working days of the corresponding determination.

Report to the Board of Directors

A. The Chairman of the Committee should draw up an annual report* on the activities that correspond to such organ and submit it to the Board of Directors.
B. Prepare an opinion of the CEO's report on the business' progress and submit it for consideration to the Board of Directors for subsequent submission to the Shareholders' Meeting, relying on, among other things, the External Auditor's opinion.
C. Support the Board of Directors in the preparation of the report on major accounting policies and criteria and information following the preparation of financial information.
D. Support the Board of Directors in the preparation of the report on intervened operations and activities in accordance with the LRAF. To prepare the report, as well as opinions, the Committee should hear from relevant officers; in the case of any difference of opinion with the latter, such differences should be incorporated into the aforementioned reports and opinions.
E. Inform the Board of important irregularities detected in the exercise of functions and, where appropriate, the corrective actions taken or proposals for action to be implemented.
F. A progress report in the review of the financial statements' External Auditor, as well as the result of the reviewed verdict of the annual financial statements.

In relation to the external audit:

A. The evaluation of services other than external auditing of Basic or Complementary Financial Statements that, if applicable, is provided by the Office in charge of performing the external audit.
B. The result of the evaluation regarding compliance, by the Office and the Independent External Auditor, with the independence requirements established in the provisions.
C. The results of the review of the External Audit Report and the Basic Financial Statements that accompany it, as well as the communications and opinions of the Independent External Auditor indicated in the provisions.
D. The mention and follow-up of the implementation of preventive and corrective measures derived from the observations of the external audit, in accordance with the plan of action to which the provisions refer.
E. The results of the evaluation of the performance of the Independent External Auditor, as well as the quality of the External Audit Report and, where appropriate, of other communications and opinions, prepared in compliance with the provisions of the provisions. Likewise, the measures taken to guarantee the independence of the Office and the Independent External Auditor, as well as the personnel who participated in the audit, should be considered.
F. The measures adopted on the occasion of complaints made by shareholders, directors, relevant managers, employees and, in general, of any third party on matters related to external audit.
G. Report the progress in the External Auditor's review of the financial statements, as well as the result of the review of the opinion of the annual financial statements.

***Annual Report on corporate practices' matters:**

a. Observations regarding the performance of relevant managers.
b. Acts with Related Persons, during the period reported, detailing the more significant characteristics.
c. Emolument or comprehensive remuneration packages for the CEO and relevant executives.

d. Any exemptions granted by the Board so that a Board Member, relevant Director or person with authority, can take advantage of business opportunities for himself or on behalf of third parties, that correspond to GFNorte or to financial institutions under its responsibility.
e. Observations made by commissioned supervisors of the financial institutions of the financial group, or the CNBV for GFNorte, as a result of supervision of the same.

***Annual Report on audit matters:**

a. The state of the Internal Control and Internal Audit systems of GFNorte, of financial institutions or companies in which it exercises control and, where appropriate, the description of its deficiencies and deviations, as well as aspects requiring improvement, taking into account the opinions, reports, press releases and the opinion of the External Auditor as well as reports issued by independent experts who rendered services during the period the report covers.
b. The mention and follow-up of implemented preventive and corrective measures based on the results of investigations related to non-compliance with guidelines and operational policies and accounting records, of either GFNorte or financial entities that it is responsible for.
c. Evaluation of the performance of the legal entity providing external audit services and the External Auditor responsible for this.
d. The description and assessment of additional or complementary services provided, and if the case, the legal entity responsible for performing the external audit, as well as those provided by independent experts.
e. The main results of revisions to financial statements of GFNorte and the financial institutions under its responsibility.
f. The description and effects of modifications to approved accounting policies during the period that the report covers.
g. Measures adopted for relevant observations made by shareholders, Board Members, relevant managers, employees and, in general, any third party, with respect to accounting, internal controls and issues related to internal or external auditor, issues arising from allegations based on facts considered to be irregular in the administration.
h. The follow-up on agreements of the Shareholders' Meeting and the Board of Directors' meetings.

OTHER AUDIT COMMITTEES

Audit Committee for Banco Mercantil del Norte, S.A. (Banorte)

Objective:

This committee is a government body constituted by Board of Directors to support it in the definition and update of the Internal Control System's (ICS) objectives and the guidelines for their implementation; as well as in its evaluation.

The Committee will also supervise that financial information and accounting are prepared in accordance with the guidelines, dispositions and applicable accounting principles, and will follow on the external and internal audit activities and internal comptrollership, informing the Board regarding the development of the aforementioned.

Faculties:

The Committee as the support government body to the Board of Directors, will have the faculty to comply with duties and perform the functions defined in the following operating rules:

A. Request the opinion of independent experts in such cases where it is judged to be convenient, for the appropriate performance of their functions.
B. Have full availability of book, registers, facilities and the support of the employees' entities under its responsibility.
C. Require involved officers of the financial entities under its responsibility, regarding the elaboration of financial and of any other type of information that it considers necessary for the execution of their duties.
D. Meet with the Board of Director, relevant GFNorte's officers, internal comptroller, Internal and external auditor, authorities and investors

The Committee, in the development of its activities, shall establish the necessary procedures for the general performance of its duties. In any case, Committee members shall take as a basis for their activities, information prepared by the Internal Comptroller, Internal and External Auditors as well as by the Management Team.

Integration:

A. The Committee is comprised of at least three and not more than five members of the Board of Directors, that may be proprietary or alternate, of which at least one should be independent.

MEMBERS			
Thomas Stanley Heather Rodríguez	Proprietary Member	Independent	Chairman*
Everardo Elizondo Almaguer	Proprietary Member	Independent	Member
Clemente Ismael Reyes Retana Valdés	Proprietary Member	Independent	Member
Diego Martínez Rueda-Chapital	Alternate Member	Independent	Member
Anwar Loera Mendoza	Secretary		Not member

Frequency of sessions: The Audit Committee should hold at least a quarterly session, according to the annual work plan and approved schedule for sessions in stablished date, place and time in the understanding that these sessions may be held electronically, through videoconference or telephone.

Quorum: Sessions of the Audit Committee are valid with the participation of a majority of their members, only if the Chairman or his Alternates intervene.

1. Internal Control System

A. Hold a permanent and updated register of the ICS objectives, guidelines for implementation as well as manuals considered relevant for the operation, which shall be elaborated by the responsible for the Internal Control functions.
B. Review and oversee with the support of the responsible for the Internal Control functions, that such relevant manuals comply with the ICS.
C. Review together with the Management the relevant manuals previously referred to, as well as the Code of Conduct, at least once a year or when significant changes in the operation occur.
D. Review along internal and external audit the implementation of the ICS, assessing its efficiency and effectiveness.

E. Review the report the CEO shall present at least annually to the Board of Directors and the Committee regarding the performance of his activities for the duly implementations of the ICS, as well as its operation.
F. Review the report that Internal Audit shall prepare regarding the follow-up on detected deficiencies or relevant deviation, so they can be timely restored.

2. Accounting and Financial Information

A. Assist the Board of Directors in the revision of the annual and intermediate financial information and in the release process, relying on the Internal and External Auditors' work.
B. Oversee that the financial and accounting information is formulated in accordance with the applicable guidelines and dispositions, as well as with applicable accounting principles.
C. Review significant accounting and reporting issues, including complex or unusual transactions, as well as professional opinions and recent regulations, and to understand their impact in the financial statements.
D. Review with Management and the Internal and External Auditors, the opinion of the annual financial statements, before their presentation to regulatory authorities.
E. Review with Management and the Internal and External Auditors, the opinion of the internal accounting control, which shall be released every two years, before their presentation to regulatory authorities.
F. Select and approve the hiring of the independent expert who will perform impairment testing of goodwill.
G. Review the results of the goodwill impairment test.
H. Prepare the internal policies aiming to stablish guidelines and procedures related to the management and, if the case, destruction of the books, registers documents and other information related to accounting, that have been or will be object of microfilm or recording.

3. Internal Comptroller

A. Follow-up on the Internal Comptroller's activities, keeping the Board informed of its performance.
B. Review the Management Report prepared by the responsible for the Internal Comptroller's functions, which is delivered to the Committee and the CEO at least twice a year.
C. Review the reports presented by the Internal Comptroller on the results of the inspection visits carried out by supervising agencies.

4. Sales Practices

A. Approve the appointment of the responsible person for oversee the compliance of applicable provisions on advised investment services, who shall comply with the requirements and functions stablished in the general provisions on investment services issued by SHCP.
B. Review the report that must be presented to the Board through the Committee, as well as to the Commission, at least every six months, of the person responsible for supervising compliance with the provisions applicable to the Investment Services advised as a result of the exercise of its functions, containing the main findings.

5. Internal Audit

A. Follow-up on the Internal Auditor's activities, keeping the Board informed of its performance.
B. Monitor the independence of the Internal Audit area with regards to the other business and administrative units. Any lack of independence must be reported to the Board.
C. Approve the Bylaws of Internal Audit's function as well as the applicable methodology and policies to review the quality of internal control of main operations, called Models of Risk Evaluation (MER).
D. With the prior opinion of the CEO, to approve the annual work program of the Internal Audit area.

If the case, amendments to the refer annual program should be presented for the approval of the Committee, in the next session.

E. Review, based on reports from the Internal Audit area and the External Auditor, at least once a year or when required by the CNBV, that the Internal Audit program is carried out in accordance with appropriate quality standards in accounting matters and internal controls, and that the activities of the Internal Audit area are carried out effectively.
F. Review the report prepared by the head of Internal Audit functions on the results of its management, at least every six months or as frequently as the Committee requires. The foregoing, notwithstanding that the head of Internal audit functions learns of, immediately, the detection of any deficiency or deviation identified in the exercise of their functions and that according to the Internal Control System is considered significant or relevant.
G. Approve the hiring of service providers for the external evaluation of the quality of Internal Audit's performance.
H. Review the results of internal and external quality assessments carried out for Internal Audit's functions and where appropriate, to follow-up on the implementation of certain recommendations.
I. Review, at least annually, the organization's structure, capabilities and the adequacy of resources allocated to the Internal Audit area for the performance of its functions and, where appropriate, approve actions required in order to ensure the greatest effectiveness in the fulfillment of its objectives and goals.
J. Meet regularly with the Internal Auditor, without the presence of management for comments and observations on the progress of its work.

6. External Audit

Designation or annual ratification of the External Independent Auditor Firm

A. Monitor and document that, before the designation or annual ratification of the Independent Auditor firm that will provide such services, these comply with the content set forth in the corresponding guidelines.
B. Validate the knowledge and professional experience of the External Independent Auditor, as well as those of the manager in charge of the audit activity who will participate in the external audit. Moreover, monitor the proper compliance of the requirements set forth by the External Independent Auditor, and personnel who participate in the external audit. There must be a documented, transparent and unbiased process which allows for a proper evaluation of compliance of such requirements.

Hiring process for External Independent Auditor Firm

A. Validate, prior to the appointment of the Firm, that both it and the Independent External Auditor comply with the personal, professional and independence requirements established in the provisions for the provision of the external audit service and, where appropriate, the services other than the external audit of Basic Financial Statements.
B. Obtain from the Office, the statement on compliance with the quality control norm corresponding to the audited exercise, presented before the professional association recognized by the Ministry of Public Education to which said Office belongs or, when the college in question such manifestation does not require, the one issued by the Firm itself regarding the fulfillment of the obligation referred to in the provisions.
C. Opinion, prior to the appointment of the Firm, regarding whether the resources proposed to execute the external audit program are reasonable considering the scope of the audit, the nature and complexity of the Entity's operations and its structure.
D. Review the terms of the audit engagement, prior to signing the service provision contract.

External Auditing activities follow up

A. Provide assistance so that either the Internal Audit Department or the Internal Auditor facilitate the development of External Auditing activities.
B. Foster that GFNorte have policies which enable it to have personnel in charge of preparation, review, and authorization of accounting and Basic Financial Statements and its notes, which are the subject of analysis by the external auditors. Such personnel must also be knowledgeable on the accounting regulation applicable to GFNorte.

Regarding external auditing:

1. Know, at the beginning of the external audit work, the focus of the review, taking into account the level of materiality, the scope of the scheduled audit, the hours assigned to each job, its corresponding cost and the significant issues identified.
2. Monitor that, during the development of the external audit, the Independent External Auditor has all the necessary documentation and in a timely manner to carry out its functions, and must have access to the documentation related to the work of third parties hired by GFNorte, if such documentation it is necessary for the performance of the external audit.
3. Maintain effective communication with the Independent External Auditor that allows the latter to be informed of any matter that, where appropriate, has an impact on regulatory capital, as well as matters relevant to the development of the external audit.The Firm and the Independent External Auditor when in the course of the audit they find irregularities or any other situation that, based on their professional judgment, could jeopardize the stability, liquidity or solvency of GFNorte, or have been committed to the detriment Regardless of whether or not it has effects on financial information, they must submit a detailed report on the situation observed to the Committee.
4. During the course of the external audit, you should be aware of the point of view of the Independent External Auditor regarding the important issues identified by the latter and how they impact the approach of the external audit.
5. Inform the Commission, when it becomes aware, of the breaches or risks that affect the independence of the Firm and the Independent External Auditor, through a detailed report. As soon as it becomes aware of these events, the Independent External Auditor shall report to the Committee on threats to independence that arise in the development of the external audit of Basic Financial Statements, as well as the safeguards applied.
6. Convene the Independent External Auditor, as a guest with the right to speak but not to vote, to the Committee sessions, when it is deemed appropriate due to the topics to be discussed.
7. Review with the Independent External Auditor, prior to the issuance of the External Audit Report, the statement letter issued by the Director General prepared in accordance with the International Standard on Auditing 580 "Written Manifestations" with special emphasis on matters in the that the Independent External Auditor required specific statements on some item of the Basic Financial Statements.
8. Evaluate, prior to the conclusion of the external audit work, the adherence of the Independent External Auditor to the initial audit program, and in case there are changes, evaluate its reasonableness.

C. Oversee that the necessary corrective measures are implemented to attend to the findings and recommendations of the Independent External Auditor in a timely manner.
D. Follow up on the issuance of the statements and opinions indicated in the provisions, keeping the Board informed regarding the performance of said activities, and the Independent External Auditor must report at the request of the Committee on its activities and development of the audit. The Independent External Auditor will be obliged to provide the Committee with a communication, prior to the External Audit Report being issued, which must include the minimum aspects established in the provisions.

E. Ensure that the Firm maintains a quality control system implemented in the external audits of Basic Financial Statements, as well as in the issuance of its statements and opinions, which must be available to the Committee during the execution of the audit.

F. Meet periodically with the External Auditor, without the presence of the Administration, to hear his comments and observations on the progress of his work.

Evaluation of the Firm and the External Independent Auditor

A. He will be responsible for establishing operating policies within GFNorte for the periodic evaluation of the Firm and the Independent External Auditor who provide the external audit services of the Basic Financial Statements and for the issuance of the statements and opinions indicated in the provisions .
B. Evaluate, at the end of the external audit assignment, the performance of the Firm and the Independent External Auditor, as well as the quality of the External Audit Report and, where appropriate, of the communications and opinions indicated in the provisions, derived from the service external audit.
C. Review with the Independent External Auditor, the results of the statements and opinions indicated in the previous point, in order to understand their reasoning to reach their conclusions.
D. The Committee may request from the Firm and the Independent External Auditor the documentation that evidences compliance with the obligations and requirements established in accordance with the provisions, in relation to the contracted audit service, without prejudice to the fact that the Committee must meet with it. last at least once a year.
E. The Audit Committee must evaluate the possible replacement of the Firm or, where appropriate, of the Independent External Auditor when they no longer comply with the necessary requirements for the development of their work.
F. The Committee, for the development of the obligations contemplated in the provisions, may rely on people from independent areas of the General Directorate or its equivalent. The activities carried out by the Committee in accordance with the provisions and the result obtained from them must be docum
G. Meet periodically with the External Auditor, without the presence of the Administration, to hear his comments and observations on the progress of his work.

7. Credit

A. Review the CEO's report which shall be prepared at least quarterly to the Board, the Risk Committee and the Audit committee regarding the detected deviations of the objectives guidelines, policies, procedures, strategies and current provisions on credit.
B. Review the report internal audit of credit prepare shall prepare at leas once a year and which will be presented to the Board, the Rsik Committe and the Audit Committe, regarding its findings.
C. Approve the anual loan review and the simple of clients to be included in each entities' review.
D. Check the results report on the loan review.

8. Comprehensive Risk Management

A. Review the Internal Audit report with the results of the audit on the Comprehensive Risk Management, which be carried out at leas once a year or at the end of the fiscal year. This report shall be presented to the Board, the Risk Committee and the CEO and be submitted to the CNBV.
B. Select and approve the hiring of the suppliers of technical assessment on Comprehensive Risk Management matters, according to internal policies for suppliers hiring.
C. Review the report of the technical assessment on Comprehensive Risk Management matters, which will be carried out at least every two fiscal years and shall be presented for approval to the Risk Committee and the Board, and be submitted to the CNBV:

9. Derivatives

A. Release a document in which the Committee expresses that it complies with the requirements set forth in the rules to carry out derivative transactions issued by Banco de Mexico, as a necessary element to manage the authorization to hold proprietary derivative transactions.

B. Select and approve the hiring of the independent expert to valid valuation and risk measurement models according to internal policies for suppliers hiring.
C. Review the results of the valuation and risk measurement models approval, which shall be made at least once a year by independent experts.

10. Comission agents

A. Approve the hiring of commission agents to carry out an operative process or data base management that may be executed partially or totally abroad or by foreign residents.
B. Review the performance report of commission agents to be delivered to the Board, the Audit Committee or CEO, as well as the compliance of provisions related to such service.
C. Review the result of the audits carried out every two years to verify the compliance with Chapter XI of the hiring of commission agents if the CUB, as well as what is set forth in Annexes 52 and 58 accordingly. .

11. Money Laundering and Financing of Terrorism

A. Approve, by proposal of the Communication and Control Committee, the policies and procedures Manual to prevent money laundering and financing of terrorism, as well as any amendment to this document.
B. Review the result of the work of Internal Audit or independent external auditors of assessing and ruling annually the compliance of Provisions set forth in articles 115 of the LIC and 87-D and 95-Bis of the LGOAAC. This revision shall be presented to the CEO and Communication and Control Committee, and be submitted to the CNBV.

12. Online Banking

A. Review the reports of incidents of Online Banking, which shall be presented to the Audit and Risks Committees in the immediately following session of the event involved, in order to adopt measures to prevent and avoid these incidents again.
B. Review the reports to be presented to the Audit and Risks Committee, each time these meet; therefore correlating to information from clients' claims with fraud event.

13. Autocorrection program

A. Provide an opinion on the autocorrection progams to be submitted for authorization of the CNBV, CONDUSEF, or IPAB, when the institution, in the development of its activities, or the Audit Committee, as a result of its functions, setect irregularities or non compliance of what is set forht in the LIC and other applicable regulations.
B. Autocorrection programs shall be signed off by the Chairman of the Committee and be presented to the Board in the immediate following session of the request for authorization presented before CNBV, CONDUSEF or IPAB, accordingly.
C. Follow up on the implementation of the authorized autocorrection programs and inform the advance, to the Board, CEO, CNBV, CONDUSEF or IPAB, accordingly.

Other duties and responsibilities necessary for the performance of its functions.

COMMUNICATION

1. Propose for the Board of Directors approval:

A. The ICS that the institution requires for its proper functioning and updates.

B. The objectives and guidelines for their implementation of the Internal Control System (ICS), which shall refer at least two:

   1. General policies refered to organizational structure.
   2. Comunication and flow information channels among different units and areas.
   3. General operation policies.
   4. Business Continuity Plan
   5. Control measures for transactions to be properly approved, processed and registered.

C. The Code of Conduct, prepared by the Management.
D. Changes to accounting policies related to the registration, rating of items in the financial statements and presentation and disclosure of information, so that it is complete, correct, precise, reliable, timely and serves in decision making prepared by the CEO according to applicable provisions. In any event, the Committee will also be able to propose changes that it considers necessary to these policies, considering the opinion of the CEO.
E. Internal Audit appointment.
F. External Audit appointment.
G. Adittional services related to audited financial statements provided by the external auditor.
H. Business Continuity Plan as well as its amendments.
I. Regulation that will determine the proper functioning of this Committee, which will subsecuently be send to the CNBV for its information.

All the matters to be approved by the Board contained in chapter VI of the Internal Control of the CUB, will be presented by the Committee by such effect.

2. Report to the Board of Directors

A. Evaluate on an annual basis, the condition of the Internal Control System and inform the Board of Directors of the results. The report shall contain at least the following:

   1. Deficiencies, deviations or issues of the ICS that, if the case, require enhancement considering for such effect, reports of the Risk Management department, as well as ARSI.
   2. The mention and follow-up of implemented preventive and corrective measures based on the comments of the CNBV and the results of the internal and external audit, as well as the assessment of the ICS carried out by the committee.
   3. Evaluation of the performance of the Internal Comptrollership and Internal Audit functions.
   4. Evaluate the performance of the External Auditor and the quality of his opinion and reports prepared in compliance with the applicable general provisions, including comments made by the CNBV.
   5. Significant aspects of the Internal Control System that could affect the performance of the Institution's activities.

   6. Results of the opinion, reports and communication of the External Auditor.
   7. Assessment of the scope and effectiveness of the Business Continuity Plan, its disclosure among the corresponding areas and identification, if the case, of the necessary adjustments for its update and strengthening.

The Committee, when preparing its report, will hear the CEO, the Internal Auditor and the responsible for the Internal Comptrollership functions. In case of different opinions with the aforementioned in the ICS, such differences shall be included in the report.

B. Report the Board of the significant irregularities detected when carrying out its functions, and if the case, of the adopted corrective measures or propose those that shall be applied.
C. Report the External Auditor progress on the Audited financial statements progress as well as the result of the opinion of the annual financial statements.
D. Review the report that the responsible for overseeing the compliance of applicable provisions on advised investment services, which will contain the main findings, and shall be presented to Commission at least twice a year.
E. Report the Board at least once a year on the consistency of the Compensation System application. The report shall contain at least the following:

1. An evaluation of the compliance to the policies and procedures of compensation, and if the case, provide undemented reason for any exception.
2. Adjustments to the Compensation System as a result of losses when these had not been foreseen by this System.
3. Significant matters of the Compensation system that may affect bank's liquidity, solvency and stability.
4. Review the reports that the CEO, Internal Comptroller, Internal and External Auditor will present to the Board on matters related to the committee.

In relation to the external audit:

1. The evaluation of services other than the external audit of Basic or complementary Financial Statements that, if applicable, is provided by the Office responsible for carrying out the external audit.
2. The result of the evaluation regarding compliance, by the Office and the Independent External Auditor, with the independence requirements established in the provisions.
3. The results of the review of the External Audit Report and the Basic Financial Statements that accompany it, as well as the statements and opinions of the Independent External Auditor indicated in the provisions.
4. The mention and monitoring of the implementation of preventive and corrective measures derived from the observations of the external audit, in accordance with the action plan referred to in the provisions.
5. The results of the evaluation of the performance of the Independent External Auditor, as well as the quality of the External Audit Report and, where appropriate, other communications and opinions, prepared in compliance with the provisions of the provisions. Likewise, the measures taken to guarantee the independence of the Office and the Independent External Auditor, as well as the personnel who participated in the audit, should be considered.
6. The measures adopted on the occasion of complaints made by shareholders, directors, relevant managers, employees and, in general, of any third party on issues related to external audit.
7. Report the progress in the External Auditor's review of the financial statements, as well as the result of the review of the opinion of the annual financial statements.

Audit Committee for Casa de Bolsa Banorte, S.A. de C.V. (Casa de Bolsa)

Objective: The Audit Committee's primary objective is to support the Board of Directors in defining, updating, verifying and evaluating objectives, policies and guidelines of the Internal Control System (ICS); as well as the monitoring of processing and audit activities, both internal as well as external, at all times with a channel of communication among the Board of Directors and both internal and external Auditors.

It will also support the Board in monitoring the financial reporting processes and the verification of compliance with laws and other regulatory provisions, as well as strict adherence to GFNorte's Code of Conduct.

Authority:

The Audit Committee has the authority to conduct or authorize investigations into any issue or matter that is within the scope of its responsibilities and to investigate possible breaches of those with knowledge of operations, operational policies and guidelines, the Internal Control System, audit and accounting records.

The Committee can:

1. Require from relevant officers and other employees, reports concerning the preparation of financial information and any other information deemed necessary in order to exercise its functions.
2. Receive comments from shareholders, Board of Directors, executive officers, employees or any third party in respect of any breach in operations, guidelines and operating policies, internal control, audit and accounting records.
3. Conduct a review of documentation, records and other evidence, to the degree and extent necessary to monitor possible breaches described in the preceding point.
4. Request opinions from independent experts, when appropriate or when regulations require it.
5. Solicit regular meetings with senior officers, as well as the delivery of any information relating to internal control and internal audit of the Brokerage House.
6. Convene shareholders' meetings and request the inclusion of any resolutions it deems appropriate into the agenda of these meetings.

Responsibilities:

The Audit Committee has the responsibilities set forth below.

External Audit:

Designation or annual ratification of the External Independent Auditor Firm

A. Monitor and document that, before the designation or annual ratification of the Independent Auditor firm that will provide such services, these comply with the content set forth in the corresponding guidelines.
B. Validate the knowledge and professional experience of the External Independent Auditor, as well as those of the manager in charge of the audit activity who will participate in the external audit. Moreover, monitor the proper compliance of the requirements set forth by the External Independent Auditor, and personnel who participate in the external audit. There must be a documented, transparent and unbiased process which allows for a proper evaluation of compliance of such requirements.

Hiring process for External Independent Auditor Firm

A. Validate that before designating the Auditing Firm, both the auditor and the firm comply with all personal, professional and independence requirements as set forth in the External Auditor services guidelines, and if applicable, comply with guidelines for services other than External Auditing services for Basic Financial Statements.
B. Obtain from the External Independent Auditor firm the certificate of compliance with the quality control regulation that corresponds to the audited period issued by the professional school recognized by the corresponding Minister of Education (Secretaría de Educación Pública). If the professional school does not require such certificate, then the firm must present the one issued by the firm itself regarding compliance with the requirements set forth in the guidelines.
C. Provide an opinion, before the External Independent Auditing has been designated, on whether the proposed resources to perform the external auditing program are reasonable, considering the breadth of the auditing activity, the nature and complexity of the entity´s operations, and its structure.
D. Review the terms of the auditing requirements before the execution of the service agreement.

External Auditing activities follow up

A. Provide assistance so that either the Internal Audit Department or the Internal Auditor facilitate the development of External Auditing activities.

B. Foster that GFNorte have policies which enable it to have personnel in charge of preparation, review, and authorization of accounting and Basic Financial Statements and its notes, which are the subject of analysis by the external auditors. Such personnel must also be knowledgeable on the accounting regulation applicable to GFNorte.

Regarding external auditing:

1. Acknowledge, at the beginning of the external auditing activity, the focus of the review, considering the materiality level, the programmed auditing breadth, the hours assigned to each activity, its cost and the material issues identified.
2. Ensure that during the development of the external audit, the External Independent Auditor have all the required documents in a timely manner so that he/she can perform its duties, and he/she must also have Access to documents related to the work of third parties hired by GFNorte, if such information is deemed necessary for the completion of the external audit.
3. Keep an effective communication with the External Independent Auditor, so that he/she can be informed of any issue which might have an impact on regulatory capital, as well as any relevant issues for the proper development of the external audit. The Independent External Audit Firm and the auditor, when either of them find irregularities or any other situation which, based on their professional judgement, could jeopardize GFNorte's stability, liquidity or solvency or could otherwise affect the group's assets, regardless of their effect in the financial information, must be reported and accompanied with a detailed report to the Committee.
4. During the External audit process, it must know the Independent External Auditor's point of view regarding important matters identified by the auditor, and how these impact the external audit's focus.
5. Report to the Commission, whenever they are aware of any risks that affect the independence of the audit firm or that of the auditor's by issuing a detailed report. The Independent External Auditor must report to the committee, as soon as he is aware of any threats to the independence arising from the external audit of the Basic Financial Statements, as well as any remediation activities undertaken.
6. Request the presence of the Independent External Auditor, as a guest without voting rights, in the Committee sessions whenever deemed appropriate.
7. Review together with the Independent External Auditor, and before the issuance of the External Audit Report, the letter of statements issued by the General Manager pursuant to the International Audit Regulation 580 "Written Statement", with special emphasis on matters in which the Independent External Auditor required specific statements regarding a particular subject of the Basic Financial Statements.
8. Evaluate, before concluding the External audit work, compliance of the Independent External Auditor with the initial audit program, and if applicable, evaluate the rationale behind any changes.

C. Monitor the timely implementation of corrective measures to mitigate any findings or recommendations from the Independent External Auditor.

D. Follow up to any statements or opinions provided in the guidelines, keeping the Board informed regarding the performance of such activities, with the Auditor being responsible of providing a statement to the Committee, if requested to do so, before issuing the External Audit Report, which must include the minimum aspects contained in the guidelines.

E. Enforce that the Independent External Audit firm, during the External audit activities of the Basic Financial Statements, as well as in the issuance of any statements or opinions, keep a quality control system, which must be available to the Committee during the execution of the audit activity.

F. Meet periodically with the External auditor, without Management's presence, to know about their comments and observations regarding their work's progress.

Performance Evaluation of the Independent External Audit.

1. It will be responsible for establishing operating policies within GFNorte for the periodic evaluation of the Independent External Auditor that provides External audit services regarding the Basic Financial Statements, and the issuance of statements and opinions mentioned in the guidelines.
2. Evaluate, at the end of its auditing responsibility, the performance of the Independent External Audit firm, as well as the quality of the External Audit Report, and if applicable, the quality of statements and reports mentioned in the guidelines, derived from its external audit service.
3. Review, together with the Independent External Auditor, the results of any statements and opinions mentioned in the previous bullet point, in order to understand the rationale behind its conclusions.
4. The Committee may request the Independent External Auditor firm and/or the auditor, any documents that evidence compliance of the obligations and requirements set form in the guidelines regarding the audit service hired, without affecting the fact that the Committee shall meet with the Auditor at least once per year.
5. The Audit Committee must evaluate the potential substitution of the Audit Firm or the Independent External Auditor when they stop complying with the requirements for the fulfillment of their responsibilities.
6. The Committee, in order to meet the proper development of its obligations pursuant to the guidelines, may seek support from people belonging to areas that are independent from the General Management or its equivalent. Activities performed by the Committee pursuant to the guidelines and the result obtained from them must be properly documented.

Internal Control:

1. Prepare for approval by the Board of Directors, upon recommendation of the CEO, objectives, guidelines and policies on internal control for the proper functioning of the Brokerage House and their update.
2. With the support of Internal Audit, approve the manual for internal control and review annually or when there are significant changes in the operation of the Brokerage House.
3. With the support of Internal Audit and Control, monitor that the policies, procedures and operations in the aforementioned manuals are consistent with regulations, as well as with the objectives, guidelines and policies approved by the Board of Directors.
4. Verify the effectiveness of the Brokerage House's Internal Control System, considering the security and control on information technology issues.
5. Evaluate on an annual basis, the condition of the Internal Control System and inform the Board of Directors of the results.
6. Develop, with prior opinion of the CEO, for approval by the Board, Conduct and Ethics Codes.
7. Propose for approval by the Board of Directors, guidelines and policies regarding the reception and assignment system.
8. Develop policies that establish guidelines and procedures for the management, conservation and where necessary, destruction of books, records, documents and other information related to accounts that have been or will be microfilmed and recorded, in strict adherence to regulations.

Financial Statements:

1. Develop accounting policies relating to the registration, valuation of financial statement items, presentation and disclosure of information to the effect that it is accurate, complete, reliable, and timely that contributes to decision-making. The Committee may propose the changes deemed necessary to these policies, taking into consideration the opinion of the Managing Director of the Brokerage House.
2. Review significant accounting and reporting issues, including complex or unusual transactions, high risk areas as well as pronouncements arising from accounting regulations, understanding its impact on the financial statements.
3. Support the Board of Directors in reviewing the annual and interim financial information and disclosure process, relying on the work of the Internal and External Auditor.

4. Review the audit results with the CEO and the External Auditor, including any difficulties encountered.
5. Review the financial statements and opinion of the Brokerage House with the External Auditor, Internal Auditor, the CEO, the Internal Comptroller and whoever deemed necessary and verify that they are complete and consistent with the information known by Committee members; that the financial and accounting information is formulated in accordance with applicable guidelines and provisions and reflect the appropriate accounting principles and based on the foregoing, issue a recommendation to the Board of Directors, for approval.

Internal Audit:

A. Propose for approval by the Board, the appointment of the person to be responsible of the Internal Audit function.
B. Monitor the independence of the internal audit department.
C. Review and approve:
   a. The by-laws of the Internal Audit functions.
   b. Upon the CEO's recommendation, the annual Internal Audit work program.
   c. The personnel and organizational structure of Internal Audit's activities.
   d. The hiring of external quality assessment services of Internal Audit's functions.
D. Verify on an annual basis, or when required by the CNBV, that the internal audit program performs in accordance with appropriate quality standards in accounting and internal controls and the activities of this area are carried out effectively.
E. Meet regularly as deemed appropriate and separately, with the person in charge of internal audit operations for any matter requiring their judgment and consideration, that should be dealt privately.
F. Establish the frequency of internal audit written reports on the results of management, without prejudice to the Internal Auditor report, immediately upon the detection of any flaw or deviation that is deemed significant or relevant.
G. Ensure that Internal Audit follows-up on detected significant flaws or deviations, to ensure they are promptly corrected and the report containing this information is available to the Board of Directors and competent financial authorities at all times.
H. Know and review the results of internal and external evaluations of quality made on Internal Audit functions and, where appropriate, follow-up on the implementation of recommendations.

Internal Controllership:

1. Follow-up on activities for the Internal Comptroller of the Brokerage House, keeping the Board of Directors informed on the performance of these activities.
2. Know and assess the quarterly report prepared and submitted by the Internal Comptroller.

Information and Others:

1. Report to the Board of Directors any important irregularities detected and if the case, the corrective actions taken or proposed.
2. Monitor fulfillment of the resolutions approved by the Shareholders Meetings and Board of Directors, by the Managing Director of the Brokerage House.
3. Oversee the establishment of mechanisms and controls to verify that the acts and operations of the Brokerage House adhere to regulation.
4. Comment on the content of the internal control report issued by the Managing Director of the Brokerage House.
5. Monitor that the policies, procedures and operations contained in the operations manuals are consistent with the laws and other applicable regulations and administrative provisions, as well as with the guidelines of internal control approved by the Board of Directors.

6. Obtain the opinion of Internal Controllership on proper compliance with laws and other applicable regulations and administrative provisions.
7. Review the results of the inspections carried out by supervisory agencies.
8. Evaluate the performance of functions in the areas of Internal Audit, External Audit, as well as Internal Controllership.
9. Evaluate and verify annually that the by-laws is sufficient and adheres to the needs and requirements of the Brokerage House, the Board of Directors, as well as regulations and internal policies; and propose, if necessary, changes requested by the Board of Directors, or by the same Committee.
10. Evaluate and verify annually that the responsibilities described in the by-laws are fulfilled.
11. Evaluate periodically the performance of the Committee and each of its members.

Review for approval of the Board
In relation to the external audit:

1. The designation or, as the case may be, annual ratification of the Office in charge of the external audit.
2. The replacement of the Office or the Independent External Auditor, in charge of the audit.
3. The contracting of services other than external audit of Basic Financial Statements
4. The amount of remuneration, both from the external audit service and from services other than the external audit of Basic Financial Statements.

Inform the Council
In relation to the external audit:

1. The evaluation of services other than the external audit of Basic or complementary Financial Statements that, if applicable, is provided by the Office responsible for carrying out the external audit.
2. The result of the evaluation regarding compliance, by the Office and the Independent External Auditor, with the independence requirements established in the provisions.
3. The results of the review of the External Audit Report and the Basic Financial Statements that accompany it, as well as the statements and opinions of the Independent External Auditor indicated in the provisions.
4. The mention and monitoring of the implementation of preventive and corrective measures derived from the observations of the external audit, in accordance with the action plan referred to in the provisions.
5. The results of the evaluation of the performance of the Independent External Auditor, as well as the quality of the External Audit Report and, where appropriate, other communications and opinions, prepared in compliance with the provisions of the provisions.
6. Likewise, the measures taken to guarantee the independence of the Firm and the Independent External Auditor, as well as the personnel who participated in the audit, should be considered.
7. The measures adopted on the occasion of complaints made by shareholders, directors, relevant managers, employees and, in general, any third party on issues related to external audit.
8. Report the progress in the External Auditor's review of the financial statements, as well as the result of the review of the opinion of the annual financial statements.

Integration: The Audit Committee shall consist of at least three proprietary members of the Board of Directors, at least one must be independent, who will preside. Each and every one of the members shall be appointed and removed from office by the Board of Directors of the Brokerage House (Casa de Bolsa).

MEMBERS		
Thomas Stanley Heather Rodríguez	Proprietary Independent Member	Chairman*

Augusto Manuel Escalante Juanes	Proprietary Independent Member	Member
Clemente Ismael Reyes Retana Valdés	Proprietary Independent Member	Member
Anwar Loera Mendoza	Secretary	Non-Member

Frequency of sessions: The Audit Committee shall hold meetings at least quarterly and may convene special meetings whenever deemed necessary, which may be held via electronic media, video conferencing or telephone.

Quorum: Sessions of the Committee shall be valid with the participation of the majority of its members, and with the Chairman present. Resolutions will be passed by a majority vote of the members present.

Long-Term Savings Audit Committee (CA-SAP)

Objective:

The Committee is the body, of an advisory nature, responsible for monitoring the adherence of companies in the Long Term Savings Sector (companies) to internal norms defined by the Board, as well as compliance with applicable legal and administrative provisions.

The Committee will also oversee that the financial and accounting information is formulated in accordance with the applicable guidelines, provisions and accounting principles and will monitor the activities of Internal and External Audit and the Internal Comptrollership, keeping the Board of Directors informed of the performance of the same.

Faculties:

The Committee, as a supporting governance entity for the Board of Directors, will have sufficient authorization to carry out the duties and functions that the present rules of operation define, among which stand out:

A. Request the opinion of independent experts for cases it considers convenient, for the proper performance of its functions.

B. Have unrestricted access to books, records, facilities and support of personnel in institutions under its responsibility.

C. Require from involved officials of companies under its responsibility, reports relating to the preparation of financial information or any other type of report that it considers necessary to perform its duties.

D. Meet with the Board of Directors, senior officers of these companies, Internal Comptroller, Internal Auditor, External Auditor, authorities and investors.

The Committee, in the development of its activities, shall establish the procedures necessary for the general performance of its duties. In any case, Committee members shall take information prepared by the Internal Comptroller, Internal and External Auditors, Independent Actuary and Management as a basis for its activities.

Integration

A. The Committee will be comprised of at least three and not more than five Board members, who may be proprietary members or alternates, of which at least one must be an independent.

B. Proprietary members or alternates who are Committee members may be substituted by any other member, observing regulations of Article 72, Sections III and IV of the law.

MEMBERS		
Thomas Stanley Heather Rodríguez	Proprietary Independent Member	Chairman
Clemente Ismael Reyes Retana Valdés	Proprietary Independent Member	Member
Augusto Manuel Escalante Juanes	Proprietary Independent Member	Member
Manuel Alfonso Álvarez Lugo	Secretary	Non-Member

Quorum: Committee sessions are valid with a majority participation of its members, provided that the Chairman or his alternate is present.

The Committee, in the performance of its duties shall, at least, perform the following activities for each of the companies under its responsibility:

1. Corporate Governance System

A. Follow-up on companies' compliance with corporate governance policies and guidelines adopted by the Board.

1.1. Comprehensive Risk Management

A. To monitor companies' adherence to internal regulations defined by the Board, as well as compliance with applicable laws, regulations and administrative provisions, related to the comprehensive risk management system.
B. Review Internal Audit's reports with the results of audits carried out to verify procedures which the Risk Management area uses to follow-up on compliance with limits, objectives, policies and procedures relating to comprehensive risk management, in accordance with applicable legal, regulatory or administrative regulations, as well as with policies established by the Board in that area.

1.2. Internal Control

A. Review the reports of the Internal Comptroller's System operation and of its results that the CEO shall submit to the Committee at least every six months.
B. Review, with support from Internal Audit and the independent external auditor, the application of the Internal Comptroller's System, evaluating its efficiency and effectiveness.
C. Follow-up on the Internal Comptroller's activities for the companies, keeping the Board informed of its performance.
D. Review the management report that the head of Internal Comptroller must submit to the Committee and the CEO at least twice a year.
E. Review the code of conduct at least once a year and propose necessary modifications to the Board of Directors, if the case.
F. To establish monitoring mechanisms for the companies' areas that, by its operational characteristics or its relationship with the public or third parties, may be prone to corruption; and to propose the necessary control measures.
G. To review the Internal Audit report on the follow-up of detected relevant deficiencies or deviations in connection with the operation of the companies, so that they be remedied promptly.
H. To review the reports submitted by the Internal Comptroller on the results of the inspection visits carried out by supervising agencies.

1.3. Internal Audit's Duties

A. Follow-up on the Internal Auditor's activities, keeping the Board informed of its performance.
B. Monitor the independence of the Internal Audit area with respect to other business and administrative units. Any lack of independence, must be reported to the Board.
C. Approve the By-Laws and Internal Audit Manual, and methodologies used for the development of its activities, as well as updated versions.
D. With the prior opinion of the CEO, to approve the annual work program of the Internal Audit area.

   For this purpose, Internal Audit must present its work program for the following year in the last two months of every year. The work program shall ensure that the companies' activities are audited within a reasonable period of time, considering a risk-oriented approach and adequate period to review the strategic areas.

   If the case, amendments to the referred annual program should be presented for the Committee's approval in its next session.

E. Review, based on reports from the Internal Audit area and the independent External Auditor, at least once a year or when required by the CNBV, that the Internal Audit program is carried out in accordance with appropriate quality standards in accounting matters, and that the activities of the Internal Audit area are carried out in adherence to applicable internal and external regulations.
F. Review Internal Audit reports on the results of audits carried out, and the tests or evidence supporting observations and recommendations, and other elements that allow the Committee to fulfill its functions.
G. Review the report prepared by the head of the Internal Audit area on the results of its management, at least every six months. The foregoing, notwithstanding that the Internal Auditor immediately informs the Committee, of the detection of any deficiency or deviation identified in the exercise of its functions and that is considered significant or relevant according to the corporate governance system. In addition, a copy of these reports must be submitted to Management and other business areas, as the Committee deems convenient, in view of the nature of the detected problem.
H. Approve the hiring of service providers for the external evaluation of the quality of Internal Audit's performance.
I. Review the results of internal and external quality assessments carried out for Internal Audit's functions and where appropriate, to follow-up on the implementation of established recommendations.
J. Review, at least annually, the organization's structure, capabilities and the adequacy of resources allocated to the Internal Audit area for the performance of its functions and where appropriate, approve actions required in order to ensure the greatest effectiveness in the fulfillment of its objectives and goals.
K. Meet regularly with the Internal Auditor, without the presence of management for comments and observations on the progress of its work.

1.4. Actuarial Duties

A. To monitor that the companies adhere to the internal policy defined by the Board, as well as fulfill applicable legal, regulatory and administrative laws related to the actuarial duties of the companies.
B. To review the Letter of Opinion and the Opinion of Technical Reserves report, which the independent actuary must submit to the Committee within ninety calendar days from the end of the fiscal year.
C. To review the reports that the independent actuary must submit to the Committee and the Commission if in the course of its revision of the situation and adequacy of the technical reserves, irregularities were found that, based on his professional judgment, may endanger the stability, liquidity or solvency of the companies.

1.5. Hiring Third Party Services

A. To monitor the adherence of the companies to internal policy defined by the Board, as well as compliance with applicable legal, regulatory and administrative regulations related to hiring third party services.
B. Review the reports to ensure that policies and procedures for hiring third-party services established by the Management are adhered to, as well as compliance with applicable legal, regulatory and administrative regulations.
C. Review Internal Audit reports on the performance of third-parties hired to provide services necessary for its operation, as well as their compliance with applicable regulations.

2. Accounting and Financial Information

A. Assist the Board in the review of the annual and intermediate financial information and its issuance process, relying on the work of the Internal and External Auditors.
B. To monitor that financial and accounting information is formulated in accordance with guidelines and provisions, as well as applicable accounting principles.
C. To review significant accounting and reporting issues, including complex or unusual transactions, as well as professional declarations, recent regulations and to understand its impact on financial statements.
D. To assess the financial position and results of the companies in relation to the state of the Internal Control System, and submitting the corresponding recommendations to the Board.
E. To assist the Board of Directors and the CEO in the evaluation of the fulfillment of objectives and goals of the companies.
F. To develop internal policies designed to establish guidelines and procedures relating to the management and, where appropriate, destruction of books, records, documents and other information relating to its accounting, that have been or will be subject to recording or microfilming.
G. To review with management and the Internal Auditor the reports that the independent External Auditor must prepare, sign and submit to the Commission (short report of basic consolidated annual financial statements, long report and reports on supplementary information, and other reports and releases).

3. External Audit

A. To follow-up on External Audit activities, keeping the Board informed of its performance.
B. To monitor the independence of the External Auditors obtaining their statements in this regard and evaluating the nature of additional services provided.
C. To review reports that the independent External Auditor must present to the Committee and the Commission in the practice of its duties or as a result of irregularities found in the audit affecting the liquidity, stability or solvency of the agencies that provide services.
D. To review the report of the External Auditor on elements considered in defining the scope of the audit and developing a work plan.
E. To review External Audit’s detailed work plan, including the hours and cost assigned to each job.
F. To evaluate the External Auditor’s performance, as well as the quality of his opinion and reports prepared, in compliance with the applicable regulations, including remarks that in this regard by the Commission, and report the results to the Board.
G. To meet periodically with the External Auditor, without the presence of management, for his comments and observations on the progress of his work.

4. Follow-up on the fulfillment of Other Policies and Standards

A. To follow-up on compliance with policies and standards in subscription issues, design of insurance and reinsurance products and other transfer mechanisms for risks and responsibilities, financial reinsurance, marketing, development and financing of the companies’ operations.

B. To follow-up on compliance with standards to avoid conflicts of interest between different areas of the companies in the exercise of assigned duties.
C. To follow-up on compliance with policies for investment of the companies' assets.
One member of the Audit Committee must attend Investment Committee meetings, with voice but without vote.
D. To follow-up on the fulfillment of general policies for the provision of services and attention to service users, as well as issues relating to the disclosure of information in which companies comply with the obligations established in Article 308 of the Law, and in Title 24 of the CUSF.

5. Regularization Plans and AutoCorrect Programs

A. To approve auto-correct programs when companies or the Committee, in the exercise of their duties, detect irregularities or non-compliance to the Law and/or other applicable regulations, and submit them for consideration by the Commission through the CEO as well as present them to the Board.
B. Review, if the case, regularization plans to restore coverage of solvency parameters or to remedy irregularities detected by the Commission, which must be presented for the Board's approval, prior to its submission to the Commission for approval.
C. To follow-up on regularization plans and AutoCorrect programs authorized by the Commission, keeping the Board and CEO, as well as the Commission, informed of progress in compliance.
D. To present a report to the Commission on the instrumentation progress of regularization plans and AutoCorrect programs in effect, within the first ten working days following the close of each month, accompanied by documents that, if the case, support the reported progress.
E. Submit a report to the Commission within ten working days from the respective expiration date of the regularization plan or autocorrect program, with respect to the fulfillment of actions contained therein. In cases where irregularities or breaches subject of the regularization plan or auto-correct program were not corrected, the report must state the reasons for this.

6. Transactions using Electronic Means

A. Review the reports which must be presented whenever the Committee sessions, with the results of applying both preventive and corrective procedures, enabling the correlation of information from customers' claims with fraud events.
B. Review the reports about occurrences in the operation of the computing and telecommunications infrastructure, informing the Committee in the session immediately following verification of the event concerned, in order to adopt measures to prevent or avoid reoccurrence of such event.

7. Prudential Measures in Credit Issues

A. Review that the Credit Manual is consistent with the objectives, guidelines and policies for origination and credit management issues approved by the Board.
B. Review the report prepared by the CEO on a quarterly basis at least, for the Board, the Committee and the Risk Management area, on deviations detected with respect to the objectives, guidelines, policies, procedures, strategies and regulations in credit matters.
C. Review the report by the area responsible for Internal Audit's function, at least once a year, in terms of credit matters on observations made in their reviews, to the Board and the Committee.

8. Sales Practices

A. In the case of trusts, in which companies act as fiduciary institutions and that involve operations with the public such as consultancy, advertising, purchase and sale of securities as established in Article 140 Section III of the Law, Receiving and Assignment System manuals, as well as their modifications, shall be authorized by the CEO, based on guidelines and policies established by the Board for this purpose, on the Committee's proposal. Manuals, as well as their amendments shall be submitted for the Commission's prior approval.

B. Review reports by the officer or area responsible for monitoring transactions carried out through the Receiving and Assignment System, as frequently as established by the Committee; the above, without prejudice, to immediately inform the Committee Chairman of the detection of any deficiency or deviation considered significant or relevant in the performance of its duties. In addition, when so determined by the Committee, the officer or area shall report to the CEO and other units of the companies, including, when appropriate, to the Board.

9. Financial Reinsurance Transactions

A. To follow up, within the scope of its responsibilities, on companies' reinsurance contracts, as well as those that include financial reinsurance operations, permanently evaluating the behavior of the original estimates with respect to the significant transfer of insurance risk, as well as the impact of the Financing component's amortization scheme on the technical and financial operation of the companies.

10. Issuance of Subordinated Obligations and Other Debt Instruments

A. To issue the required opinion for authorization to issue subordinated obligations or other debt instruments, with the favorable vote of the independent Board members, regarding:

a) To prepare financial statement projections of the company, with and without the effects of the issuance of subordinated obligations or other debt instruments.

b) To calculate the impact that the financing amortization scheme planned in the issuance act may have on the company's financial situation.

11. Transactions with Related Parties

A. Review the results of the transfer pricing study to be prepared by an independent third party for the realization of significant transactions with related entities, such study must be submitted to the Committee in the session immediately following the date of its reception, in order to verify compliance with applicable legal, regulatory and administrative regulations as well as policies and procedures adopted by the Board, and take measures deemed pertinent.

When the study carried out by the independent third party determines that prices or the amounts of compensation agreed on significant transactions with related entities, do not correspond to those that had been agreed by parties in comparable acts, the Committee must report this fact to the Commission in a term no longer than five working days, as of the date of the study reception.

12. Prevention of Money Laundering and Financing of Terrorism

A. Study the results of the review by Internal Auditor and independent External Auditor that must be done on an annual basis to evaluate and asses compliance with regulations for the prevention of money laundering and financing of terrorism. Such report must be submitted to the CEO and the Communication and Control Committee to evaluate the effectiveness of implemented measures and to follow-up on applicable corrective-action programs, and which must be presented to the Commission within sixty calendar days following the close of the fiscal year of the corresponding revision.

All other obligations arising from legal, regulatory and administrative regulations applicable to the companies, and which are necessary for the performance of its duties. (CUSF 3.8.4. Section XV)

Communication

1. **Propose for approval by the Board of Directors**

A. The Internal Comptroller System that the companies require to function properly, as well as its updates. The Internal Comptroller System's objectives and guidelines must relate to the aspects listed in Chapter 3.3 of the CUSF, which shall be drawn up by the CEO and submitted for consideration of the Committee.
B. The code of conduct referred to in Regulation 3.1.3 of the CUSF.
C. The appointment of the Internal Auditor for the companies.
D. The appointment of the External Auditor and any additional services as a result of the ruling of the financial statements that will be required.
E. The appointment of the Independent Actuary who will issue a ruling on the situation and adequacy of the technical reserves that companies must create, and additional services derived from this review.
F. The appointment of the Actuary who will perform the Dynamic Solvency Test for the companies.
G. Where appropriate, the designation of an independent expert to provide an opinion on whether the internal model for the calculation of the Capital Solvency Requirement of the companies complies with applicable legal, regulatory and administrative regulations.
H. The regularization plans referred to in Article 320 of the LISF.
I. Any changes to accounting policy regarding:

    1. The registration and valuation of headings in the financial statements, and

    2. The presentation and disclosure of the companies' information, so that it is correct, sufficient, reliable, consistent and timely.

    In all cases, the Committee may propose such changes when it deems them necessary for the companies.

J. A Business Continuity Plan, as well as its modifications.
K. The rules for Committee's functions.

2. **Report to the Board of Directors**

A. The Board must be informed at least once a year, on the situation of the companies' corporate governance system. This report must contain, as a minimum, the following:

    1. Any deficiencies, deviations, or aspects of the Comprehensive Risk Management System which, if the case, requires improvement, taking into account for this purpose reports from the Risk Management Area, as well as those from ARSI.
    2. Any deficiencies, deviations or aspects of the Internal Comptroller System, if the case, that require improvement, taking into account for this purpose the reports and rulings from the Internal Audit Area and the independent External Auditor as well as those responsible for Internal Comptroller duties.
    3. The mention and follow-up of implemented preventive and corrective measures derived from the Commission's observations and the results of the Internal and External audits, as well as the evaluation of the Internal Comptroller System carried out by the Committee itself.
    4. The performance evaluation for the Internal Comptroller and Internal Audit, including significant aspects in carrying out those functions that could affect the performance of the companies.
    5. The performance evaluation for the External Auditor and the Independent Actuary who rule on the situation and the adequacy of technical reserves, as well as the quality of its opinions and prepared reports, including comments from the Commission.
    6. The results of the ruling review, reports, opinions and statements from the External Auditor and the independent Actuary who rule on the situation and adequacy of the technical reserves.

7. The deficiencies, deviations or aspects of the companies' actuarial function that, if the case, require improvement
8. The deficiencies, deviations, or aspects of hiring services through third parties that, if the case, require improvement.

The Committee in the elaboration of its report will listen to THE Management, the Internal Auditor and the person responsible for the functions of Internal Comptrollership. In case of a difference in opinion with the latter, with respect to the Internal Control System, such differences should be incorporated into this report.

B. Important irregularities detected with the objective of performing their duties and, if the case, corrective actions taken or proposed.
C. The Board and General Management of the companies must be notified, through the Committee, of the results and recommendations arising from the Internal Audit, to ensure the implementation of appropriate corrective measures.
D. Results of the follow-up of regularization plans and auto correction programs authorized by the Commission.
E. The progress in the External Auditor's review of the audited financial statements.
F. Report on the performance of its activities. Review in advance, reports that the CEO, Internal Comptroller, and Internal and External Auditors submit to the Board on issues falling within the purview of the Committee.

HUMAN RESOURCES COMMITEE

Objective: Compensate staff of the Institution, protecting the integrity, stability, competitiveness and financial soundness of the same, supporting GFNorte's Board of Directors in its functions relating to the Compensation System, through the approval of determinations in human resources subject and the establishment of a regulatory framework, undertaking implementation, maintenance and evaluation activities regarding the Compensation System.

Functions:

Assist the Board of Directors in the performance of its duties regarding the Compensation System in the following aspects:

1. Propose for approval of the Board of Directors:
    a. The compensation policies and procedures, consistent with reasonable risk taking, as well as any modifications made to them.
    b. Employees or personnel who hold any position, mandate, commission or any other legal title, which will be subject to the paragraph of Compensation System related to risk taking.
    c. The special cases or circumstances in which someone might exempt the application of approved compensation policies.
2. Implement and maintain the Compensation System related to risk taking, which must consider the differences among the different administrative, control and business units as well as the risks inherent to the activities performed by people subject to the Compensation System related to risk taking. For this purpose, the Committee shall receive and consider the reports of the Unit for Risk Management and any other area that the same Committee deems appropriate, on the implications of risk policies and procedures for compensation.
3. Inform all relevant staff, about policies and procedures of compensation, ensuring at all times the understanding by stakeholders regarding the methods for the determination, integration and delivery of their compensation, applicable risk adjustments, the deferral of extraordinary compensations and any other mechanisms applicable to their remuneration.
4. Prior to the DMD of Human Resources proceeds to deliver the percentage of Deferred Compensation that corresponds to each employee subject to deferral system, the Human Resources Committee shall report the results of the evaluation exercise to:
    a. The CEO: Results of risk analysis of Managing Directors under his charge before being presented to each of them.

b. The Chairman of the Board: Results of the risk analysis of the CEO.
5. Hiring, when deemed necessary, external consultants on compensation schemes and risk management, who contribute to design compensation schemes, avoiding any conflict of interest.
6. Define and update the guidelines that frame the retention plan (in shares) for executives of the Institution subject to the Compensation System associated with risks, and to interpret, manage, modify and, where appropriate, propose to the Board the termination of the retention plan.
    a. Take any necessary action for the effective and timely execution of the retention plan for officers subject to the Compensation System.
    b. Report to the Board of Directors, when deemed appropriate on matters relevant to retention plan for officers subject to the Compensation System.
7. Report to the Board of Directors at least semiannually, on the operation of the Compensation System, and any time when exposure to risk assumed by the Institution, administrative, control and business units or people subject to the Compensation System, could result in an adjustment to such Compensation System.

Frequency of sessions: The Human Resources Committee meets quarterly, being free to meet more or less often, when the issues demand it.

Structure: According to Article 168 Bis 5 of the General provisions applicable to credit institutions, the Human Resources Committee must be comprised by at least two Proprietary Board Members, of which at least one must be independent (who shall preside). Furthermore, at least one of the Board Members shall be a person who has extensive experience in Risk Management or Internal Control; the Responsible of the Comprehensive Risk Management; a representative of the Human Resources area, a representative of the finance planning or budget elaboration area; and the Internal Audit, which will have voice but no vote.

In addition to what's required by the applicable regulation, the Board Members comprising the Human Resources Committee should be independent members.

The Chairman, listening to the opinion of GFNorte's CEO, may appoint alternate members when one member ceases to be part of this Committee. Each member has the right for a vote, and resolutions must be approved by a majority vote of the attending members; in the event of a tie, the Chairman of the Human Resources Committee shall have the deciding vote.

In the event that a member of this committee has a conflict of interest with any specific matter, should abstain to participate in the voting process.

MEMBERS		
Everardo Elizondo Almaguer	Proprietary Independent Member	Chairman
Thomas S. Heather Rodríguez	Proprietary Independent Member	Member
Eduardo Livas Cantu	Proprietary Independent Member	Member
Gerardo Salazar Viezca	Responsible of the Comprehensive Risk Mgmt	Member
Javier Beltran Cantu	Human Resources Representative	Member
Rafael Arana de la Garza	Financial Planning Representative	Member
Isaias Velazquez Gonzalez	Internal Auditor	Member (Voice / w/o vote)
Rogelio Cardenas Solis	Secretary	Non-Member

Quorum: The Committee's resolutions will be constituted when the majority of the members attend the meeting, having to be always present at least one of the proprietary members of the Board of Directors as independent.

NOMINATIONS COMMITEE

In the Extraordinary General Shareholders' Meeting held on October 17, 2011, it was approved to create this Committee, in order to do so, Article Thirty-seven Bis-1 was included in the Corporate Bylaws. On July 4, 2014, GFNorte's Bylaws were fully amended by resolution of the Extraordinary General Shareholders' Meeting, including changes to the numbering corresponding to the Nominations Committee to Article Forty-Fourth.

Moreover, GFNorte's Extraordinary General Shareholders' Meetings held on November 19, 2015 and August 19, 2016, approved the amendment to Article Forty-four of GFNorte's Corporate Bylaws regarding the integration and operation of the Nominations Committee.

Structure: The Nominations Committee will be designated by the Board of Directors, and will be comprised of at least seven members, who shall be part of the Board of Directors and of whom four must be Independent Members and one, the Chairman of the Board, who will preside the Committee.

Each member has the right for a vote, and resolutions must be approved by a majority vote of the attending members. In the event of a tie, the Chairman of the Nominations Committee shall have the deciding vote. In the event that a member of this committee has a conflict of interest with any specific matter, should abstain to participate in the voting process, not affecting the required quorum for Committee.

MEMBERS	
Carlos Hank González	Chairman
Jose Marcos Ramirez Miguel	Member
Juan Antonio González Moreno	Member
Everardo Elizondo Almaguer	Independent Member
Alfonso de Angoitia Noriega	Independent Member
José Antonio Chedraui Eguía	Independent Member
Thomas Stanley Heather Rodríguez	Independent Member
Héctor Ávila Flores	Secretary Non-member

Faculties:

1. Propose for approval by the Shareholders' Meeting the appointment of the members of the Company's Board of Directors, of the Financial Groups' subsidiaries and if the case sub holdings.
2. Elaborate an opinion regarding the persons who will hold the position of CEO at the Company, of the Financial Group's subsidiaries and if the case sub holdings, without prejudice to the faculties assigned to the Audit and Corporate Practices Committee in terms of Article Thirty-three, paragraph III, section d) of these bylaws.
3. Propose for approval by the Shareholders' Meeting or by the Board of Directors, the compensation for the members of the Company's Board of Directors and its Committees, as well as the Boards of the Financial Groups' Subsidiaries and if the case sub holdings.
4. Propose for approval by the Shareholders' Meeting or by the Board of Directors, the removal of members of the Company's Board of Directors, as well as from the Board of any of the Financial Groups' Subsidiaries and if the case sub holdings.

The operation and functioning of the Nominations Committee will be subject to the policies and guidelines approved by the Board of Directors of GFNorte.

Frequency of sessions: The Designation Committee will hold sessions at least once a year or when convened by its Chairman.

GFNORTE TOP MANAGEMENT SUPPORT COMMITTEES

There are several committees which support GFNORTE's Top Management's work, which propose and resolve within their abilities, diverse aspects related with the progress of the business. The Managing Directors of areas that report directly to the CEO sit on these Committees, as well as other officials responsible for specific areas. These Committees are detailed as follows:

1 Security
2 Central Credit
3 Central Credit Recovery
4 Assets and Liabilities
5 Financial Markets
6 Communications and Control
7 Fiduciary Business
8 Investment Projects
9 Integrity
10 Investments in Managed Portfolios
11 Parametric Loan
12 Investment Services
13 Personal Data Protection
14 Recovery and Continuity
15 Sustainability
16 Derivatives

SECURITY COMMITTEE

Objective: Propose improvements and seek solutions to physical security problems that affect the institutional assets or pose risks of embezzlement by employees or third parties, considering the employees' physical integrity, through changes to processes and procedures, as well as sanction whoever is responsible for unhealthful practices in their financial function and services at the Financial Group.

Functions:

1. To analyze the origin of the damage or risk of irregular events of third parties or employees.
2. To implement preventive measures to avoid risk, through changes in the operative or management processes and send messages to alert managers, officers and employees.
3. To take corrective measures and actions in the face of irregular or illicit behavior by managers, officers and employees (Labor Sanctions) and by third parties (Legal Action). Considering provisions in the "Guidelines for the care of unlawful acts by officers".
4. Evaluate and follow up resolutions made in the Work Group, and decide on queries or requests submitted by this group.

Frequency of sessions: The Committee will be hold regularly on a monthly basis, the third thursday of the month. Furthermore, it can also gather extraordinarily in virtue of the risk or gravity of a particular case.

Integration:

MEMBERS		
Jorge Eduardo Vega Camargo	DMD Comptrollership	Chairman
Hector Ávila Flores	DMD Legal	
Isaias Velazquez Gonzalez	MD Internal Audit	
Javier Beltrán Cantu	DMD Administration & Human Resources	
Eduardo Mercadillo Franco	ED Frauds	
Ricardo Morales Gonzalez	ED Information Security	
Juan Manuel Márquez Goitia	D Specialized Unit of Attention to Users	Secretary, Not Member

CENTRAL CREDIT COMMITTEE

Functions:

Resolving the credit applications presented by the clientele through banking areas, based on the experience and knowledge of GFNORTE's officers regarding the situation of the different sectors, regional economies and specific clients, with a focus on business profitability and measurement of institutional risk.

The Central Credit Committee is supported by various committees with different geographical coverage and risk budgets. Furthermore, a scheme of individual or joint faculties exists so GFNORTE's officers can authorize transactions to special clients occasionally.

Frequency of sessions: The Central Credit Committee convenes every fifteen days. The Credit Committees supporting it convenes with the same frequency, or if needed, on a weekly basis or more frequently as required.

Integration:

MEMBERS	
Gerardo Salazar Viezca (1) (2)	Chairman and Coordinator
José Wilfrido Lozano Merino (2)	Alternate Coordinator
Rafael Hinojosa Cárdenas (2)	Alternate Coordinator and Secretary
Germán Ballesteros Quezadas (2)	Alternate Coordinator
José Armando Rodal Espinosa (3)	Vote and voice
Jorge de la Vega Grajales (6)	Vote and voice
Victor Antonio Roldan Ferrer (3)	Vote and voice
Carlos Eduardo Martínez González (3)	Vote and voice
René Gerardo Pimentel Ibarrola (3)	Vote and voice
Mario Alberto Treviño Villarreal (2)	Vote and voice
Arturo Monroy Ballesteros (3) (4)	Vote and voice
Héctor Ávila Flores	Vote and voice
Alberto Pérez-Jácome Friscione (5) (7)	Veto and voice
Eduardo Santoyo Vásquez (5) (7)	Vote and voice
Manuel Sarmiento Serrano (5)	Vote and voice

Samir Abud Espinosa (3) (8)	Vote and voice
Raúl Carreto Diaz(3) (7)	Vote and voice
Audit Representative	Voice
Comptroller Representative	Voice
Sustainability Representative (8)	Voice

(1) Your participation is focused on guaranteeing compliance with the credit process policies.
(2) Credit Officer.
(3) Business Officer.
(4) In the case of credit requests from groups that have authorized Investment Projects, it has a voice without vote.
(5) External Member.
(6) Only participates in cases involving the Federal Government.
(7) Only participates in Credit Applications related to cases of Infrastructure Projects.
(8) Only participates in Credit Applications related to cases in the portfolio of the State and Municipal Government segment.
(9)Cases with loan amounts equal to or greater than $500,000,000 pesos, with socio-environmental due diligence, classified as high or medium risk and belonging to sensitive sectors such as infrastructure, tourism, construction, mining, energy, agriculture, and oil and gas, or in those cases where the Committee and ARSA deem it necessary.

CENTRAL CREDIT RECOVERY COMMITTEE

Functions:

Resolve clients' recovery proposals that are under management of the Asset Recovery Business as well as Transactional Banking borrowers that propose cash settlements, restructurings and payments in kind or conversions of debt to equity, that could imply or not debt cancellations or write-offs.

Additionally, Recovery committees manage the resolutions proposal of the sale of foreclosed assets according to the following:

1. Analyze the sale value of Foreclosed Assets, based on financial rationale, considering present value and cost of money.
2. Propose to the Risk Policies Committee adjustments to the Sale of Foreclosed Assets policy.
3. Analyze, and if the case authorize, all the sale proposals of Foreclosed Assets.
4. Analyze the quarterly report of transactions of the Administration and Sale of Assets department.
5. Overview the progress and compliance of the sale of Foreclosed Assets, as well as duly coordination of the involved departments.
6. Decide on the hiring of brokers or companies specialized in real estate sale; in case of urgency, this decision shall be made by 3 members informing (and establishing in the corresponding minutes) to the Committee in the next session.
7. Manage every issue related to the sale of Foreclosed Assets not considered herein.

Integration:

Central Credit Recovery Committee			
Propetary Members		**Faculties**	**Quorum**
Jorge Abiel Garza Bautista	Coordinator	Cash settlements, restructurings and	For Recovery proposals:
Sergio García Robles Gil	Coordinator		

<table>
<tr><td>Gerardo Salazar Viezca</td><td>Coordinator</td><td rowspan="25">dations in payment of loans greater than $10 million pesos, debt booked by Grupo Riesgo Común at Grupo Financiero Banorte level and of loans greater than $30 million pesos, capital debt for portfolios acquired/managed by the Asset Recovery Area.
Additional credit per customer for up to 10% of the carrying amount or $10 million pesos, whichever is less. Higher amounts must be authorized by the National Credit Committee and, if applicable, by the Central Credit Committee.
Sale of GFNorte's Own Property and/or Assets whose appraised commercial value is equal to or greater than $5 million pesos.
Sale of GFNorte's own assets, previously assigned to the Banorte Real Estate Area for sale. For these cases, the Policies established for the sale of Foreclosed Assets must be applied, and in the event that the sale is proposed to be made below the value recorded in the books, the signature of the Deputy General Director of Asset Recovery must be obtained only in the event that this officer has not participated in the Committee meeting where the sale was authorized.
Substitution of the Debtor.</td><td rowspan="25"><u>Minimum of 4 voting members:</u> 2 of the 4 members must be Coordinators and, at least 2 of the 4 must not be attached to the Asset Recovery Area.

In the case of proposals for the Sale of Assets: minimum 3 voting members: 1 of the 3 members must be Coordinator and, at least 2 of the 3 who are not attached to the Asset Recovery Area.

Decision by majority in both approaches, in case of a split decision, the signature of the General Director of GFNorte must be counted, but never with more than 2 votes against.

The participation of a representative of the Legal Department is mandatory, especially in cases within its sphere of influence.</td></tr>
<tr><td>José Wilfrido Lozano Merino</td><td>Coordinator</td></tr>
<tr><td>Armando Rodal Espinosa</td><td>Coordinator</td></tr>
<tr><td>Rafael Hinojosa Cárdenas</td><td>Coordinator</td></tr>
<tr><td>Gerardo Zamora Náñez</td><td>Coordinator</td></tr>
<tr><td>Roberto González Mejorada</td><td>Coordinator</td></tr>
<tr><td>Armando Melgar Samperio</td><td></td></tr>
<tr><td>Rodolfo Fuentes Moreno</td><td></td></tr>
<tr><td>Antonio Fernández Montero</td><td></td></tr>
<tr><td>Hector Ávila Flores</td><td>Without vote</td></tr>
<tr><td>Director Ejecutivo Jurídico Recuperación Activos.</td><td>Without vote</td></tr>
<tr><td>Carlota Hinojosa Salinas</td><td>Without vote</td></tr>
<tr><td>Representante del Área de Prevención y Control Institucional</td><td>Without vote</td></tr>
<tr><td>Representante de Auditoria</td><td>Without vote</td></tr>
<tr><td colspan="2">Alternate Members</td></tr>
<tr><td>José Marcos Ramírez Miguel</td><td>Coordinator</td></tr>
<tr><td>Rafael Arana de la Garza</td><td>Coordinator</td></tr>
<tr><td>Mario A. Barraza Barrón</td><td>Coordinator</td></tr>
<tr><td>Enrique Argüelles Illoldi</td><td>Coordinator</td></tr>
<tr><td>Carlos Rafael Arnold Ochoa</td><td>Coordinator</td></tr>
<tr><td>Carlos Martínez González</td><td></td></tr>
<tr><td>Gerardo Salazar Muro</td><td></td></tr>
<tr><td>Director Jurídico de Recuperación de Activos de Región o Producto que corresponda.</td><td>Without vote</td></tr>
<tr><td>Rosa Martha Nuñez Escamilla</td><td>Secretary without vote</td></tr>
<tr><td>Horacio Antonio Díaz Vásquez

Blanca Deyanira García Reyes</td><td>Secretary without vote

Secretary without vote</td></tr>
<tr><td colspan="4">Nota:
Jorge Ruiz Cortázar, Director Ejecutivo de Recursos Materiales puede participar como miembro propietario con voto en las propuestas de Venta de Bienes.</td></tr>
</table>

ASSETS AND LIABILITIES COMMITTEE

Objectives:

1. Strategies of:
    - Coverage, management and optimization of the Balance.
    - Capital structure and emissions of hybrids (Basel III).
    - Management of the cost of funds and liabilities issues.
2. Monitor the alignment of prices and rates *.
3. Maximize the benefit of the products offered *.
4. Oversee the execution of the balance hedging policy.
5. Analyze and validate topics related to:
    - The return on capital and assets.
    - The use of capital and liquidity.
    - The financial margin.
6. Validate:
    - Debt and Capital Structures of the Banking and GFN Sector.
    - Investments in Fixed Assets over 100 MM pesos.
    - Structural or balance sheet investments of the GFN subsidiaries.
    - Investment in new subsidiaries.
7. Monitor key indicators of:
    - Cost of funds.
    - Margin.
    - Capital.
    - Liquidity.
8. Validate premises and results of the capital adequacy assessment and contingency plans for internal and regulatory liquidity, stress tests of the CNBV.
9. Authorize transactions with Assets between GFN companies.
10. Authorize new investments in compliance with the Volcker Rule.

* The BAP sector is not included.

Functions:

1. Authorize prices and rates for commercial programs*.
2. Review, verify and authorize rates and prices policies and their exceptions*.
3. Authorize the issuance of medium and long term liabilities (>1 year)
4. Authorize debt issuance in GFNorte.
5. Approve the issuance of capitalization instruments.
6. Review, verify and authorize liquidity and capitalization policies of the bank.
7. Authorize strategic investment of GFNorte’s subsidiaries.
8. Approve investments in new subsidiaries.
9. Review and approve divestiture proposals in subsidiaries.
10. Review, verify and authorize the compliance with Volker Rule related to GFNorte’s and subsidiaries’ new investments.

*Excludes BAP Sector.

Higher court: CPR

- Decisions will be under the guidelines, policies and powers granted by the CPR.

Frequency of sessions: Meetings are held at least once a month; the Coordinator is responsible for the agenda and convene sessions.

Integration:

Assets and Liabilities Committee		
Position	**Member**	**Participatio**
COO and CFO	Rafael Arana de la Garza	With voice, vote and veto power
Wholesale Bank	Armando Rodal Espinosa	With voice and vote
Risk and Credit	Gerardo Salazar Viezca	With voice and vote
Government Banking	Carlos Eduardo Martínez González	With voice and vote
Commercial Banking	Mario Alberto Barraza Barrón	With voice and vote
Product development	Fernando Solís Soberón	With voice and vote
Treasury	Carlos Alberto Arciniega Navarro	With voice and vote
Digital Development	José Francisco Martha González	With voice and vote
Legal	Héctor Ávila Flores	With voice and vote
Human Resources	Javier Beltrán Cantú	With voice and vote
Markets and Institutional Sales	Alejandro Eric Faesi Puente	With voice
Financial Risk Management	Ignacio Saldaña Paz	With voice
Deposits	Roberto Cano	With voice
Transactional Banking	Raúl Alejandro Arauzo	With voice
Risk	Abraham Mohamed Izquierdo García	With voice
Financial Planning (Secretary)	Roberto González Mejorada	With voice
Profitability	David Delgado Sánchez	With voice
Accounting	Mayra Nelly López López	With voice
Coporate Governance	Diego González Chebaux	With voice
Investor Relations	Tomás Lozano Derbez	With voice
Guest	Guest Directors	With voice
Guest	Audit	With voice
Guest	Treasury	With voice
Guest	Comptroller	With voice

FINANCIAL MARKETS COMMITTEE

Objective:

To be the corresponding body to approve general strategies for investment and buy-sell of financial instruments, complying with what was approved by the CPR for GFNorte and its subsidiaries.

Functions:

1. Analysis of the national and international economic environment.
2. Approval of general investment strategies (maximum amounts, stop loss levels, profit taking, maximum terms, types of instrument, etc.) and trade of financial instruments. Follow-up on the Balance Sheet and define strategies for risk in proprietary investment portfolios proposed by the business areas that manage those portfolios.

3. Review and evaluate the portfolios.
4. Supervise compliance with limits authorized by the Board of Directors or by the corresponding Risk Policies Committee.
5. Define investment strategies in abnormal situations of risk.
6. Review of parameters and definition of remedial measures of liquidity when applicable (absence of a secondary market, low liquidity, etc).

Frequency of sessions: Meetings shall be hold every two weeks; the Secretary is responsible for coordinating the agenda and convening sessions. In the event that the financial situation requires it, any member can summon extraordinary meetings.

Integration:

MEMBERS			
Position	**PROPRIETARY**	**ALTERNATE**	
Markets and Institutional Sales (President)	Alejandro Eric Faesi Puente	Bruno Alberto Grebe Martínez	With voice and vote
Derivatives	Dan Perkulis Zimbal	Jacaranda Alicia Nava Villarreal	With voice and vote
Money Market and Derivatives	Jorge Arturo García Pares	Héctor López Morales	With voice and vote
Market Risk	Oscar Guadalupe Vela Hinojosa	Efraim Pérez Abea Camarena	With voice and vote
Financial Risk	Abraham Mohamed Izquierdo García	Jorge Arturo Espinosa Moore	With voice and vote
Financial Risk Management	Ignacio Saldaña Paz	Héctor Raúl Camacho Riveros	With voice and vote
Risks	José Gerardo López Hoyo	Eric Guerrero Piña	With voice and vote*
Stock Exchange and Market Comptroller (Secretary)	Miguel Ángel Arenas López	Gabriela Guadalupe Cruz Martínez	Voice
Audit Representative	Invited without voice		

***Only regarding Long-term savings' related matters

COMMUNICATIONS AND CONTROL COMMITTEE

Each GFNORTE entity whose regulation so dictates, has a Committee engaged in the prevention of money laundering that complies with regulatory functions. Below we present the committee corresponding to Banorte as an example of the functions performed.

Functions:

1. Submit for the approval of the Audit Committee of the entity involved, Know-Your-Client policies as well as User Identification policies which the entity itself should prepare, including the criteria, measures and procedures that must be developed for proper compliance, as well as any modification in compliance with that established in the General Provisions referred to in Articles 115 of the LIC;
2. Act as the competent body for receiving outcomes from the Entity's Internal Audit department with respect to the degree of efficiency of the policies, criteria, measures and procedures indicated in the section above so as to adopt appropriate actions for correcting errors, weaknesses or omissions;

3. Have knowledge of new accounts or contracts with characteristics that imply a high risk for Banorte, or any other subsidiary based on reports from the Compliance Officer, and, if appropriate, formulate the necessary procedures;
4. Establish and disseminate criteria for classifying clients based on their risk level;
5. Ensure that the Institution's systems contain, the officially acknowledged lists issued by Mexican authorities, international organisms, intergovernmental groups or authorities of other countries, of people linked to terrorism or its financing, or with other illegal activities; as well as the lists of countries or jurisdictions that apply fiscally preferable regimes or don't have measures to prevent, detect and combat operations with resources of illicit origin or financing of terrorism, or when the application of this measures is faulty, and the lists of Politically Exposed people, these last two provided by the SHCP;
6. Rule on operations that should be reported to the SHCP, through the CNBV, considered as unusual or worrisome, in the terms established in the General Provisions referred to in Article 115 of the LIC;
7. Approve the training programs for the personnel of Banorte or any other subsidiary, related to prevention, detection and reporting of conducts aimed at favoring, helping, aiding or abetting any kind of terrorism financing activities or transactions involving illegally sourced funds;
8. Inform the Institution's competent area about the conducts carried out by directors, officers, employees or representatives that infringe the Generally Applicable Dispositions referred in Article 115 of the Law of the LIC, or in the cases that such directors, officers, employees or representatives contravene the established policies, criteria, measures and procedures for the correct compliance with the Generally Applicable Provision referred in Article 115 of the LIC, with the objective of imposing the corresponding disciplinary measures,
9. Resolve other matters submitted to its consideration, related to the application of these Provisions.

FIDUCARY BUSINESS COMMITTEE

Objective: Regulate promotion, recruitment, administration and control of operations processes' in which GFNorte participates as trustee, custodian or representative.

Faculties:

1. Analyze, approve or reject medium, high and limited risks trust businesses.
2. Analyze, approve or reject promotion and hiring schemes' trust businesses.
3. Determine matters that by their risk don't need to be submitted to this Committee.
4. Analyze and decide those issues whose characteristics may eventually produce a legal, financial, administrative or reputational contingency to the institution, stemming from the hiring, operation or management of the trust businesses.
5. Remission of honorary Trustees vanquished and moratorium interest, as well as reduction in trust fees agreed.

Frequency of Sessions: Meetings will be hold permanently every first and third Wednesday of the month.

Integration:

MEMBERS		
PROPIETARY		**ALTERNATE**
Legal (Chairman)	Héctor Ávila Flores	Diego González Chebaux
Credit and Risk Management Representative	Germán Ballesteros Quezadas	Jesús Valdés Fernández

Comptrollership	Jorge Eduardo Vega Camargo	Gerardo Mejía Zacarías
Retail Banking Representative	Alberto Samir Abud Espinosa	Roberto Galarza Sacramento
Wholesale Banking Representative	Ricardo Velázquez Rodríguez	Víctor Antonio Roldan Ferrer
Operations	Luis Álvarez Trillo	Francisco Juárez Rangel
Fiduciary	Manuel Velasco Velázquez	Alejandro Martínez Velázquez
Legal Fiduciary (Secretary Not Member)	Silvia Lázaro Lázaro	
GUESTS		
Credit and Risk Managment	Gerardo Salazar Viezca	
Audit Representative	Invited (without vote)	

INVESTMENT PROJECTS COMMITTEE

Objectives: Analyze the viability of every proposal related to: 1) the acquisition of loan portfolios, 2) acquisition of real estate portfolios, and 3) investment in housing, commercial real estate, and mixed usage projects, which must be authorized in adherence to GFNORTE's strategies.

Scope: The objectives, functions, members and frequency of the investment projects committee's sessions are generally applicable to GFNORTE and subsidiaries.

Functions:

1. Analyze and approve different business transactions presented to this Committee, such as:
    a. Acquisition of loan portfolios.
    b. Acquisition of real estate portfolios.
    c. Investment in housing, malls, infrastructure and tourism projects. (see provisions at the end of this section)
    d. Extensions and changes to authorizations.
2. Monitor and review advances in the business transactions being executed, through a presentation by those responsible for each business.
3. Ensure that every business transaction presented to the Committee adheres to the minimum profitability and risk criteria established in GFNORTE and/or the Board of Solida Administradora de Portafolios.
4. Recommend that additional funds be requested to the corresponding instances in order to advance in the initiatives or projects under development that require the disbursement of additional resources.
5. Respect all provisions issued by the Risk Policies Committee (RPC) that impact its areas of influence.
6. The Committee will be able to request a review of analysis presented to it by an expert in the subject, as well as by personnel of the specialized areas.

Frequency of the sessions: Upon request by the Coordinator and/or Secretary of the Committee. Advancement on the projects should be presented at least once every three months.

Integration:

MEMBERS, QUÓRUM AND APPROVAL

CEO GFNORTE	José Marcos Ramírez Miguel	President/Coordinator	Four voting members, one of whom must be a member of the Risk area. In the absence of the Coordinator, there must be a Coordinator.
Wholesale Banking	José Armando Rodal Espinosa		Alternate Coordinator
Credit and Risk Management	Gerardo Salazar Viezca		Alternate Coordinator
Credit	José Wilfrido Lozano Merino		Alternate Coordinator
Selective Credit Management	Rafael Hinojosa Cárdenas		Alternate Coordinator / Secretary
Alternate. In the event that a representative of the Risk area is against, if there is a majority of votes, the signature of the Chairman must be obtained. In the event of a tie, the Chairman has the casting vote.	Credit Director		Germán Ballesteros Quezadas
COO and CFO		Rafael Arana de la Garza	
Investment Banking		Arturo Monroy Ballesteros	
Legal Representative		Invited (without vote)	
Audit Representative		Invited (without vote)	
Sólida or its investment vehicle Representative		Invited (without vote)	

INTEGRITY COMMITTEE

Objective:

1. Align efforts for the security and control of information to establish a security program and an effective and efficient system of secure information management under the approach of prevention.
2. Evaluate and recommend strategies to prevent risks and incidents of information security, as well as support compliance with applicable laws, regulations and internal policies of GFNorte.
3. Support and ensure the establishment of plans to treat information security risks, and plans to correct incidents and findings of information security of GFNorte companies.
4. Promote an information security culture in GFNorte.
5. Follow-up on operational risks with a score higher than 9.60 (Very High), according to number 4.1.8.4 Risk Scale of the Risks provisions.
6. Follow-up on reputational risks management.
7. Evaluate the proposal or initiatives on new products or services with operational risk, to provide their opinion on them and if the case, approve them.

Functions:

1. Define the integral strategy for Information Security.
2. Review and approve the scope, objectives, programs, policies, procedures, reports and any other documents required in the area of information security.
3. threats, risks and vulnerabilities that are presented through the different areas, assessing impacts and proposing mitigation or treatment measures.
4. Monitor, measure and report information security metrics and indicators.
5. Review and monitor information security incidents, considering measure to take.

6. the effectiveness of controls established for information security.
7. Promote knowledge and application of information security policies, as well as their proper dissemination.
8. Create work groups in order to follow-up on and attend to special risk or problematic situations related to computer security issues.
9. Analyze and evaluate and, if the case, approve risks with a score higher than 9.60 (Very High).
10. Follow-up risks mitigation with a score higher than 9.60 and risks approved by the same body, which shall be informed semiannually to the CPR.
11. Give periodic follow-up to ratios and incidents of reputational risk and conform the “Reputational Risk Work Group” which will implement mitigating measures.
12. Evaluate and, if the case, approve operational risks in proposals or initiatives of new products and services.

Frequency of sessions: Sessions are held quarterly, or if the case, when the Chairman or Secretary of the Committee deem convenient. Extraordinary sessions may also be convened.

Integration:

MEMBERS		
Credit and Risk Mangement (President)	Gerardo Salazar Viezca	Voice and Vote
Digital Business Development	José Francisco Martha González	Voice and Vote
Government Banking	Carlos Eduardo Martínez González	Voice and Vote
Commercial Banking	Mario Alberto Barraza Barrón	Voice and Vote
Product Development	Fernando Solís Soberón	Voice and Vote
Legal	Héctor Ávila Flores	Voice and Vote
Legal Middle Markets and Government	Elba Elena García Garate (Alternate of Héctor Ávila)	Voice and Vote
Comptrollership	Jorge Eduardo Vega Camargo	Voice and Vote
Human Resources	Javier Beltrán Cantú	Voice and Vote
Channel Management	Héctor Abrego Pérez	Voice and Vote
Innovation	Guillermo Güemez Sarre	Voice and Vote
Information Security	Jesús Ricardo Medina Cantú	Voice and Vote
Fraud Detection	Eduardo Mercadillo Franco	Voice and Vote
Audit	Alejandro Rodríguez Moreno	Voice
Operational Risk Management (Secretary)	Jesús Valdés Fernández	Voice and Vote
INVITED		
Information Security	Ricardo Morales González	Voice

INVESTMENTS IN MANAGED PORTFOLIOS COMMITTEE

Objective:

To approve investments in third party portfolios (Mutual funds, Portfolio Management, etc).

Functions:

The Managed Investment Portfolios Committee will be responsible for determining and update policies and general guidelines regarding:

1. Analysis of the national and international economic environment.

2. Definition of the general investment guidelines based on the applicable regulation and provisions, on the prospectus of mutual funds or on that established in the mandates of customers, previously formalizing acceptance of risks by the client.
3. Review of compliance with the guidelines defined by the Committee in third-party investment risk portfolios including loan, market and liquidity risk.
4. Follow-up on general investment strategies.
5. Approval of exceptions to the guidelines defined by extreme market situations (a rating's downgrade, increase in the VaR, greater concentration, etc.) by defining regularization strategy (buy, sell or hold)
6. Define investment strategies in abnormal risk situations.
7. Approve temporary situations that exceed prudential investment parameters approved by the Committee, always within the limits authorized by the RPC, in particular those that exceed the maximum concentration percentages of the issuer, issuance, sector and others that may be established.
8. Approve the suspension of investment funds' shares repurchase when market conditions are not favorable and always within the authorized by the Board of Directors.

Frequency of Sessions: sessions shall be held monthly and the Secretary is responsible for coordinating the agenda and convening sessions. In the event that a financial situation requires it, any member can summon extraordinary meetings.

Integration:

	MEMBERS	
Proprietary		**Alternate**
Asset Management (President)	Alejandro Aguilar Ceballos	Eduardo García Vila
Corporate Banking and Financial Institutions	René Gerardo Pimentel Ibarrola	Guillermo Abdala Brizio Cherit
Private Banking and Wealth Management	Luis Ernesto Pietrini Sheridan	Fernando Durán Garza Galindo
Markets & Institutional Sales	Alejandro Eric Faesi Puente	Jorge Arturo García Pares
Investment Banking & Structured Financing	Arturo Monroy Ballesteros	Francisco Javier Vázquez Zaragoza
Financial Rik Management	Ignacio Javier Saldaña Paz	Héctor Raúl Camacho Viveros
Financial Risk Management	Abraham Mohamed Izquierdo García	Verónica Córdova Gutiérrez
Investment Asset Management	Javier Díaz de León Opitz*	Juan Guillermo Álvarez Castillo*
Asset Manager Promotion	Manuel Lasa Lasa	Anuar Elías Rizk Heyser
Asset Management	Marco Tulio Chávez Godoy *	Mauricio Calva Ruiz de Chávez*
Market Risk	Óscar Guadalupe Vela Hinojosa	Efraim Pérez Abea Camarena
Comptrollership CB (Secretary Not Member)	Miguel Ángel Arenas López	Sandra Martínez López
	INVITED	
Audit Representative	Vanessa Lissette Rodríguez Guajardo	
Legal Representative	Juan Pablo Villela Vizcaya	

*Officer of the Business.

PARAMETRIC LOAN COMMITTEE

Objective: Promote, design and establish the policies and strategies of products for individuals (payroll, car, mortgages, credit cards and personal loans) and SMEs (Crediactivo and Empuje Negocio.)("Parametric or Consumer Loan Portfolio").

Functions:

1. Ensure compliance with the risk appetite framework and limits approved by the Risk Policies Committee and notify it in case of any deviations.
2. Approve credit and risk policies for parametric loan products according with group level policies and limits established by the Risk Policies Committee.
3. Delegate faculties to GFNorte's officers for the approval of consumer credit lines.
4. Authorize strategies and collection policies for the parametric loan portfolio.
5. Portfolio's periodically monitoring: placement, past due, scorecards' performance, rating, losses, among other aspects.
6. Resolve matters related to the bank parametric loan risk.

Frequency of Sessions: The meetings will be hold on a quarterly basis or when convened by the Chairman or Secretary. Furthermore, it can meet extraordinarily.

Integration:

	MEMBERS	
	Proprietary	**Alternate**
Credit and Risk Management (President)	Gerardo Salazar Viezca	Enrique Argüelles Illoldi
CFO and COO	Rafael Arana de la Garza	DGA Recuperación de Activos (Vacante)
Digital Business Development	José Francisco Martha González	José Gerardo Aguilar y Maya Verduzco
Commercial Banking	Mario Alberto Barraza	
Retail Risk Management	Enrique Argüelles Illoldi	Héctor Tenorio Fenton / Priscila Jimenez Ortega
Commercial products	Jesús Eduardo Reyes Smith Mac Donald	Rodrigo Aguilar Martinez
Asset Recoveries	Vacante	Jorge Abiel Garza Bautista
Credit	José Wilfrido Lozano Merino	Rafael Hinojosa Cárdenas
Retail Risk Planning (Secretary non-member)	Marco Antonio Bustillo Gutiérrez	Adriana Zuleyma Marroquín Serrano
	Permanent Invites	
	Proprietary	**Alternates**
Product Development	Fernando Solís Soberón	
Legal	Héctor Martín Ávila Flores	Elba Elena García Garate / Ana Laura Villanueva Vega / Alonso Rodríguez Quintana
Audit	Isaías Velázquez González	Juan José Villalón Ávalos
Comptrollership	Jorge Eduardo Vega Camargo	Gerardo Mejía Zacarías

INVESTMENT SERVICES COMMITTEE

Objective: The Analysis of Financial Products Committee is the entity authorized to comply with the obligations of the General Provisions applicable to brokerage houses and credit institutions related to investment services issued by the CNBV.

Functions:

1. The Investment and Portfolio Management Committee will be responsible for developing and updating policies and guidelines regarding:
   a. Authorization of information on recommended Investment Services; personalized or generalized advice or suggestions, to be delivered to customers through promotional efforts.
   b. Diversification in the composition of investment portfolios based on different investment profiles of clients, establishing maximum limits to be considered on a value, instrument, issuer or counterpart at the time of the recommendation, as well as the specific circumstances in which they could not comply with the aforementioned limits.
   c. Managing accounts comprised of financial instruments transferred from another financial institution or that would not have been subject to the investment advisory service.
   d. The general performance framework on which investment management services will be delivered (agreements with limited discretion).
   e. The parameters to be considered for the establishment of fees to be charged for investment services.

2. Develop policies and specific procedures based on the policies and general guidelines approved by the Board of Directors regarding the following matters:
   a. Evaluation and determination of clients' investment profiles
   b. Determine the profile of Investment Services
   c. Reasonableness of recommendations directed to customers.
   d. Performance parameters to be observed by the promoters providing Investment Services.
   e. Measures to avoid conflicts of interest in providing Investment Services.
   f. Analysis and follow-up on complaints or legal actions

3. Approve the profile matrix of the Investment Services, which must be identified and classified according to the different investment profiles of clients.

4. Authorize a market offering or the acquisition of new Investment Services for clients under the umbrella of advised and unadvised investment services.

5. Analyze the prices of new products and those determined by the Committee itself, through general guidelines.

6. Follow-up periodically on the performance of financial instruments, which through general guidelines the Committee determined with respect to the risk-return relationship, in order to determine the actions to be taken in making investment decisions.

7. Approve the directory of investment services provided by the institution.

Frequency of Sessions: The meetings will be hold on a quarterly basis, or when convened by the Chairman or Secretary. Furthermore, it can meet extraordinarily.

Integration:

MEMBERS

	Proprietary	Alternates	
Financial Risks (President)	Abraham Izquierdo García	Gerardo Salazar Viezca	Voice, Vote and Veto
Asset Management	Alejandro Aguilar Ceballos	Manuel Lasa Lasa*	Voice and Vote
Markets and Institutional Sales	Luis Pietrini Sheridan	Ruth Drumond*	
Economic Research	Alejandro Padilla	Manuel Jiménez	Voice and Vote
Legal	Diego González Chebaux	Juan Pablo Villela Vizcaya	Voice and Vote
Comptrollership	Jorge Eduardo Vega Camargo	Gerardo Mejía Zacarias	Voice and Vote
Balance Management	Ángel Hinojosa Garza	Herminio Alfaro Arcibar	Voice and Vote
Wealth Management	Arturo Monroy Ballesteros	Pablo de la Peza*	Voice and Vote
Stock Market Comprollership	Miguel Ángel Arenas López	Itzia Mariana Guerrero	Voice and Vote
Financial Market Risk	Ignacio Saldaña Paz	Gabriela Corona Guerra	Voice and Vote
Markets and Institutional Sales	Alejandro Eric Faesi Puente	Jorge Arturo García Pares	Voice and Vote
External Advisor	Adán Jorge Peña Guerrero		Voice and Vote
External Advisor	Gilberto Martínez		Voice and Vote
External Advisor	Jaime Díaz		Voice and Vote
Market Risks (Secretary Non-Member)	Oscar Guadalupe Vela Hinojosa	Efraim Pérez Abea Camarena	Voice
	Invited		
Audit Representative	Alfredo Santiago García	Rogelio Santana Valdez	Voice

PERSONAL INFORMATION PROTECTION COMMITTEE

Purpose:
To analyze, evaluate, and anticipate risks and issue resolutions regarding personal information protection at Banorte, by planning, monitoring, reviewing policies, procedures, strategies and continual improvement actions regarding personal information protection, as well as activities that promote their protection, seeking to benefit the interests of account holders and protecting the reasonable expectation of privacy, internal and external regulation.

Duties:

A. Update internally mandatory policies and privacy programs
B. Implement a training, and awareness program
C. Establish an internal surveillance system or conduct external audits.
D. Assign resources towards program implementation and privacy policies.
E. Establish a procedure to address and mitigate personal data protection risks derived from the implementation of new products, services, technologies and business models.
F. Periodic reviews of policies and security programs.
G. Establish procedures to receive and answer customer questions and complaints.
H. Implement mechanisms to enforce policy and privacy programs compliance, as well as sanctions for their non-compliance.
I. Establish measures to safeguard personal information
J. Establish measures that enable proper tracking of personal information during its use and treatment.

Frequency of committee sessions: The Personal Data Protection Committee must meet quarterly.

Quorum:

A. Committee sessions will be legally constituted with the attendance of the majority of its members.
If the minimum quorum is not met, a new session will be convened stating its new date, place and time, and must follow the same procedure as the original one.

B. In case of absence of the President, the attending members may nominate one that will take his/her place for that particular session. In case of absence of the Secretary, the President may designate a substitute Secretary among the attending members.

Integration:

MEMBERS				
	Proprietary		**Alternates**	**Area of competence**
Comptrollership (President)	Jorge Eduardo Vega Camargo	Voice and Vote	NA	Comptrollership
Legal and Regulatory Compliance (Secretary)	Jesús Ricardo Medina Cantú	Voice and Vote	Gloria María Sánchez Alba	Personal Data Control
Profitability and Data Governance	David Delgado Sánchez	Voice and Vote	José de Jesús Lomelí Parga	Data Governance
Regulatory Comptroller	Gerardo Mejía Zacarías	Voice and Vote	Carmen Navarro Popoca	Regulation
Talent Management Specialist	Mauricio Dávila Ramírez	Voice and Vote	Brenda Lucía Chavez Rodríguez	Training
Human Resources	Jesús Martínez Celis	Voice and Vote	Javier Roberto García González	Labor Relations
Communication and Culture	Alejandro Badillo Villeda	Voice and Vote	Lucero Jazmín Arteaga Tapia	Internal Communication
Legal Companies, Corporate and Government	Ana Laura Villanueva Vega	Voice and Vote	Silvia Carolina Arana Guajardo	Legal / Products
Legal International Business and Marketing	Diego González Chebaux	Voice and Vote	Verónica Lorena Rodríguez González	Legal / Suppliers
Legal and Asset Recovery	Ángel Varela Torres	Voice and Vote	Mayra Merit Serrano Sánchez	Legal / Disputes
Audit, Operations and Subsidiaries	David Guillén Zúñiga	Voice and Vote	Anabel González Viaña	Audit
Protection, Security and Intelligence	Javier Hernández Vargas	Voice and Vote	Epigmenio Treto Martínez	Security
Security of the information	Ricardo Morales González	Voice and Vote	Manuel Alejandro Ceballos Soto	Security of the information
Analytics	José Antonio Murillo Garza	Voice and Vote		Analytics
Operational Risk	Jesús Valdés Fernandez	Voice and Vote	Rogelio Aaron Lárazo Bustamante	Operational Risk
Data Security and Control	José Antonio Mendoza Noriega	Voice and Vote	Fernando Alameda Juárez	Data Security and Control

GUESTS BANKING PRODUCTS AND SERVICES		
Deposits	Jacobo Martínez Garza	Voice
Credit Card	Rosa María Castañedo Robles	Voice
Mortgage and Auto	Jesus Eduardo Reyes Smith Mac Donald	Voice
GUESTS PROCESS CONTROLLERS		
Security and Comptrollership Channels	Quirino Castro Flores	Voice
Regulatory Compliance Credit Card	Luz del Carmen González Arvizu	Voice
Regulatory Compliance Deposits	Jorge Alberto Garza Garza	Voice
Humand Resourses and Medical	Luis Mario Ochoa Gómez	Voice
Internal Control Technology	Marcos Ricardo Rivera Valdovinos	Voice
Administrative Comptroller's Office Asset Recovery	Rodrigo Ruiz Treviño	Voice
Commercial Comptroller	Hugo Domínguez de León	Voice

RECOVERY AND CONTINUITY COMMITTEE

Objective:

To be the body with faculties to:

A. In case of service interruption, evaluate the impact of damages, identify affected business areas, estimate the recovery time; and
B. In case of a disaster, coordinate the resume of operations and report to the Technology and Investment Committee and the CEO.

Functions:

A. Ensure that the Business Continuity Plans (BCP: Processes, Procedures, Communication, etc.) including the Disasters Recovery Plan (DRP) are documented, current and proven to respond to a contingency in an organized manner.
B. Ensure that the different components (Hardware, Software, Communications, data, etc.) of the Alternate Computer Center are installed and available for a contingency.
C. Ensure the availability and proper functioning of the facilities located in the Alternate Computer Center.
D. Monitor the execution of DRP and BCP.
E. Request the necessary resources from the Technology and Investment Committee to coordinate and execute test runs of the DRP and BCP at least once a year.
F. Coordinate the actions of the Immediate Response Team (Crisis Center) to evaluate the impact, identify the affected business areas, estimate recovery time and prioritize the actions to be executed in the event of a lingering interruption of services.

In the event of a declared disaster, to coordinate the recovery and/or continuity at an Institutional level until ensuring the total recovery of all the necessary components for operation (software, hardware, communications, human and materials resources, clients, suppliers, etc).

Frequency of sessions: The Recovery and Continuity Committee will hold sessions on the first Friday of February, May, August and November or when convened by the Committee's Chairman or Secretary. Furthermore, it can meet extraordinarily.

Quorum: Committee sessions will be valid constituted with the attendance of five of its members.

MEMBERS		
Proprietary		**Alternate**
Comptrollership (Chairman)	Jorge Eduardo Vega Camargo	N/A
Technology	Fernando Treviño Elizondo	Delfín Ruíz Favela
Material Resources	Jorge Ruiz Cortazar	Javier Gerardo Escalera Reyna
Information Security	Ricardo Morales González	Sergio Octavio Torrontegui Ávila
Information Technology Audit	Alejandro Rodríguez Moreno	
Information Technology	Rafael Cordova Puón	Mario Filiberto Flores Vargas
Operational Risk	Jesús Valdés Fernández	N/A
Comptrollership (Brokerage)	Miguel Angel Arenas López	Sandra Martinez Lopez
Hmance Resources	Javier Beltrán Cantú	Luis Mario Ochoa Gómez
Corporate Control and Compliance	Alfonso García Cacho Herrerías	Homero Martínez Hernández
Channel Innovation	Héctor Abrego Pérez	Quirino Castro Flores
Corporate Banking and Financial Institutions	Rene Gerardo Pimentel Ibarrola	Guillermo Abdala Brizio Cherit
Brokerage Operations	Eduardo Vázquez Villegas	N/A
Banking Operations	Luis Álvarez Trillo	Gabriel Guardiola Sánchez
Protection and Security	Javier Hernández Vargas	Epigmenio Treto Martínez
Technological Infrastructure Production	Eduardo Martínez Ham	N/A
Comptrollership Leasing and Factoring	Luis Gerardo Moreno Santos	Alberto Gerardo González Pérez
Business Continuity (Secretary)	Gerardo Delgadillo Ramos	Gerardo Delgadillo Ramos
Corporate Communication	Fernando Solís Cámara y Jiménez Canet	Francisco Luis Rodríguez Daniel
Information Security Officer	Jesús Ricardo Medina Cantú	N/A

SUSTAINABILITY COMMITTEE

Objective:

A. Manage the sustainability strategy and its alignment to the business vision.
B. Permeate the sustainability strategy in all the subsidiaries and levels of the Group.
C. Approve Institutional initiatives in the matter of sustainability, verifying that they are in accordance with the business strategies approved by the Board of Directors of GFNorte.

Functions:

A. Define the Group's sustainability strategy and action plan in accordance with the strategic guidelines defined by the GFNorte Board of Directors.
B. Develop and keep sustainability policies updated.
C. Promote that business and administrative decisions take into account the possible impacts that may arise in social and environmental aspects, promoting at all times the best corporate governance practices.
D. Authorize the action plan and goals regarding sustainability, as well as follow up on its results.

E. Propose the integration of environmental, social and corporate governance aspects as an integral part of Institutional processes.
F. Communicate within and outside GFNorte the relevant issues related to sustainability.
G. Analyze the convenience and opportunity of promoting strategic alliances with third parties aimed at strengthening GFNorte's presence as a sustainable company.
H. Encourage the active participation of GFNorte companies' collaborators in sustainability initiatives.
I. Assign a budget item and define the amount for the activities derived from the topics discussed in the Committee, subject to the review and approval of the Financial Planning Directorate.
J. Make decisions about the Sustainability strategy and be accountable for the performance of the initiatives.

Frequency of sessions: The Sustainability Committee meets every six months, where appropriate, members may request an extraordinary session subject to the approval of the President, when relevant issues arise.

Quorum:
The sessions of the Committee are validly constituted with the assistance of the majority of its members.

If the quorum cannot be integrated, a new session is called, which must be held at the place, date and time stated in a new call, which must follow the same process as the previous one.

Integration:

MEMBERS			
	Proprietary		**Area**
Economic Research (President)*	Gabriel Casillas Olvera	Voice and Vote	Economic Research, Investor Relations and Sustainability
Humgan Resources	Javier Beltrán Cantú	Voice and Vote	Material Resources Human Resoureces
Wholesale Banking	Armando Rodal Espinosa	Voice and Vote	Wholesale Banking
Credit and Risks	Gerardo Salazar Viezca	Voice and Vote	Credit and Risks
Government Banking	Carlos Eduardo Martínez González	Voice and Vote	Government Banking
Commercial Banking	Mario Alberto Barraza Barrón	Voice and Vote	Commercial Banking
Product Development	Fernando Solís Soberón	Voice and Vote	Product Development
Comptrollership	Jorge Eduardo Vega Camargo	Voice and Vote	Comptrollership
Communication and Public Affairs	Fernando Solís Cámara y Jiménez Canet	Voice and Vote	Communication and Public Affairs
Investor Relations Director	José Luis Muñoz Domínguez	Voice and Vote	Investor Relations, Corporate Finance Sustaianbilityt
Digital Business Director	Francisco Martha González	Voice and Vote	Digital Banking Financial Strategy ATMs
Legal	Héctor Ávila Flores	Voice and Vote	Legal
Audit	David Guillén Zúñiga	Voice without Vote	Audit Audit
Sustainability (Secretary)	Britzia Silva Enciso	Voice without Vote	Sustainability

DERIVATIVES COMMITTEE

The main objective of the Derivatives Committee is to evaluate and, where appropriate, approve the proposals for derivatives product operations without associated Banorte´s own credit and / or derivatives with exotic structures. Because a counterparty line is required, the Derivatives Committee will recommend to the corresponding Credit Committee the authorization of the credit line, actively exercising the approval powers granted by the Risk Policies Committee as delegated by the Board and within the terms, conditions and risk limits established by the regulatory provisions, as well as the policies and limits approved by the Risk Policy Committee.

Functions:

Approve:

A. Any type of operation with a derivative product that generates a credit exposure. All derivative applications will go through the Derivatives Committee in person or by mail (except for line renewals or extensions without change in the structure or characteristics of the derivative structure).
B. Unwinds of operations for amounts greater than 50 million pesos.
C. Any derivative transaction considered exotic structure (products that are not swaps, options or plain vanilla forwards).
D. Any changes in margin calling schemes. It must have approval from the Treasury Department, in addition to the Credit Committee for its involvement in liquidity and price of counterparty risk (XVA).

Frequency of sessions: Meetings are held biweekly; the agenda and call to the session is managed by the President. Extraordinary sessions will be held as required.

Quorum: Committee sessions will be validly constituted with the attendance of at least six voting members, three of which must belong to Staff Areas, at least one credit member, one risk member and one member of the business area.

Membership:

	MEMBERS		
	Proprietary	**Alternate**	**Power**
Credit and Risk Management (President)	Gerardo Salazar Viezca		Voice, Vote and Veto
Financial Risk (Secretary)	Abraham M. Izquierdo García	José P. Gutiérrez López	Voice and Vote
Independent Board Member	Clemente Reyes Retana Valdés	Thomas S. Heather Rodríguez	Voice and Vote
External Adviser	Manuel Sarmiento Serrano	Raúl Ojeda Zataraín	Voice and Vote
External Adviser	Jaime Díaz Tinoco	Fausto Hernández Trillo	Voice and Vote
Credit	José W. Lozano Merino	Alejandro Cruz Alemán	Voice and Vote
Selective Credit	Rafael Á. Hinojosa Cárdenas	German Ballesteros Quezadas	Voice and Vote
Profitability and Data Governance	David Delgado Sánchez	Martha Criselda Montemayor	Voice and Vote
Special Credit	Mario Alberto Treviño Villarreal	Jesús Alejandro Hernández Rivas	Voice and Vote
Markets and Institutional Sales	Alejandro E. Faesi Puente	Dan Perkulis Zimbal	Voice and Vote
Transactional Banking	Alejandro Arauzo Romero	Miguel Á. Tejeida Vilchis	Voice and Vote

MEMBERS	Proprietary	Alternate	Power
Financial Risk Management	Ignacio Saldaña Paz	Gabriela A. Corona Guerra	Voice and Vote
Derivatives	Jacaranda A. Nava Villareal	Jorge A. Espinosa Moore	Voice
Wholesale Banking Operations	José S. Hurtado Anguiano	Laura R. Aguirre García	Voice
Audit	Vanessa Rodríguez Guajardo	Leticia González Saldaña	Voice
Comptrollership	Miguel Ángel Arenas López	Jorge Eduardo Vega Camargo	Voice
Corporate Governance	Diego González Chebaux	Juan Pablo Villela Vizcaya	Voice
INVITED			
Relationship Banking Representative	Voice		
Government Banking Representative / Infrastructure / Special Credit	Voice		
Comptrollership Representative	Voice		
Audit Representative	Voice		

Main Officers as of December 2020*

Name	Years in the company	Current Position	Age	Gender	Maximum Level of Education	Main executive positions at other companies
Jose Marcos Ramirez Miguel	11.1	GFNorte's CEO	58	Male	MBA	Santander Mexico
Carlos Eduardo Martinez Gonzalez	22.7	MD Retail Banking	58	Male	MBA	Grupo Financiero Serfin
Jose Armando Rodal Espinosa	28.7	MD Wholesale Banking	52	Male	MBA	ITESM
Fernando Solis Soberon	14.5	MD Long-Term Savings	60	Male	Ph.D.in Economics	Grupo Nacional Provincial, Grupo Bal, CONSAR, Comision Nacional de Seguros y Fianzas
Rafael Victorio Arana de la Garza	10.3	COO	70	Male	Master's degree in Industrial and Operational Engineering	Managing Director of HSBC's Retail Banking for Latin America and the Caribbean. Deputy CEO of HSBC Mexico.
Isaias Velazquez Gonzalez	23	MD Internal Audit	59	Male	Public Accountant	CNBV
Javier Beltrán Cantú	25.2	MD Admon. and Human Resources	53	Male	MBA Master in Accountability	DOVETAIL MEXICAN FOODS, GRUMA CORPORATION
Héctor Martín Ávila Flores	6.9	MD Legal	54	Male	Bachelor's degree in Law	University Holdings - Chairman y DGA Banco Invex – Legal Director Fiduciary Terra Editorial Consortium - Legal Director Editorial Televisa - Legal Director
Gerardo Cuitláhuac Salazar Viezca	1.8	MD Credit and Risks	60	Male	PhD in social sciences and Bachelor degree in Economics	Grupo Financiero Interacciones
José Francisco Martha González	7.5	Digital Business Development	52	Male	QFB	Scotibank
Mario Alberto Barraza	24.2	DG Commercial Banking	59	Male	Computer System Engineer	Grupo Financiero Interacciones,

Name	Years in the company	Current Position	Age	Gender	Maximum Level of Education	Main executive positions at other companies
Fernando Valenzuela Bracamontes	18.5	North Territorial Director	46	Male	MBA	
Humberto Luna Gale	15.9	Mexico City Territorial Director	59	Male	Executive MBA	Santander Serfin
Alfonso Paez Martinez	23.9	Central Territorial Director	56	Male	Executive MBA	Casa de Bolsa Abaco and Casa de Bolsa Probursa
María del Pilar Moreno Hernández	5.8	Northern Territorial Director	50	Male	Bachelor's degree in Financial Management	Banco Santander
Roberto Galarza Sacramento	24.0	Southern Territorial Director	53	Male	Business Administration	N.A.
Jorge Alberto Hurtado Martin	29.2	Western Territorial Director	49	Male	Bachelor's degree in External Commerce	-
Luis Alberto González Ayala	24.7	Peninsular Territorial Director	51	Male	Bachelor's degree in Business Management	ND
Rodolfo Herrera Coronado	12.3	Noreast Territorial Director	49	Male	BA	Bancrecer

*Considers only officers reporting directly to the CEO and Territorial Directors.

Compensations and Benefits

The total amount of compensations and benefits paid to Banorte's main officers in 2021 was approximately Ps 310 million.

Compensations and Benefits are as follows:

- **Fixed Compensation:** Salary.

- **Annual Bonus Plan for 2021:**

  The Bonus Plan for each business area evaluates estimated profit for that particular business, as well as an evaluation of individual performance, which takes into account the achievement of each participant's goals and objectives. The bonus for certain departments is also adjusted based on operational risk evaluations carried out by the Control Department. Likewise, eligibility to receive the deferred variable compensation for a group of managers is determined by a risk and compliance mechanics' review.

  Eligible personnel of staff areas is evaluated based on the attainment of estimated profit for the Group, as well as individual performance in accordance with the achievement of each candidate's goals and objectives.

For senior management, year bonus is covered in 60% and the remaining 40% is covered in three annual installments of 13%, 13% and 14% respectively.

- **Banorte's Long Term Incentive Plans:**

  Stock Plans:

  The long term scheme for incentives consists in assigning to certain Officers designated by the Assignations Committee, a stock option package through a trust having right to exercise 100% of it within a vesting period up to 4 years. Participants will be entitled to exercise a percentage of the package each year; receiving shares in its capital account.

- **Vacations:** From 10 to 30 working days depending on the number of years of service of the employee.

- **Holiday Bonus:** From 8 to 23 days of salary to be paid on each anniversary of the employee, depending on the number of years of service.

- **Legally Mandated Christmas Bonus:** Equivalent to 42 days of salary.

- **Savings Fund:** The Corporation matches the amount of the employee's contribution up to a maximum of 13% of their monthly salary in accordance with the legal limits established in the Income Tax Law.

- **Medical Service: Traditional Scheme:** Banorte provides medical services through recognized medical institutions, obtaining efficiency in cost and service. **Full Medical Insurance Scheme:** Major medical expenses insurance policy.

- **Life Insurance:** In the event of death or total incapacity, a life insurance policy provides a sum of up to 36 months' salary. In the event of accidental death, the compensation is double, prior verification by the insurance company.

- **Pension and Retirement:** The institution has two types of plans: one with defined benefits (Traditional and Special), and a second with a defined contribution (Ensure Your Future).

  Ensure Your Future: was established on January 1, 2001. This is a defined contribution plan, whereby a percentage of individual contributions by the employee and GFNorte are deposited in a fund for withdrawal by that employee upon termination of their labor relationship. This plan has an "initial individual contribution" (only for employees hired prior to January 1, 2001) corresponding to pension benefits for past services accumulated to the date the plan was created. The maximum monthly contribution is 10% of the gross nominal wage (5% employee and 5% company).The total amount accumulated by the Asegura tu Futuro plan for the company's main officers amounts to Ps 177.4 billion.

d) CORPORATE BY-LAWS AND OTHER AGREEMENTS

In 2006 the bylaws were modified in order to adapt them with the dispositions of the new Stock Market Law to incorporate the articles related to the integration, organization and functioning of the social bodies. The Board of Directors' functions were redefined as the body in charge of strategy and supervision, and the CEO responsible for conduction and management of the company. Also, the commissary figure was eliminated, and its functions were redistributed within the Board of Directors, the Audit and Corporate Practices Committee and the Independent External Auditor. The objective of the Audit and Corporate Practices Committee is to monitor all the accounting processes of the company, having the following general functions: evaluate the performance of the external independent auditor, elaborate an opinion regarding the financial statements prior to presenting them to the Board, inform the Board about the internal control systems and monitor that the generally accepted accounting principles and procedures are followed, among others. The objective of the Corporate Practices Committee is to reduce the potential risk that transactions are carried out in disadvantageous conditions for the company's patrimony or give privileges to a determined group of shareholders. Its general functions include: approve the policies for the use of the company's assets, authorize transactions with related parties, among others.

Also, the bylaws and the Statutory Responsibility Agreement were reformed with respect to the responsibility of the holding company for the losses of the entities that form the group, so that in case that the equity of the holding was not enough to cover the losses of the Group's members, the losses corresponding to the credit institution will be first covered, and later on a pro-rata basis with respect to the other entities until the holding's equity is depleted.

Bancen was spun-off from GFNorte due to its merger with Banorte, as well as Fianzas Banorte, S.A. de C.V., as a result of selling all the shares that represented its equity.

Additionally, Arrendadora Banorte, S.A. de C.V. merged Arrendadora y Factor Banorte, S. A. de C. V. and changed its denomination to remain as Arrendadora y Factor Banorte, S. A. de C. V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte.

Creditos Pronegocio was also spun-off from GFNorte, due to its merger with Banorte, consequently modifying the second article of the corporate Bylaws, to eliminate the reference of this society as an entity of the Financial Group.

In 2011, Ixe GF, was merged into GFNorte, modifying articles: second, under the terms of Article 15 of the Law Regulating Financial Groups (LRAF), to change the Group's participation in the financial entities that conform it, including the financial subsidiaries of Ixe GF; tenth and twenty-first in reference to Article 50 of the Stock Market Law concerning the right of shareholders who either individually or jointly hold 10% of the Group's equity, to require the Board of Directors's Chairman or the Committees' that carry out the functions related to Audit and Corporate Practices, at any moment, to convene a General Shareholders' Meeting, without the effect being applicable to the percentage pointed out in Article 184 of the General Law of Mercantile Companies; Articles 25, 31, 32 and 36 in order to reflect changes in the Corporate Bylaws as a result of the appointment of a Chairman Emeritus and a Chairman of the Board of Directors; Article 25 establishing the faculties so that the Chairman Emeritus presides the Shareholders' Meetings and in his absence, the Chairman of the Board of Directors will have full authority; Article 31 in order to grant the General Assembly the faculty to designate a Chairman Emeritus and also a Chairman of the Board of Directors, both of which are part of the Board of Directors. Also, the Assembly or the Board will designate a Secretary or his/her respective alternate (Pro-Secretary) who will not be part of these corporate organisms. The Chairman Emeritus will not have an alternate. Also, in the event of death, inability, remotion or resignation of the Chairman of the Board of Directors, he/she will be substituted by the rest of the proprietary members in the order that they determine, or if there is no rule in this respect, in the order of their appointments until the Shareholders Assembly names a new Chairman of the Board. The changes also grant the faculty to the Chairman Emeritus to preside the Shareholders Assemblies and the Board Sessions of the company as stipulated in articles Twenty-Five and Thirty-Two of the Corporate Bylaws. Also, the Chairman of the Board of Directors will have the following faculties, obligations, attributions and powers unless otherwise indicated by the Assembly: i) Preside the Shareholders Assemblies and Board Sessions in the absence of the Chairman Emeritus; ii) Propose to the Board the independent board members that will integrate the Corporate Practices and Audit Committees, as well as the temporary board members whose designation corresponds to the board in accordance with article Thirty-Six of the ByLaws and iii) Execute or supervise the execution of the resolutions taken by the Shareholders Assembly and the Board of Directors, doing whatever is necessary or prudent to protect the interests of the company, without violating the faculties that the Assembly, Board of Directors and the legal framework gives to the Chief Executive Officer; Article Thirty-Two will be modified in order to make express reference to articles 27 of the Stock Market Law and 24 of the Law to Regulate Financial Institutions regarding the requirement to hold at least one Board meeting every quarter. Furthermore, the Chairman of the Board of Directors must call the necessary board meetings in accordance with article 411 of the Stock Market Law. The changes also reflect the faculty of the Chairman Emeritus to preside the Board Sessions, and in his absence, by the Chairman of the Board of Directors. In the case that both are absent, the Board of Directors' sessions will be chaired by the board member designated by those present at the meeting. Also, the Chairman Emeritus and the President of the Board of Directors will have a tie-breaking vote in case of a tie in the voting of the Board's resolutions. Article Thirty-Six will change in order to make an express reference to Article 25 of the Stock Market Law regarding the faculty of the Chairman of the Board of Directors to propose to the Board or the Shareholders Assembly, the independent members that will integrate the Audit and Corporate Practices Committee.

Also the following were incorporated to the Agreement of Shared Responsibility: Fincasa Hipotecaria, Ixe Soluciones, Ixe Fondos, Ixe Automotriz, Ixe Casa de Bolsa and Ixe Banco.

Furthermore, through agreements reached at the Extraordinary General Shareholders' Meeting held on July 21, 2011, Article Twenty Nine was modified, so that the Board of Directors is composed of a maximum of 15 proprietary members and, if the case, by their respective alternates and also members may be appointed for defined periods of 3 years, with the possibility of reelection, seeking to have a generational balance, ensuring that at least 50% of the members are characterized as independent in accordance with best practices.

Moreover, in the Extraordinary General Shareholders' Meeting held on October 17, 2011, Article Thirty-seventh Bis 1 of the Bylaws was added, in order to establish the creation and operation of the Designations Committee, whose main objective is the to propose to the Assembly the people who will serve on the Board of Directors of the Company and the Directors of the Subsidiaries and entities that comprise the financial group.

On February 17, 2012 the Extraordinary General Shareholders' Meeting approved to modify Article Second of the Bylaws, in order to exclude Casa de Bolsa Banorte, as integrated entity of Grupo Financiero Banorte, given its merger with Ixe Casa de Bolsa.

On January 22, 2013, the Extraordinary General Shareholders' Meeting approved to modify Article Second of the Bylaws, in order to i) exclude Ixe Automotriz, as an integrated entity of Grupo Financiero Banorte, as a result of its merger with Arrendadora y Factor Banorte, and ii) modify the legal denomination of Ixe Casa de Bolsa, S.A. de C.V. to Casa de Bolsa Banorte Ixe, S.A. de C.V.

On April 26, 2013, the Extraordinary General Shareholders' Meeting approved to modify Article Second of the Bylaws, in order: i) exclude Ixe Banco and Fincasa Hipotecaria as integrated entities of GFNorte and ii) modify the legal denomination of Ixe Soluciones, S.A. de C.V., to Solida Administradora de Portafolios, S.A. de C.V. and Ixe Fondos, S.A. de C.V. to Operadora de Fondos Banorte Ixe, S.A. de C.V.,

On July 4, 2014, by the resolutions approved in the Extraordinary General Shareholders' Meeting, Article Second of the Bylaws was modified to eliminate "Generali" in the legal denomination of the companies Seguros Banorte and Pensiones Banorte. Similarly, such Assembly approved to fully modify the Corporate bylaws to comply with the new Law Regulating Financial Groups ("LRAF"), published on January 10th, 2014 in the Official Gazette, as well as the new agreement of shared responsibilities under LRAF's terms, in which Banorte-Ixe Tarjetas becomes a financial entity comprising the Financial Group.

The Extraordinary General Shareholders' Meeting held on November 19th, 2015 approved, among others, the following: i) amendment to Article 2 of the bylaws in order to eliminate Banorte-Ixe Tarjetas as an entity of Grupo Financiero Banorte because of its merger with Banorte (ii) modification to Article 44 of the bylaws so that the Nominating Committee is comprised of 4 members of the Board of Directors, being one of them an Independent member; (iii) amendment to Article 64 and the addition of Articles 64 Bis and 64 Bis 1 of the bylaws according to the General Provisions for Financial Groups published in the Official Gazette on December 31st, 2015, regarding the prevention of conflicts of interest among the Financial Group's entities; and (iv) the new agreement of shared responsibilities in order to eliminate Banorte-Ixe Tarjetas as an entity of the Financial Group because of its merger with Banorte. Such resolutions are subject to authorization by the competent authorities.

The Extraordinary General Shareholders' Meeting held on August 19, 2016 approved, among others, the following: i) the amendment of Article Five of the Corporate Bylaws aiming to change the corporate domicile to the Municipality of San Pedro Garza García, Nuevo León from the city of Monterrey, Nuevo León; ii) the amendment of Article Nineteen of the Corporate Bylaws aiming that the approval of operations implying asset acquisitions by the Company or its controlled companies be through an Ordinary General Shareholders' Meeting if: (a) the amount of the operation represents 5% or more of the Company's consolidated assets; and (b) the counterparties are Related Parties; and iii) the amendment of Article Forty-Four of the Corporate Bylaws, so that the Nomination Committee be comprised of 7 members of the Board of Directors, being 4 of them Independent Members and the Chairman of the Board, who will preside the Nomination Committee, and its organization and operations will be subject to the policies and guidelines approved by the Board.

On December 5, 2017, the Extraordinary General Shareholders' Meeting of GFNorte approved the merger of the Company as a merger or that subsists, with Grupo Financiero Interacciones, S.A.B. of C.V., as merged or that is extinguished, said agreement was subject to obtaining authorization from the SHCP, with the prior opinion of the CNBV and Banxico. The merger of the financial entities that are members of both Financial Groups is included in the transaction. The merger was effective as of July 13, 2018, the date on which the merger agreements and the authorization office to carry out the merger agreements were registered with the Public Registries of Commerce of Mexico City and Monterrey, Nuevo León. merger issued by the SHCP. The merger of the financial entities that are members of both Financial Groups is included in the transaction.

It is important to point out that both the new LRAF and the Stock Market Law establish the following requisites for the acquisition or transmission of the Company's shares:

The individuals who acquire or transfer series "O" shares representing more than 2% of the company's equity, or who exceeds such percentage with such acts must inform the SHCP within 3 business days of such acquisition or transfer.

No Mexican financial entities, even those which are a part of the Financial Group may participate in the capital stock of the Company, except when they act as institutional investors, upon the terms of Article 27 of the Law Regulating Financial Groups.

Except as provided in the following paragraph, insurance and bonding institutions, acting as Institutional investors, and if the case, any other Institutional Investor integrating or controlled directly or indirectly by member of a Financial Group, may not acquire Company's shares or any other company's shares of the Financial Group.

Mutual funds controlled directly or indirectly by financial entities integrating a Financial Group, which individually or jointly invest in the Company's shares and subordinated debt, may not in any case acquire more than 10% of these shares and obligations.

Any individual or company can acquire through one or various simultaneous transactions, the control of series “O” shares of the Holding Company, in the understanding that such transactions must always be subject to Article 28 of the Law Regulating Financial Groups.

When is intended to directly or indirectly acquire more than 5% of the paid capital stock, the authorization of the SHCP shall be previously obtained, which may grant it on a discretionary basis after hearing the opinion of Banco de Mexico, and w and as applicable, of the CNBV, the Insurance and Bonding Commission or the Retirement Saving Funds System. In such cases, the persons that intend to perform such acquisition must evidence that they meet the requirements established in section II of Article 14 of the Law Regulating Financial Groups and provide to the SHCP the information required by rules of a general nature to such effect.

In the event that a person or group of persons, whether or not shareholders, intend to directly or indirectly acquire 20% or more of Series “O” shares of capital stock of the Holding Company or the control thereof, they must request authorization from the SHCP, which may grant it on a discretionary basis, for which purpose it must hear the opinion of Banco de Mexico and as applicable, of the CNBV, the Insurance and Bonding Commission or the Retirement Saving Funds System. Such request must contain the following:

I. Relation or information of the person or persons that, if the case, intend to acquire shares, which must contain also the information proving it complies with Article 28 of the Law Regulating Financial Groups.

II. Relation of the members of the Board of Directors and officers that would be appointed in the acquired company, including the information that proves that such persons comply with the requirements set forth in the Law Regulating Financial Groups.

III. If the case, modifications to the strategic plans for the organization, administration and internal control; and

IV. Further information that the SHCP requires in order to start assessing the corresponding requirement.

When an individual or company intend to directly or indirectly acquire more than 5% of the paid capital stock of a Subholding Company, the authorization of the SHCP shall be previously obtained, which may grant it on a discretionary basis after hearing the opinion of Banco de Mexico and as applicable, of the CNBV, the Insurance and Bonding Commission or the Retirement Saving Funds System. The persons who intend to perform such acquisition must evidence that they meet the requirements established in section II of Article 14 of the Law Regulating Financial Groups

The direct or indirect acquisition of more than 20% of the shares of the paid capital stock of a Subholding Company will be subject to the provisions for such entities set forth in Article 28 of the Law Regulating Financial Groups.

The Company shall refrain from filing in the Share Registry referred to in Articles 128 and 129 of the General Law of Business Corporations, in connection with Article Sixteen of these Corporate Bylaws, any transfers made in contravention of Articles 24, 26, 27, 28, 74 and 75 of the Law Regulating Financial Groups, and it shall notify such circumstance to the SHCP and the Supervisory Commission within five business days of the date it becomes aware thereof.

Likewise, when the acquisition and other legal acts through which the direct or indirect ownership of shares of capital stock of the Company is obtained are made in contravention to the provisions of the abovementioned Articles, the property and corporate rights inherent to the relevant shares of the Company shall be suspended and, therefore, they may not be exercised until the obtainment of the relevant authorization or resolution, or the compliance with the requirements contemplated by the Law Regulating Financial Groups, are evidenced.

The person or group of persons who acquire, directly or indirectly, within or outside of the Stock Exchange, through one or various simultaneous or successive transactions of any nature, series “O” shares that result in holdings equal to or greater than 10% and lower than 30% of such shares, must inform the public of this situation the next business day at the latest, through the corresponding stock exchange, following the terms and conditions established by it. If it is a group of persons, the individual holdings of each member of the group must be disclosed.

Also, the individual or group of persons must inform their intention or not of acquiring a significant influence in the company.

Individuals related to the company who directly or indirectly increase or reduce their holdings of the company by 5%, through one or various simultaneous or successive transactions, must inform the public of this situation on the next business day at the latest, through the corresponding stock exchange, following the terms and conditions established by the exchange.

Furthermore, they must express their intention or not of acquiring a significant influence or increasing it in the terms outlined in the previous paragraph.

Any individual or group of persons who directly or indirectly own 10% or more of the shares representing the company’s equity, as well as members of the Board of Directors and relevant officers of the company, must inform the CNBV and the public in the cases established by generally applicable dispositions issued by the CNBV, of the acquisition or disposal of these securities within the stated timeframe established by the CNBV.

The current Bylaws also include mechanisms to protect the interests of minority shareholders, which basically consist of:

Board of Directors’ approval to any shareholder or group of shareholders related to each other or to third parties to acquire 5% or more of GFNorte’s shares. The Board can solve the mentioned requirements through a committee, which will be comprised of Proprietary members and will act under the terms that Board of Directors set. This also applies when the holdings are close to reaching or already exceed through public offering or not, the following percentages: 10%, 15%, 20%, 25% and up to 30% minus one share of the total shares outstanding representing the company’s equity. Once the authorization from the Board of Directors or the Committee’s is given, the authorization that according to the current provisions is necessary from the SHCP, and if the case, of any other authority should be requested. If the authorization is not given, the prior approval of the Board or Committee will be ineffective.

To be able to acquire ownership of shares representing 30% or more of the equity, the owner, shareholder or acquirer is obligated to make a public offering to purchase 100% of the shares representing the ordinary common stock of the company. The foregoing notwithstanding authorization granted by the SHCP, the National Banking and Securities Commission and if the case, other authorities. If in the public offering referred to in this paragraph, only manages to acquire a percentage equal to or less than 50% of the offered shares, the purchaser must request the approval of the Board on the acquisition no later than 10 calendar days subsequent to the acquisition with the understanding that if there is no request or it is not approved by the Board, the corporate rights attached to those shares may not be exercised, in accordance with Article 18, Section III of the bylaws.

In the event of a public offering, the Board reserves the right to request or receive more competitive bids, for a period of 45 working days from the date of the beginning of the tender offer. The Board of Directors will be the only body with faculties to approve or deny a potential acquirer from acquiring either through public offering or not, conducting a “Due Diligence” of the company, and in the case of approval, the potential acquirer must sign the contracts and confidentiality agreements that establish the obligations deemed convenient by the Board.

If there's a noncompliance with the provisions of Article 18 of the Corporate bylaws, the holder may not exercise the inherent rights of the shares acquired and will not be taken into account for the purpose of determining the quorum for Shareholders' Assemblies; the society will abstain from registering the aforementioned holders in the Share Registry referred to in the General Corporate's Law and making ineffective the registry made by the securities depository institution.

Additionally, whoever becomes holder of the shares representing (or exceeding), the following percentages must notify the company within 30 business days after purchasing, reaching or exceeding the limit in their holdings of 4%, 8%, 16% and 24% respectively.

Aiming to protect minority shareholders, the following rights are established:

To have available in the corporation's offices, information and documents related to each of the points contained in the agenda of the corresponding Shareholders' Assembly, free of charge and at least fifteen days prior to the date of the Assembly.

Prevent issues under the category of General or its equivalent to be dealt with at the General Shareholders' Assembly.

Be represented in Shareholders' Assemblies by those who prove their identity through proxies prepared by the corporation and made available at least fifteen days prior to the date of each Assembly.

The aforementioned proxies must at least contain the following requirements:

a. To highlight the company's name as well as the respective agenda.
b. Contain spaces for instructions indicated by the grantor for the exercise of power.

The Secretary of the Board shall be required to ensure compliance with the provisions of this section and report thereon to the Assembly, which shall be recorded in the corresponding Minutes

Designate and remove in the General Shareholder's Meeting a member of the board of Directors, when individually or jointly own 10% of the equity, without being applicable the percentage referred to in article 144 of the General Company's Law. Such appointment may only be revoked by the other shareholders when the appointment of all of the others Board Members are revoked, in which case the substituted persons may not be appointed as such for the following next twelve months from the revocation date.

Require the Chairman of the Board of Directors or of committees that carry out functions in issues of corporate practices and audit referred to in the Law, to convene at any time a general shareholders' assembly in matters which require voting, or defer a vote only once for 3 days, on any matter for which shareholders consider they are not sufficiently informed about, without the need of reconvening. All of the above when individually or jointly own ten percent of the capital stock, without being applicable the percentages as referred to in Articles 184 and 199 of the General Corporate's Law.

Legally oppose, in accordance with provisions of Article 201 of the General Corporate's Law, resolutions of the General Assembly, only when they have the right to vote on the subject concerned, when either individually or jointly twenty percent or more of the capital stock is owned, without being applicable the percentage referred to in the provision.

VII. Agree between them:

a. Obligations to not develop commercial businesses that compete with some of the financial group's entities or controlled companies, limited in time, matter and geographic coverage, without these limitations exceeding three years from the date on which the shareholder ceased to participate in the controlling company and without prejudice to provisions in other applicable laws.

b. Rights and obligations that establish options to buy or sale shares representing the company's equity, such as:
   1. That one or more shareholders may only dispose of all or part of their shareholding, when the acquirer is also obliged to acquire a proportion or all of the shares of another or other shareholders, under identical conditions.
   2. One or more shareholders may demand that another shareholder sell all or part of his shareholding, when they accept a tender offer, under identical conditions.
   3. That one or more shareholders have the right to dispose of or acquire from another shareholder, who shall be obliged to dispose of or acquire, as appropriate, all or part of the shareholding pertaining to the operation, at a determined or determinable price.
   4. That one or more shareholders are obligated to subscribe and pay a certain number of shares representing the company's equity, at a determined or determinable price.

c. Divestitures and other legal acts relating to the domain, provisions or exercise of the right of preference referred to in Article 132 of the General Corporate's Law, with independent of legal acts are carried out with other shareholders or other persons.

d. Agreements to exercise the right to vote at Shareholders' Assemblies, without the Article 198 of the General Corporate's Law becoming applicable.

e. Agreements for the divestiture of shares in a public offering.

The agreements referred to in this section will not be opposable to the company, except for a legal resolution, which is why non-compliance will not affect the validity of the vote at Shareholders' Assemblies

Shareholders who represent at least 15% of GFNorte's equity, may directly exercise liability action against administrators under the terms of the applicable legislation.

The corporate bylaws stipulate the company's faculties to purchase its shares under the terms of the Mexican Securities Market Law

The Ordinary nominative shares, are comprised of Series "O", the fixed portion of the equity is represented by Class I, ordinary, nominative shares and the variable portion of equity is represented by Class II ordinary, nominative shares, both with face value of Ps 3.50 each. The variable portion of equity cannot exceed 10 times the fixed portion, and is not subject to withdrawal.

Additional equity can also be included, represented by Series "L" shares. This series will be represented by nominative shares, with a face value of Ps 3.50 (three 50/100 pesos national currency) each and freely subscribed, except from what is provided in Articles 24 and 27 of the Law Regulating Financial Groups and up to 40% of the ordinary equity, with prior authorization from the SHCP. Shares of this series will have voting and other limited corporate rights under the terms of Article 25 of the Law Regulating Financial Groups.

The Special Assembly to appoint members of the Board of Directors, corresponding to the shareholders of the "L" series, under the terms of Articles 29 and 40 of the present bylaws, will be subject to the provisions for Ordinary Shareholders' Assemblies set in the General Corporate's Law. Other special meetings will convene to decide on matters other than the aforementioned, and shall be governed by the General Corporate's Law.

To install and vote on resolutions of the General Shareholders' Meetings, ordinary or extraordinary, the dispositions established in the General Corporate's Law for these types of meetings will apply.

Since GFNorte is a financial group, the integration, organization and functioning of the social organs, including those related to administration and monitoring, will be governed by the dispositions of the Law Regulating Financial Groups and the Securities Market Law.

5. STOCK MARKET

a) SHARE STRUCTURE

GFNorte does not have convertible obligations or Ordinary Participation Certificates (CPO's) of shares. The information on representative shares of equity can be found in section 2.B) xxi "The Company – Business Description - Representative Shares of Equity" of this Annual Report.

In June 2009, Grupo Financiero Banorte (BMV: GFNORTEO) established a Level 1 Sponsored Program of ADRs in the United States, as a consequence of changes on October 10, 2008 to regulation 12g3-2b of the Securities and Exchange Commission (SEC) that facilitates the establishment of sponsored and non-sponsored ADR programs for shares in companies which don't trade in US financial markets. Because Banorte's shares are one of the most liquid and one of the most traded in the Mexican Stock Exchange, they have attracted the interest of institutional funds around the world. This ADR program supplements the efforts of Banorte to achieve presence in the main international financial markets for its shares. The program has been established as Level 1, which allows it to operate in "Over the Counter" markets without having to be listed in the NYSE, NASDAQ or any other Stock Exchange. The shares operate under the GBOOY symbol. Each ADR represents 5 shares of GFNORTEO and 8,476,268 ADRs were in circulation at the end of 2021. The depository bank is Bank of New York Mellon. On July 15, 2010, the Level 1 ADR program was authorized to operate in the OTCQX International Premier platform, the highest level in the "Over The Counter" (OTC) market and on April 9, 2014, was included in the OTCQX ADR 30 Index ("OTCQX30"), comprised by the 30 most relevant ADRs in the market, in terms of market capitalization, volume and liquidity. Grupo Financiero Banorte is one, of only two Mexican companies, included in this index. The inclusion of our Level 1 ADR in this index will provide more visibility and liquidity to our program.

On June 9, 2009, ordinary shares of Grupo Financiero Banorte began trading in the Madrid Stock Exchange through the Latin American Stock Market "Latibex", under the symbol XNOR. GFNORTE's shares were included in the FTSE Latibex All Shares index from their inclusion to the market, and as of June 10, they were incorporated into the FTSE Latibex TOP index which includes the 16 Latin American most important companies of this market. One share of XNOR represents 10 shares of GFNORTE.

b) PERFORMANCE OF SHARES IN THE STOCK MARKET

GFNORTE's series "O" shares are traded in the Mexican Stock Exchange (BMV) under the ticker "GFNORTEO".

The following charts show, for the indicated periods, the maximum, minimum and close market prices for shares in the BMV (GFNORTEO), GBOOY (ADR Level 1) and XNOR (Latibex).

Performance of the stock at closing of the last 5 fiscal years:

GFNORTEO (Pesos) – BMV

Date	Maximum	Minimum	Close	*P/BV	**P/E	Volume of Shares (Daily Average)	Total Volume Operated
31/12/2017	127.90	93.76	107.83	1.95	17.48	6,320,486	1,643,326,321
31/12/2018	138.74	82.77	95.78	1.60	8.64	7,477,514	1,876,856,199
31/12/2019	124.19	88.72	105.65	1.57	8.34	6,909,501	1,734,284,829
31/12/2020	117.12	59.07	109.93	1.43	10.38	8,392,292	2,114,857,478
31/12/2021	135.42	124.52	133.02	1.64	10.94	5,726,679	131,713,620

*P/BV = Multiple Price to Book Value. The indicators were calculated with known numbers as of the date of the report.
**P/E = Multiple Price to Earnings annualized. The indicators were calculated with known numbers as of the date of the report.
Source: Bloomberg.

GBOOY (Dollars) – ADRs*

Date	Dollars per ADR			Volume of Shares (Daily Average)	Total Volume Operated
	Maximum	Minimum	Close		
31/12/2017	36.03	21.28	27.36	45,259	11,676,945
31/12/2018	37.08	20.00	24.49	35,343	8,871,174
31/12/2019	33.00	23.07	27.88	56,533	14,246,384
31/12/2020	31.75	11.93	27.77	62,163	15,727,159
31/12/2021	29.1	25.96	27.78	62,230	1,391,059

XNOR (Euros) – Latibex*

Date	Euros			Volume of Shares (Daily Average)	Total Volume Operated
	Maximum	Minimum	Close		
31/12/2017	5.66	4.09	5.20	4,312	1,121,165
31/12/2018	6.10	4.42	4.42	2,168	15,177
31/12/2019	4.88	4.22	4.88	1,825	5,477
31/12/2020	5.55	2.28	4.68	3,505	70,098
31/12/2021	6.00	6.00	6.00	3,473	38,200

Quarterly performance of the stock for the last 2 fiscal years:

GFNORTEO (Pesos) – BMV

Date	Maximum	Minimum	Close	P/BV *	P/E **	Volume of Shares (Daily Average)	Total Volume Operated
31/03/2020	117.12	63.14	65	0.95	20.44	8,409,220	521,371,635
30/06/2020	85.89	59.07	79.72	1.12	14.70	10,317,850	639,706,685
30/09/2020	84.32	73.34	76.62	1.03	9.00	5,829,961	378,947,493
31/12/2020	115.11	75.78	109.93	1.43	10.38	9,124,312	574,831,665
31/03/2021	119.90	101.5	115.13	1.46	9.36	7,940,070	484,344,268
30/06/2021	138.99	115.25	128.76	1.64	10.83	5,833,348	367,500952
30/09/2021	133.28	122.93	132.57	1.63	10.77	5,063,729	329,142,412
31/12/2021	140.11	124.52	133.02	1.64	10.94	6,231,560	398,819,832
31/03/2022	160.93	128.17	148.28	1.46	9.36	8,741,522	541,974,378

*P/BV = Multiple Price to Book Value. The indicators were calculated with known numbers as of the date of the report.
**P/E = Multiple Price to Earnings. The indicators were calculated with known numbers as of the date of the report.
Source: Bloomberg.

GBOOY (Dollars) – ADRs

Date	Dollars per ADR			Volume of Shares (Daily Average)	Total Volume Operated
	Maximum	Minimum	Close		
31/03/2020	31.75	12.76	13.68	69,730	4,323,259
30/06/2020	19.58	11.93	17.3	74,904	4,718,940
30/09/2020	19.23	16.4	16.7	36,530	2,264,835
31/12/2020	29.10	17.37	27.77	68,868	4,407,554
31/03/2021	29.16	24.59	28.03	30,079	1,834,816
30/06/2021	33.96	28.13	32.06	32,358	2,038562
30/09/2021	32.71	29.98	31.42	14,129	904,224
31/12/2021	33.92	28.54	32.38	28,772	1,841,433
31/03/2022	39.76	29.4	37.43	60,263	3,736,308

XNOR (Euros) – Latibex

Date	Euros			Volume of Shares (Daily Average)	Total Volume Operated
	Maximum	Minimum	Close		
31/03/2020	5.55	2.82	2.82	385	1,539
30/06/2020	3.30	2.28	3.30	2,061	20,609
30/09/2020	-	-	-	-	-
31/12/2020	4.68	3.84	4.68	7,992	47,950
31/03/2021	4.96	4.82	4,82	200	200
30/06/2021	5.75	5.75	5.75	5,200	5,200
30/09/2021	5.45	5.30	5.45	2,200	4,400
31/12/2021	6.00	5.85	6.00	7,600	9,800
31/03/2022	7.25	5.6	7.25	1,878.8	9,394

Monthly performance of shares during the last 6 months:

GFNORTEO (Pesos) – BMV

Date	Maximum	Minimum	Close	Volume of Shares (Daily Average)	Total Volume Operated
31/10/2021	140.11	130.35	130.35	6,161,512	129,391,754
30/11/2021	137.53	125.2	128.13	6,885,723	137,714,458
31/12/2021	135.42	124.52	133.02	5,726,679	131,713,620
31/01/2022	149.69	129.96	130.74	7,334,248	154,019,204
28/02/2022	139.20	128.17	138.54	7,792,515	148,057,779
31/03/2022	149.59	129.94	149.55	10,904,427	239,897,395

GBOOY (Dollars) – ADRs

Date	Dollars per ADR			Volume of Shares (Daily Average)	Total Volume
	Maximum	Minimum	Close		Maximum
31/10/2021	33.92	30.93	31.63	12,761	267,973
30/11/2021	32.93	28.54	29.91	21,316	447,645
31/12/2021	32.38	28.84	32.38	51,173	1,125,815
31/01/2022	35.69	30.56	31.35	41,266	825,321
28/02/2022	34.87	29.40	32.8	90,721	1,723,705
31/03/2022	39.76	30.59	36.45	51,621	1,187,282

XNOR (Euros) – Latibex

Date	Euros			Volume of Shares (Daily Average)	Total Volume
	Maximum	Minimum	Close		Maximum
31/10/2021	6.00	6.00	6.00	5,000	5,000
30/11/2021	-	-	-	-	-
31/12/2021	-	-	-	-	-
31/01/2022	6.50	5.60	5.60	1,602	4,804
28/02/2022	-	-	-	-	-
31/03/2022	7.25	6.65	7.25	2,295	4,590

c) MARKET MAKER

GFNorte does not have nor ever had a market maker.

6. UNDERLYING ASSETS

Currently GFNorte and its subsidiaries do not carry put operations involving underlying assets.

7. RESPONSIBLE OFFICERS

“The undersigned hereby solemnly declare that within the scope of our respective functions, we have truthfully prepared the information contained in this annual report related to Grupo Financiero Banorte, which to the best of our knowledge and understanding reasonably reflects the situation. We also declare that we do not have knowledge of any relevant information that has been omitted or falsified in this annual report or that it contains information that could mislead investors.”

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Jose Marcos Ramirez Miguel

Chief Executive Officer of Grupo Financiero Banorte, S.A.B. de C.V.

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Rafael Arana de la Garza

Chief Operating and Financial Officer

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Hector Martin Avila Flores

Managing Director of Legal Affairs

8. ANNEXES

a) AUDIT AND CORPORATE PRACTICES COMMITTEE REPORT

To the Board of Directors of Grupo Financiero Banorte, S.A.B. de C.V.

In accordance with the provisions of Articles 43 of the Securities Market Law and 58 of the Law to Regulate Financial Groupings, the Audit and Corporate Practices Committee (Committee) presents its annual report of activities for the fiscal year 2021.

The content of this report will refer to Grupo Financiero Banorte (GFNorte) and the following relevant entities: Banco Mercantil del Norte, S.A., Casa de Bolsa Banorte, S.A. de C.V, Arrendadora y Factor Banorte, S.A. de C.V. Sofom ER, Seguros Banorte, S.A. de C.V. and Pensiones Banorte, S.A. de C.V. and Banorte Ahorro y Previsión S.A. de C.V.

I. In the matter of audit:

a) Regarding the evaluation of the status of the Internal Control System (ICS) of GFNorte and its relevant entities the Committee maintained continuous communication with Management and relied on the reports received from the Internal Comptroller's Office and Internal Audit, and the Independent External Auditor, highlighting the following:

1. Annual reports from the General Managers of the relevant entities on their activities in the area of Internal Control.
2. Activity reports from the Internal Comptrollers of the relevant entities containing their opinion on the functioning of the ICS, and reports on the results of the inspection visits made by the Regulatory Authorities with the main observations determined and corrective measures taken.
3. Internal Audit management reports with the results of their reviews, main observations and progress in the corrective measures taken, as well as their opinion on the effectiveness of the ICS.
4. Independent External Auditor's reports including his opinion on the basic financial statements and the main observations in evaluating the ICS.
5. Quarterly reports from the Chief Information Security Officer on information security risk indicators.
6. Commissioners' opinions and quarterly reports and minutes of the Audit Committees of the relevant entities.

Taking into consideration the aforementioned elements, in the opinion of the Committee, the ICS of GFNorte and its relevant entities generally functions effectively, and the deficiencies, deviations or aspects that require improvement correspond to specific issues that were addressed or have corrective measures in place.

a) The status of the internal control and internal audit system of the Controlling Company, of the financial entities or legal entities in which it exercises control and, if applicable, the description of its deficiencies and deviations, as well as the aspects that require improvement, taking into account the opinions, reports, communications and the external audit report, as well as the reports issued by the independent experts that have rendered their services during the period covered by the report.Regarding the performance of Internal Audit, the Committee ensured that it maintained its independence and complied with the work program that was authorized, carrying out its activities in accordance with best practices, including follow-up on the implementation of measures to correct the observations determined.
b) During the fiscal year, no investigations were carried out in relation to non-compliance with the operating and accounting guidelines and policies of GFNorte or its relevant entities.

c) In accordance with Article 33 of the General Provisions Applicable to Financial Group Holding Companies that regulate External Auditing Services issued by the National Supervisory Commissions, the Committee validated that the Firm and the Independent External Auditor met the personal, professional and independence requirements, obtaining the Firm's statement on compliance with the quality control standard for the audited fiscal year.

   The Committee ensured the sufficiency of resources to execute the external audit program, validated the knowledge and professional experience of the Independent External Auditor, Manager and person in charge of the audit, presented for the Board's approval the cost of the audit and participated in the review of the terms of the engagement.

   It informed the Board of the changes related to the team reported by the Independent External Auditor, ensuring that the new members complied with the established requirements, so that the resources to perform the audit were reasonable.

   In the opinion of the Committee, the Firm, the Independent External Auditor and the personnel who participated in the audit of the basic financial statements maintained their independence, performed their work in accordance with the plan presented, applying best practices and with continuous communication, and their reports, opinions and opinions are of quality and useful to the Committee.

d) The Committee recommended the hiring of the following complementary and additional services of the Independent External Auditor, ensuring that these did not compromise its independence: review of transfer pricing, sustainability report, some local taxes and basic financial statements at an intermediate date for the issuance program of capitalization instruments, and consulting services to evaluate the integration of regulatory capital and advice on the development of automobile insurance rates, including the respective technical note.
e) The Committee reviewed with Management and the Independent External Auditor the audited financial statements as of December 31, 2021 of GFNorte and its relevant entities, the latter reporting that it performed its work according to the plan presented, applied procedures to the risk or significant areas it identified that were sufficient to cover them, and that the audit provided a reasonable and consistent basis to support its opinion. He also reviewed the quarterly financial statements.
   As a result, the Independent External Auditor issued an unqualified opinion, and reported that he did not identify significant deficiencies in his assessment of Internal Control, performance of substantive procedures and evaluation of other matters.

f) There were no requests for approval of modifications to the accounting policies during 2021.
g) During the fiscal year, no relevant observations were received from shareholders, board members, relevant executives or third parties regarding accounting, internal controls, internal and external auditing, or irregularities in the Administration. In accordance with best practices, there is a channel for receiving complaints and the Committee is informed of such complaints and the results of their due attention.
h) The Committee, in support of the Board of Directors, ensured that during the year the rights of the shareholders were respected, according to the report presented by Internal Audit.
i) The Shareholders' Meeting and the Board of Directors did not request the Committee to follow up on any particular agreement.

II. In the matter of corporate practices:

a) In relation to the reports received from the Internal Comptroller and Internal Audit, the Independent External Auditor and the results of the inspection visits by the Authorities during the fiscal year, no observations were presented regarding the performance of the Relevant Officers, which was reflected in the evaluation made by the Human Resources Committee to approve the payment of the deferred remuneration.

b) Transactions with related parties were approved by the Board, as of December 31, 2021, and loans granted through Banco Mercantil del Norte amounted to $13,353 million, which is below the limit established by the applicable regulation, and intercompany transactions were carried out at market prices, which was verified by the Independent External Auditor, who reported no findings.
c) Regarding the remuneration of the Chief Executive Officer and relevant executives, there is a Remuneration System, approved by the Board of Directors, which divides it into ordinary and extraordinary and includes rules to defer the payment of the latter based on the evaluation of risk indicators over a three-year horizon.

As a result of the review performed by Internal Audit, it was determined that the referred Remuneration System was applied consistently and without exceptions, there were no changes resulting from unforeseen losses and no significant aspects were identified that could affect the liquidity, solvency and stability of GFNorte and its relevant entities.

d) During the fiscal year, the Board of Directors did not grant dispensations to directors or relevant executives to take advantage of business opportunities.
e) The Committee was informed of the results of the inspection visits of the Regulatory Authorities and ensured that the observations have corrective measures and remediation plans, following up on them with the support of Internal Audit.
The Board was informed about the observations corresponding to the inspection visit of the National Banking and Securities Commission to Banco Mercantil del Norte for fiscal year 2020, as well as the remediation actions and reinforcement of controls to be implemented. This Authority conducted in the last quarter an ordinary inspection visit 2021, pending the respective trades, however, in preliminary meetings with the Supervision team, no relevant findings were reported.

f) Other relevant activities of the Committee include the review of the strategic foundations that supported the changes to the structure of the organization, considering issues such as the evolution of the Bank and the changing environment, whose main objective is to ensure the continuity and sustainability of the business.
The Human Resources area reported its results on the talent assessment of executives identified by the Institution for succession and development purposes, taking into account the understanding of the strategy and the challenges of the business, critical elements for success in leadership roles and talent assessment.
Reviewed the strategic plans for Technology based on business growth projections, security and control, as well as spending and investment, highlighting the benefits of the market transformation project.
Followed up on the Support and Restructuring Programs due to the COVID-19 contingency, including the containment actions to prevent non-compliance, as well as the use of the additional reserves created.
The Independent External Auditor informed the Committee about the results of the implementation of a Cybersecurity culture, which included interviews with areas related to Information Security and Human Resources processes for the identification and management of vulnerabilities in applications.

Sincerely,

Thomas S. Heather Rodriguez
Member of the Audit and Corporate Practices Committee
Grupo Financiero Banorte, S.A.B. de C.V.

To the Board of Directors of Grupo Financiero Banorte, S.A.B. de C.V.

In accordance with the provisions of Articles 58 of the Law to Regulate Financial Groups, 43 of the Securities Market Law and 33 of the General Provisions Applicable to the Holding Companies of Financial Groups that regulate the External Audit Services on Basic Financial Statements issued by the National Supervisory Commissions, the Audit and Corporate Practices Committee (Committee) presents its report annual activities for the 2020 financial year.

The content of this report will refer to Grupo Financiero Banorte (GFNorte) and the following relevant entities: Banco Mercantil del Norte S.A., Banorte Ahorro y Previsión S.A. de C.V., Casa de Bolsa Banorte, S.A. de C.V, Arrendadora y Factor Banorte, S.A. de C.V. Sofom ER, Seguros Banorte, S.A. de C.V. and Pensiones Banorte, S.A. de C.V.

I. Regarding auditing:

a) Regarding the evaluation of the status of the Internal Control System (SCI) of GFNorte and its relevant entities, the Committee maintained continuous communication with the Administration and relied on the reports received from the Internal Comptroller and Audit, and the External Independent Auditor, highlighting the following:

1. Annual reports of the General Directors of the relevant entities on their activities in the field of Internal Control.
2. Reports on the activities of the Internal Controllers of the relevant entities that contain their opinion on the operation of the SCI, and the reports of the results of the inspection visits carried out by the Regulatory Authorities with the main observations determined and corrective measures taken.
3. Internal Audit management reports with the results of its reviews, main findings determined and progress in the corrective measures taken, as well as its opinion on the effectiveness of the SCI.
4. Reports of the Independent External Auditor including his opinion on the basic financial statements and the main observations determined as a result of his evaluation of the SCI.
5. The opinions of the Commissioners and the quarterly reports and minutes of the Audit Committees of the relevant entities were also considered.

Taking into account the elements indicated in the opinion of the Committee, the SCI of GFNorte and its relevant entities generally function effectively, and the deficiencies, deviations or aspects that require improvement correspond to specific issues that were addressed or have corrective measures.
Regarding the operation of Internal Audit, the Committee ensured that it maintained its independence and reasonably complied with the work program that was authorized, carrying out its activities in accordance with best practices, including monitoring the implementation of measures to correct the determined observations.

b) During the last quarter of the year, the National Banking and Securities Commission (CNBV) made its ordinary inspection visit for 2020 to Banco Mercantil del Norte, and reported its preliminary results at the close of the visit, highlighting the observations on the Sales Practices processes, calculation of the Capitalization Ratio, and Information Security aspects, which will be formalized through the corresponding offices.

c) During the year, no investigations related to non-compliance with guidelines and policies of operation and accounting records of GFNorte or its relevant entities were carried out.
d) In relation to the Firm and Independent External Auditor that issued an opinion on the basic financial statements, the Committee validated that they met the personal, professional and independence requirements set forth in the regulation, and obtained the Firm's statement on compliance with the standard of quality control corresponding to the audited exercise.

The Committee ensured the adequacy of the resources proposed to execute the external audit program, validated the knowledge and professional experience of the Independent External Auditor, Manager and Person in charge of the audit, presented the cost of the audit for approval by the Board of Directors, and participated in the review of the terms of the engagement.

In the opinion of the Committee, the Firm, the Independent External Auditor and the personnel who participated in the audit of the basic financial statements maintained their independence, carried out their work in accordance with the work plan presented, applying best practices and with continuous communication, and Their reports, opinions and opinions are of quality and useful to support the Committee.

e) During the fiscal year, the Committee recommended contracting the following complementary and additional services with the External Auditor, ensuring that they did not compromise their independence: work related to the issuance programs of perpetual notes, structured bank bonds, optional titles and stock exchange certificates, vulnerability tests to critical applications, and the review of transfer prices, local taxes and the sustainability report.

These services were provided complying with the agreed objectives and scope, the assigned staff was sufficient and with the appropriate skills and experience according to their complexity, the results were delivered on the scheduled dates and the teams maintained continuous communication with the Administration.

f) The Committee reviewed with Management and the Independent External Auditor the audited financial statements as of December 31, 2020, the latter reporting that it carried out its work in accordance with the plan presented, applied procedures to the risky or significant areas that it identified were sufficient to cover them, and that the audit provided a reasonable and consistent basis to support

g) Modifications to accounting policies related to the change in the presentation of investments in the Core Banking technology platform to go from Intangible Assets to Fixed Assets, were approved.

h) During the fiscal year, no relevant observations were received from shareholders, directors, relevant executives or third parties regarding accounting, internal controls, internal and external auditing, or irregular events of the Administration. In accordance with best practices, there is a channel to receive complaints and the Committee is informed of them and the results of their due attention.

II. Regarding Corporate Practices:

a) According to the reports received from the Internal Comptroller and Audit Office, the Independent External Auditor and the results of the inspection visits by the Authorities during the year, no observations were made regarding the performance of the Relevant Executives, which was reflected in the evaluation carried out by the Human Resources Committee to approve the payment of deferred remuneration.

b) The operations with related parties were approved by the Board of Directors, as of December 31, 2021, the credits granted through Banco Mercantil del Norte amounted to $ 13,353 million, an amount lower than the limit established by the applicable regulation, and intercompany operations They were carried out at market prices, which was verified by the Independent External Auditor who did not report findings.

c) In relation to the remuneration of the Chief Executive Officer and Relevant Executives, there is a Remuneration System, approved by the Board of Directors, which divides it into ordinary and extraordinary and includes rules to defer the payment of the latter based on the evaluation of the risk indicators established over a three-year horizon.

As a result of the review carried out by Internal Audit, it was determined that the referred Compensation System was applied consistently and without exceptions, the changes to the weighting of its components were not the result of unforeseen losses and no significant aspects were identified that could affect the liquidity, solvency and stability of GFNorte and its relevant entities, and it was learned that the Human Resources Committee corroborated the timely monitoring of its effective and consistent application.

d) During the fiscal year, the Board of Directors did not grant exemptions to relevant directors or executives to take advantage of business opportunities.

e) The Shareholders' Meeting and the Board of Directors did not request the Committee to follow up on any particular agreement.

f) Among other relevant activities of the Committee, they highlight that due to the contingency due to COVID-19, the measures taken to protect staff and clients, the implementation of actions to address the economic consequences of the same and managing the risks inherent to changes in processes so that staff can carry out their activities remotely.

Actions to strengthen the Internal Control System of the Fiduciary area were followed up, detecting opportunity areas determined in the review of loans to parastatal companies' suppliers in the area of Infrastructure Credits, and in the results of the review to Banco Mercantil del Norte and Arrendadora and Factor Banorte of loans granted to specialized providers, with emphasis on the economic effects of the current situation on the selective loan portfolio.

The management reports of the Information Security Officer were reviewed, which incorporate the monitoring of the Master Plan, the risk indicators and various aspects of the periodic reviews carried out, noting that during the year there were no relevant findings or incidents in the matter.

The Administration presented the strategic plans for the Banorte - Rappi alliance, the development of channels and digital media for the provision of services and the so-called "Open Banking", and the current situation of the alliance with IBM was monitored to support a relevant portion of technology services.

Before concluding the report, we would like to acknowledge Héctor Reyes Retana y Dahl, who chaired the Committee since 2012, whose commitment and leadership in this endeavor contributed significantly to strengthening the Corporate Governance of GFNorte, and who will always be present in our thinking and in our heart.

Sincerely,

Thomas S. Heather Rodriguez
Member of the Audit and Corporate Practices Committee
Grupo Financiero Banorte, S.A.B. de C.V.

b) AUDITED FINANCIAL STATEMENTS

For the years 2021-2020

Opinion

We have audited the accompanying consolidated balance sheets of Grupo Financiero Banorte, S.A.B. of C.V., and Subsidiaries (the Holding) as of December 31, 2021 and 2020, and the consolidated income statements, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of the significant consolidated accounting policies.

In our opinion, the accompanying consolidated financial statements of the Holding as of December 31, 2021 and 2020, have been prepared, in all material respects, in accordance with the accounting criteria established by the National Banking and Securities Commission (the Commission) through the "General Provisions applicable to Holding Companies of Financial Groups subject to the Supervision of the National Banking and Securities Commission "(the Accounting Criteria).

Basis of opinion

We conducted our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Holding in accordance with the International Ethics Standards Board for Accountants´ Code of Ethics for Professionals Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in accordance with the Code of Ethics issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code with the IMCP Code.

We believe that the audit evidence we have obtained provides a sufficient and adequate basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit matters which should be communicated in our report.

- **Allowance for loan losses (see Notes 4 and 11 to consolidated financial statements)**

The methodology for calculating allowance for loan losses requires that the expected loss for the next twelve months be evaluated in accordance with the Accounting Standards issued by the National Banking and Decurities Commission (the Commission). This expected loss considers 3 credit risk factors that are (i) the probability of default, (ii) the severity of the loss and (iii) the exposure to noncompliance. To carry out the above identification, these rules establish a method, which considers a number of qualitative and quantitative factors, such as: 1) in consumer credits: payment behavior, potential losses and credit risk; (2) in mortgage loans: periods of delinquency, possibility of non-payment and net potential losses of guarantees received; and (3) in commercial appropriations: assessment of the ability to repay credit, financial risk, payment history, as well as corresponding guarantees.

In addition, arising from the uncertainty surrounding credit risk and the global and national economic environment caused by the COVID-19 pandemic, the Institution administration decided to constitute additional reserves, these reserves are based on the projection of certain credit indicators such as risk cost, overdue portfolio index, punishments, default rates and overdue portfolio coverage.

A key audit matter has been considered due to the importance of the book value of the credit portfolio and its corresponding preventive estimates for credit risks, and because the process for determining the estimate is complex and requires consideration of the integrity and accuracy of the source information used, in addition to updating each of the credit risk factors mentioned above in the calculations of those estimates. Due to the nature of the additional reserves and because the constitution of the reservations depends on estimates and assumptions used by the administration, there may be a risk in determining them.

Our audit procedures to cover this key audit issue included the following:

a) We test the design and implementation, and operating effectiveness of relevant controls regarding the valuation of the Institution's preventive estimate for credit risks.

b) We recalculate the estimate for portfolio valuation considering the appropriate methodologies used, historical and up-to-date risk factors, the inputs used and their supporting documentation, the special accounting criteria to support bank debtors and validate the correct accounting record.

c) Our tests were developed with the involvement of our team of Regulatory Compliance specialists, who ensured that the models for determining the preventive estimates used by the Institution were in accordance with the models stipulated by the Commission.

d) We test, jointly with our team of specialists, the reasonableness of the additional reserves recorded to recognize the loss of value of their future credit portfolio that is not yet covered by the standart CNBV methodology, by testing the reasonableness of assumptions, verifying arithmetic calculations and their accounting record under the economic environment derived from COVID-19.

e) In addition, we validate the correct presentation and disclosure in the consolidated financial statements.

Information Other than the Consolidated Financial Statements and Auditors' Report

The management is responsible for the other information. The other information will include the information that will be incorporated in the annual report which will be to the Commission and Mexican Stock Exchange (which will not include the consolidated financial statements and our audit report). The annual report is expected to be available for our reading after the date of this audit report.

Our opinion on the consolidated financial statements will not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to to read the other information mentioned, when available, and when we doing so, to consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or with our knowledge obtained during the audit, or otherwise appears to contain a material error. If based on the work we have done, we conclude that there is a material error in the other information; we would have to report this fact. We have nothing to report on this matter.

The information shown in the accompanying financial statements as unaudited, is presented by the requirements of the Accounting Criteria issued by the Commission.

Other Matters

The accompanying consolidated financial statements have been translated into English for the convenience of users.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with the Accounting Standards issued by the Commission and the internal control that management deems necessary to enable the preparation of consolidated financial statements free of material misstatement, due to fraud or error.

In the preparation of the consolidated financial statements, management is responsible for assessing the Holding 's ability to continue as a going concern, disclosing as appropriate, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Holding or to cease operations, or has no realistic alternative but to do so.

Those responsible for the governance of the Holding are responsible for supervising the consolidated financial reporting process of the Holding.

Independent Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement, due to fraud or error, and to issue an audit report containing our opinion. Reasonable assurance is a high level of assurance but does not guarantee that an audit performed in accordance with ISA will always detect a material error when it exists. Misstatements can arise from fraud or error and are considered material if individually or in aggregate form can reasonably be expected to influence the economic decisions that users make based on the consolidated financial statements.

As part of an audit performed in accordance with ISAs, we exercise our professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements due to fraud or error, design and apply audit procedures to respond to those risks, and obtain audit evidence that is sufficient and appropriate to provide the basis for our opinion. The risk of not detecting a material misstatement due to fraud is higher than in the case of a material misstatement due to an error, since fraud may involve collusion, falsification, deliberate omissions, intentional misrepresentation, or the override of internal control.
- Obtain an understanding of the material internal control relevant to the audit in order to design appropriate audit procedures for the circumstances and not in order to express an opinion on the effectiveness of the internal control of the Holding Company.
- Evaluate the adequacy of the accounting policies applied and the reasonableness of the accounting estimates and the corresponding information disclosed by the Management.
- Conclude on the adequacy Management's use of the going concern basis of accounting and, based on the audit evidence obtained, we conclude on whether there is a material uncertainty related to facts or conditions that may generate significant doubts about the ability of the Holding Company to continue operating. If we conclude that material uncertainty exists, it is required that we highlight this in our audit report to the corresponding information disclosed in the consolidated financial statements or, if such disclosures are not adequate, express a modified opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Holding to cease operating.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including disclosed information, and whether the consolidated financial statements represent the relevant transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Holding and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements of the Holding. We remain solely responsible for our audit opinion.

We communicate to those responsible for the governance of the Holding regarding, among other matters inter alia, the scope and timing of the planned audit, the significant findings of the audit, as well as any significant deficiencies in internal control identified in the course of the audit.

We also provide to those responsible for the governance with a statement that we have complied met with the applicable ethics requirements regarding independence and communicate them about all relationships and other issues that can reasonably be expected to affect our independence and, where appropriate, the corresponding safeguards.

From the matters communicated with those responsible for the Governor of the Holding, we determine that these have been of the greatest significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in this audit report unless legal or regulatory provisions prohibit disclosure of the matter or, in extremely rare circumstances, we determine that a matter should not be reported in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Galaz, Yamazaki, Ruiz Urquiza, S.C.

Member of Deloitte Touche Tohmatsu Limited

C.P.C. Héctor García Garza

Registration in the General Administration
Monterrey, Nuevo León, México

February 28, 2022

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2021 and 2020
(In millions of Mexican pesos)

ASSETS	**2021**	**2020**
CASH AND CASH EQUIVALENTS	**Ps. 98,842**	**Ps. 109,306**
MARGIN SECURITIES	**7,999**	**18,099**
INVESTMENTS IN SECURITIES		
Trading securities	258,201	223,390
Securities available for sale	233,594	244,823
Securities held to maturity	258,562	193,652
	750,357	**661,865**
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	**4,487**	**4,036**
DERIVATIVE FINANCIAL INSTRUMENTS		
For trading purposes	26,941	48,233
For hedging purposes	1,055	2,043
	27,996	**50,276**
VALUATION ADJUSTMENTS FOR ASSET HEDGING	**40**	**54**
PERFORMING LOAN PORTFOLIO		
Commercial loans		
Business loans	333,265	325,183
Financial Holding Company’s loans	10,916	11,172
Government loans	154,318	161,563
Consumer loans	121,875	116,484
Mortgage loans		
Medium and residential	198,056	184,980
Low-income housing	3	4
Loans acquired from INFONAVIT or FOVISSSTE	2,400	2,752
TOTAL PERFORMING LOAN PORTFOLIO	**820,833**	**802,138**
PAST-DUE LOAN PORTFOLIO		
Commercial loans		
Business loans	3,252	2,530
Financial Holding Companys’ loans	159	37
Consumer loans	3,018	4,705
Mortgage loans		
Medium and residential	1,802	1,429
Low-income housing	-	1
Loans acquired from INFONAVIT or FOVISSSTE	275	229
TOTAL PAST-DUE LOAN PORTFOLIO	**8,506**	**8,931**
LOAN PORTFOLIO	**829,339**	**811,069**
(Minus) Allowance for loan losses	(16,251)	(20,004)
LOAN PORTFOLIO, net	**813,088**	**791,065**
ACQUIRED COLLECTION RIGHTS	**1,036**	**1,617**
TOTAL LOAN PORTFOLIO, net	**814,124**	**792,682**
ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net	**3,221**	**2,756**
PREMIUM RECEIVABLES, net	**4,284**	**4,353**
ACCOUNTS RECEIVABLE FROM REINSURANCE, net	**7,451**	**7,269**
RECEIVABLES GENERATED BY SECURITIZATIONS	**-**	**110**
OTHER ACCOUNTS RECEIVABLE, net	**33,665**	**42,481**
MERCHANDISE INVENTORY	**1,026**	**946**
FORECLOSED ASSETS, net	**1,873**	**1,553**
PROPERTY, FURNITURE AND EQUIPMENT, net	**21,451**	**32,627**
PERMANENT STOCK INVESTMENTS	**15,004**	**14,805**
OTHER ASSETS, net		
Deferred charges, advance payments and intangibles	**53,865**	**39,439**
Other short-term and long-term assets	**5,194**	**5,247**
TOTAL ASSETS	**Ps. 1,850,879**	**Ps. 1,787,904**

MEMORANDUM ACCOUNTS (Note 36)
These balance sheets, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to Accounting Principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Holding Companys. Such principles are consistently applied in the financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the balance sheet dates above.
As of December 31, 2021, the stockholders’ equity amounts to Ps. 10,001.
The accompanying Consolidated Balance Sheets have been approved by the Board of Directors in accordance with the responsibility assigned to them.
“The attached Notes are an integral part of these consolidated financial statements.”

LIABILITIES AND STOCKHOLDERS' EQUITY	2021	2020
DEPOSITS		
Demand deposits	Ps. 528,051	Ps. 520,283
Time deposits		
General public	240,051	252,271
Money market	100	14,248
Senior debt issued	27,800	32,325
Global account of deposits without movements	3,023	2,585
	799,025	**821,712**
INTERBANK AND OTHER LOANS		
Demand loans	7,809	-
Short-term loans	18,089	22,499
Long-term loans	13,589	13,522
	39,487	**36,021**
TECHNICAL RESERVES	**230,425**	**187,846**
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	**377,069**	**353,094**
COLLATERAL SOLD OR PLEDGED		
Repurchase or resale agreements (creditor balance)	**31**	**13**
Loans of Securities (creditor balance)	**-**	**8**
DERIVATIVE FINANCIAL INSTRUMENTS		
For trading purposes	22,442	44,097
For hedging purposes	6,571	4,990
	29,013	**49,087**
ACCOUNTS PAYABLE TO REINSURERS, net	**2,514**	**2,269**
OTHER ACCOUNTS PAYABLE		
Income tax	1,614	4,365
Employee profit sharing	1,380	538
Creditors from settlements of transactions	3,398	4,892
Creditors from collaterals received in cash	10,006	6,860
Sundry creditors and other payables	34,390	35,915
	50,788	**52,570**
SUBORDINATED DEBENTURES	**80,574**	**57,152**
DEFERRED TAXES, net	**3,346**	**1,618**
DEFERRED CREDITS AND ADVANCED COLLECTIONS	**1,367**	**1,410**
TOTAL LIABILITIES	**1,613,639**	**1,562,800**
STOCKHOLDERS' EQUITY		
PAID-IN CAPITAL		
Common stock	14,957	14,919
Additional paid-in capital	48,292	48,269
	63,249	**63,188**
OTHER CAPITAL		
Capital reserves	8,835	9,215
Retained earnings from prior years	130,076	118,773
Result from valuation of securities available for sale	1,594	3,801
Result from valuation of instruments for cash flow hedging	(2,661)	(887)
Result from valuation of reserve for unexpired risks variations in rates	(118)	(231)
Cumulative translation adjustment	168	134
Defined remeasurement for employees benefits	(1,957)	(2,259)
Net income	35,048	30,508
	170,985	**159,054**
NON-CONTROLLING INTEREST	**3,006**	**2,862**
TOTAL STOCKHOLDERS' EQUITY	**237,240**	**225,104**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**Ps. 1,850,879**	**Ps. 1,787,904**

Act. José Marcos Ramírez Miguel
CEO

Eng. Rafael Arana de la Garza
Managing Director - COO, Administration and Finance

C.P. Isaías Velázquez González
Managing Director – Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director – Controller

C.P.C. Mayra Nelly López López
Executive Director – Accounting

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020
(In millions of Mexican pesos)

	2021	**2020**
Interest income	Ps. 134,725	Ps. 133,593
Premium revenue, net	45,570	36,849
Interest expense	(40,772)	(47,898)
Increase in technical reserves	(33,818)	(17,793)
Casualty rate, claims and other contractual obligations, net	(25,664)	(21,920)
NET INTEREST INCOME	**80,041**	**82,831**
Allowance for loan losses	(11,351)	(21,930)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES	**68,690**	**60,901**
Commission and fee income	27,589	24,003
Commission and fee expense	(13,627)	(10,784)
Brokerage revenues	4,396	4,854
Other operating income (expenses)	2,714	2,982
Non-interest expense	(45,940)	(43,013)
	(24,868)	**(21,958)**
OPERATING INCOME	**43,822**	**38,943**
Equity in earnings of unconsolidated subsidiaries and associated companies	2,273	2,003
INCOME BEFORE INCOME TAX	**46,095**	**40,946**
Current income tax	(7,174)	(9,247)
Deferred income taxes, net	(3,382)	(802)
	(10,556)	**(10,049)**
INCOME BEFORE NON-CONTROLLING INTEREST	**35,539**	**30,897**
Non-controlling interest	(491)	(389)
NET INCOME	**Ps. 35,048**	**Ps. 30,508**

These Income Statements, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to Accounting Principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Holding Companys. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the Consolidated Income Statement dates above.

The accompanying Consolidated Income Statements have been approved by the Board of Directors in accordance with the responsibility assigned to them.

The attached notes are an integral part of these consolidated income statements.

Act. José Marcos Ramírez Miguel
CEO

Eng. Rafael Arana de la Garza
Managing Director - COO, Administration and Finance

C.P. Isaías Velázquez González
Managing Director – Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director – Controller

C.P.C. Mayra Nelly López López
Executive Director – Accounting

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020
(In millions of Mexican pesos)

	PAID-IN CAPITAL		OTHER CAPITAL			
	Common Stock	Additional paid-in capital	Capital reserves	Retained earnings from prior years	Result from valuation of securities available for sale	Result from valuation of instruments for cash flow hedging
Balances, January 1, 2020	**Ps. 14,992**	**Ps. 47,979**	**Ps. 6,486**	**Ps. 90,084**	**Ps. 1,763**	**(Ps. 2,246)**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Share repurchase for executive shares' plan payable in equity instruments	(73)	295	(1,441)	-	(4)	-
Transfer of prior year's result	-	-	-	36,528	-	-
Creation of reserves as per General Stockholders' meeting on April 24, 2020	-	-	6	(6)	-	-
Sale of share of Operadora de Fondos Banorte	-	-	4,164	(4,164)		
Total transactions approved by stockholders	**(73)**	**295**	**2,729**	**32,358**	**(4)**	**-**
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	2,042	-
Effect of subsidiaries, affiliates and mutual funds	-	(5)	-	(327)	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	1,359
Result from valuation of reserve for unexpired risks variations in rates	-	-	-	-	-	-
Defined remeasurements for employees benefits						
Interest on subordinated debentures	-	-	-	(3,342)	-	-
Total comprehensive income	**-**	**(5)**	**-**	**(3,669)**	**2,042**	**1,359**
Non-controlling interest						
Balances, December 31, 2020	**14,919**	**48,269**	**9,215**	**118,773**	**3,801**	**(887)**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Share repurchase for executive shares' plan payable in equity instruments	38	(18)	924	-	(23)	-
Transfer of prior year's result	-	-	-	30,508	-	-
Dividends Decreed by the Ordinary General Assembly of Shareholders on April 23 and November 19, 2021	-	-	-	(16,759)	-	-
Release of reserve for the repurchase of shares	-	-	(1,304)	1,304		
Total transactions approved by stockholders	**38**	**(18)**	**(380)**	**15,053**	**(23)**	**-**
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	(2,184)	-
Effect of subsidiaries, affiliates and mutual funds	-	41	-	(61)	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	(1,774)
Result from valuation of reserve for unexpired risks variations in rates	-	-	-	-	-	-
Defined remeasurements for employees benefits						
Interest on subordinated debentures	-	-	-	(3,689)	-	-
Total comprehensive income	**-**	**41**	**-**	**(3,750)**	**(2,184)**	**(1,774)**
Non-controlling interest						
Balances, December 31, 2020	**Ps. 14,957**	**Ps. 48,292**	**Ps. 8,835**	**Ps. 130,076**	**Ps. 1,594**	**(Ps. 2,661)**

These statements of changes in stockholder's equity, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Holding Companys. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the dates above. "These Consolidated Statements of Changes in Stockholder's Equity were approved by the Board of Directors in accordance with the responsibility assigned to them."
The attached notes are an integral part of these consolidated statements of changes in stockholder's equity.

	OTHER CAPITAL						
	Result in the valuation of unexpired risk reserves due to changes in rates	**Cumulative foreign currency translation adjustment**	**Defined remeasurements for employees benefits**	**Net income**	**Total majority interest**	**Total Non-controlling interest**	**Total stockholders' equity**
Balances, January 1, 2020	**(Ps. 85)**	**Ps. 77**	**(Ps. 1,861)**	**Ps. 36,528**	**Ps. 193,717**	**Ps. 2,281**	**Ps. 195,998**
TRANSACTIONS APPROVED BY STOCKHOLDERS:							
Share repurchase for executive shares' plan payable in equity instruments	-	-	-	-	(1,223)	-	(1,223)
Transfer of prior year's result	-	-	-	(36,528)	-	-	-
Creation of reserves as per General Stockholders' meeting on April 24, 2020	-	-	-	-	-	-	-
Sale of share of Operadora de Fondos Banorte	-	-	-	-	-	-	-
Total transactions approved by stockholders	**-**	**-**	**-**	**(36,528)**	**(1,223)**	**-**	**(1,223)**
COMPREHENSIVE INCOME:							
Net income	-	-	-	30,508	30,508	-	30,508
Result from valuation of securities available for sale	-	-	-	-	2,042	-	2,042
Effect of subsidiaries, affiliates and mutual funds	-	57	-	-	(275)	-	(275)
Result from valuation of instruments for cash flow hedging	-	-	-	-	1,359	-	1,359
Result from valuation of reserve for unexpired risks variations in rates	(146)	-	-	-	(146)	-	(146)
Defined remeasurements for employees benefits	-	-	(398)	-	(398)	-	(398)
Interest on subordinated debentures	-	-	-	-	(3,342)	-	(3,342)
Total comprehensive income	**(146)**	**57**	**(398)**	**30,508**	**29,748**	**-**	**29,748**
Non-controlling interest	-	-	-	-	-	581	581
Balances, December 31, 2020	**(231)**	**134**	**(2,259)**	**30,508**	**222,242**	**2,862**	**225,104**
TRANSACTIONS APPROVED BY STOCKHOLDERS:							
Share repurchase for executive shares' plan payable in equity instruments	-	-	-	-	921	-	921
Transfer of prior year's result	-	-	-	(30,508)	-	-	-
Dividends Decreed by the Ordinary General Assembly of Shareholders on April 23 and November 19, 2021	-	-	-	-	(16,759)	-	(16,759)
Release of reserve for the repurchase of shares	-	-	-	-	-	-	-
Total transactions approved by stockholders	**-**	**-**	**-**	**(30,508)**	**(15,838)**	**-**	**(15,838)**
COMPREHENSIVE INCOME:							
Net income	-	-	-	35,048	35,048	-	35,048
Result from valuation of securities available for sale	-	-	-	-	(2,184)	-	(2,184)
Effect of subsidiaries, affiliates and mutual funds	-	34	-	-	14	-	14
Result from valuation of instruments for cash flow hedging	-	-	-	-	(1,774)	-	(1,774)
Result from valuation of reserve for unexpired risks variations in rates	113	-	-	-	113	-	113
Defined remeasurements for employees benefits	-	-	302	-	302	-	302
Interest on subordinated debentures	-	-	-	-	(3,689)	-	(3,689)
Total comprehensive income	**113**	**34**	**302**	**35,048**	**27,830**	**-**	**27,830**
Non-controlling interest	-	-	-	-	-	144	144
Balances, December 31, 2021	**(Ps. 118)**	**Ps. 168**	**(Ps. 1,957)**	**Ps. 35,048**	**Ps. 234,234**	**Ps. 3,006**	**Ps. 237,240**

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CEO

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Managing Director - COO, Administration and Finance

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Executive Director – Accounting

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020
(In millions of Mexican pesos)

	2021	2020
Net income	**Ps. 35,048**	**Ps. 30,508**
Items not requiring (generating) resources:		
Depreciation and amortization	2,590	2,287
Technical reserves	33,818	17,793
Other provisions	(684)	124
Current and deferred income tax	10,556	10,049
Equity in earnings of unconsolidated subsidiaries and associated companies	(1,782)	(1,614)
	79,546	**59,147**
OPERATING ACTIVITIES:		
Changes in margin accounts	10,100	(12,172)
Changes in investments in securities	(88,276)	(74,742)
Changes in debtor balances under repurchase and resale agreements	(450)	(966)
Changes in asset position of derivatives	21,307	(25,924)
Change in loan portfolio	(22,022)	(33,257)
Changes in acquired collection rights	580	(15)
Changes in accounts receivable from insurance and annuities, net	(465)	(476)
Changes in debtor premiums, (net)	69	121
Changes in reinsurance and surety agencies (net) (asset)	(182)	517
Changes in receivables generated by securitizations	110	28
Change in foreclosed assets	(320)	(399)
Change in other operating assets	2,120	(7,669)
Change in deposits	(22,687)	97,222
Change in interbank and other loans	3,467	(1,040)
Change in creditor balances under repurchase and sale agreements	23,974	7,136
Collateral sold or pledged	10	(84)
Change in liability position of derivative financial instruments	(21,655)	23,345
Change in technical reserves (net)	8,761	15,567
Changes in reinsurance and surety agencies (net) (liability)	245	764
Change in subordinated debentures	23,422	9,102
Change in other operating liabilities	2,497	6,648
Change in hedging instruments related to operations	2,570	(1,112)
Income tax	(11,587)	(7,034)
Net cash flows provided by operating activity	**11,134**	**54,707**
INVESTING ACTIVITIES:		
Proceeds on disposal of property, furniture and equipment	1,519	2,884
Payments for acquisition of property, furniture and equipment	(4,523)	(7,435)
Collections by disposal of subsidiaries and associates and agreements by joint control	4	-
Payment on acquisitions of subsidiaries and associated companies	-	(139)
Charges for cash dividends	1,818	1,969
Net cash flows used in investment activity	**(1,182)**	**(2,721)**
FINANCING ACTIVITIES:		
Dividends paid	(16,759)	-
Repurchase of shares	-	(2,146)
Interest on subordinated debentures paid	(3,689)	(3,342)
Net cash flow (used in) financing activity	**(20,448)**	**(5,488)**
Net increased / decreased in cash and cash equivalents	(10,496)	46,498
Effects from changes in the value of cash and cash equivalents	32	11
Cash and cash equivalents at the beginning of the year	109,306	62,797
Cash and cash equivalents at the end of the year	**Ps. 98,842**	**Ps. 109,306**

These Cash Flow Statements, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Holding Companys. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect cash income and outlays derived from the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the dates above. “The accompanying Consolidated Cash Flow Statements have been approved by the Board of Directors in accordance with the responsibility assigned to them”. The attached notes are an integral part of these consolidated cash flow statements.

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1 – ACTIVITY AND REGULATORY ENVIRONMENT

Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries (the Financial Group or Holding Company) are authorized by Mexico's Ministry of Finance and Public Credit (SHCP) to operate as a Financial Group under the form and terms established by the Law Regulating Financial Groups, subject to the supervision and monitoring of the National Banking and Securities Commission (the Commission). Its main activities consist of acquiring and managing entities engaged in the financial services industry and supervising their activities, as defined in the above-mentioned law. The Financial Group is regulated, depending on its activities, by the Commission, the Mexican National Insurance and Bonding Commission (CNSF) (the Commissions), the Mexican Central Bank (Banco de México) and other applicable laws and regulations.

The main activity of its Subsidiaries is the execution of financial operations such as the provision of services of commercial banking, brokerage, leasing, financial factoring, warehousing services in general, pensions, life and damage insurance, as well as disposal, management, collection and negotiation, in any form, with credit rights.

The main regulating aspect compels the Financial Group to maintain a minimum capitalization ratio for market and loan risks, to meet certain acceptance limits for deposits, obligations and other types of funding that may be denominated in foreign currency, as well as to establish the minimum limits for paid-in capital and capital reserves. The Financial Group complies satisfactorily with all of the above as of December 31, 2021.

By legal requirements, the Financial Group has unlimited liability for the obligations assumed and losses incurred by each of its subsidiaries.

The powers of the Commission, in its capacity as regulator of the Financial Group and its subsidiaries, include reviewing the financial information and requesting modifications to such information.

The Financial Group performs its activities throughout Mexico and until March 2017, the United States of America.

The Financial Group's consolidated financial statements have been approved by the Board of Directors at its January 20, 2022 meeting in accordance with the responsibility assigned to this Organ.

2 – SIGNIFICANT EVENTS DURING THE YEAR

Prepayment of the government portfolio securitization (GEM)

On February 22, 2021 Banco Mercantil del Norte, SA, Institución de Banca Múltiple, Grupo Financiero Banorte ("Banorte") settled early the securitization of certificates 91_BNTECB_07, increasing the Portfolio of Government Entities by Ps. 1,297 and decreasing Investments in Securities (securities category held to maturity).

Prepayment of Banorte 20 stock certificates

On March 12, 2021, Banorte prepaid all BANORTE 20 stock certificates, issued on May 8, 2020, for an amount of $11,000.

Effects of the Labor Reform

On April 23, 2021, the 2021 Labor Reform was published in the Official Gazette of the Federation (DOF), which caused an increase in the item of Non-interest expense of the Holding Company, mainly due to the Employee Profit Sharing concept. (PTU), which increased by 187% in relation to the expense recognized in fiscal year 2020.

Reclassification of intangibles

On April 29, 2021, Banorte reclassified from "Property, furniture and equipment" to "Intangible Assets" $12,030 associated with the Core Banking Technology Platform.

Prepayment of Banorte 18-2 stock certificates

On July 8, 2021, Banorte prepaid all BANORTE 18-2 stock certificates, issued on November 29, 2018, for an amount of $2,663.

Reclassification of shares

On August 31, 2021, Banorte reclassified the shares of PayClip Inc from "Permanent Investments in Stocks" to "Investments in Securities" (Trading Securities) for an amount of $623. The effect of the valuation of these shares was $407 recognized in the results for the year ended December 31, 2021.

Issuance of capital notes (Tier 1) for USD 1,050 million (Subordinated Notes)

On November 17, 2021, Banorte successfully concluded the issuance of Perpetual, Non-Preferred, Non-Convertible Capital Notes (Tier 1) on the Singapore Stock Exchange for a global amount of US$1,050 million.

The issuance of the Capital Notes (Tier 1) was carried out in two series:

- C5 Notes PERP for $500 million US dollars, prepayable in the fifth year and with a coupon rate of 5.875% and;
- NC10 Notes PERP for $550 million US dollars, prepayable in the tenth year and with a coupon rate of 6.625%.

The ratings given to both series by the rating agencies Moody's and S&P were Ba2 and BB-, respectively. It should be noted that the Subordinated Notes issued comply with the Basel III regulation.

The proceeds from the issue will be used for general corporate purposes.

Acquisition of the life, accident and illness portfolio of Principal Seguros, S.A. of C.V. (Principal)

On December 1, 2021, with authorization from the CNSF, Seguros Banorte purchased 6,519 policies from Principal Seguros with an associated reserve of $1,080, the acquisition involves 7,767 current policyholders, corresponding to life, accident and illness operations. As part of the initial registration, income of $455 and an additional reserve of $341 were recognized.

3 – BASIS OF PRESENTATION

Presentation of consolidated financial statements

The consolidated financial statements as of December 31, 2021 and 2020, which are accompanied, have been prepared by Management assuming that the Holding Company will continue to operate as a going concern due to the uncertainty and duration of the pandemic in accordance with the accounting criteria established by the Commission.

Monetary unit of the consolidated financial statements

The consolidated financial statements and notes for the years ended as of December 31, 2021 and 2020 include balances and transactions in Mexican pesos of purchasing power of such dates.

As of December 31, 2021 and 2020, the registration currency and functional currency of the Parent Company is the Mexican peso.

Recognition of the effects of inflation in financial consolidated information

Inflation recognition is done pursuant to MFRS B-10, “Inflation Effects,” which considers two types of economic environments: a) inflationary, when the accumulated inflation of the three previous years is 26% or over, in which case the inflation effects must be acknowledged; b) non-inflationary, when in the same period inflation is less than 26%; in this case the effects of inflation should not be recorded in the consolidated financial statements.

The cumulative Mexican inflation over the three years prior to 2021 and 2020 was 11.31% and 15.03%, respectively. Therefore, the Mexican economy is considered as non-inflationary. However, assets, liabilities and stockholders' equity as of December 31, 2021 and 2020 include the restatement effects recorded up through December 31, 2007. The cumulative Mexican inflation over the three years including the year ended December 31, 2021 was 14.16%.

The Mexican inflation rates for the years ended December 31, 2021 and 2020 were 7.61% and 3.23%, respectively.

Consolidation of financial statements

The accompanying consolidated financial statements include those of Grupo Financiero Banorte, S.A.B. de C.V. and its subsidiaries mentioned below. All significant intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2021 and 2020, the Grupo Financiero Banorte S.A.B. de C.V.'s consolidated subsidiaries and its equity ownership is as follows:

Entity	2021	2020
Banco Mercantil del Norte, S.A. y Subsidiarias (Banorte)	98.26%	98.26%
Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, ER y Subsidiaria (AyF)	99.91%	99.91%
Almacenadora Banorte, S.A. de C.V. y Subsidiaria	99.99%	99.99%
Banorte Ahorro y Previsión, S.A. de C.V. y Subsidiarias	99.99%	99.99%
Casa de Bolsa Banorte, S.A. de C.V. y Subsidiaria	99.99%	99.99%
Operadora de Fondos Banorte, S.A. de C.V.	99.99%	99.99%
Ixe Servicios, S.A. de C.V.	99.99%	99.99%

Equity investments in mutual funds and investments in associated companies are valued under the equity method according to the accounting principles established by the Commission.

* The permanent investment in AyF includes the participation in the Trusts created in conjunction with GEO, URBI and HOMEX, constituted for the construction of real estate developments (the Trusts). As of December 31, 2021 and 2020, AyF consolidated the financial statements of said trusts.

Conversion of Financial Statements of foreign subsidiary

In order to consolidate the financial statements of Banorte Financial Services, INC., they are first adjusted to the recording and functional currency (U.S. dollar) to conform to the accounting criteria established by the Commission. The financial statements are then converted to the reporting currency (Mexican pesos) according to the following methodology:

Foreign operations whose recording and functional currency are one and the same convert their financial statements using the following exchange rates for the year-end rate for assets and liabilities (20.5075 for 2021), historical rate for non-monetary assets and liabilities as well as stockholders' equity, and the weighted average rate of the period for income, costs and expenses (20.2793 for 2021). The conversion effects are presented in the Holding Company's stockholders' equity.

Comprehensive Income

This is the change in stockholders' equity during the year, for items other than distributions and activity in contributed common stock, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity and do not affect the Consolidated Income Statements, in accordance with the accounting practices established by the Commission. In 2021 and 2020, comprehensive income includes the net income of the year, the result from valuation of securities available for sale; the effect of subsidiaries, affiliates and mutual funds; the effect of subsidiaries, affiliates and mutual funds, remeasurements for employee benefits, result from valuation of reserve for unexpired risks variations in rates, the cumulative conversion effect, Interest on subordinated debentures, Commission special accounting criteria and the result from valuation of cash flow hedging instruments.

4 – SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Holding Company are in conformity with practices prescribed by the Commission through issued accounting standards and other applicable laws, which require Management to make certain estimates and use certain assumptions to determine the valuation of certain items included in the consolidated financial statements and make the required disclosures therein. Even though they may differ in their final effect, management considers the estimates and assumptions to have been adequate under the current circumstances.

Pursuant to accounting criteria A-1, "Basic Framework of the Accounting Criteria Applicable to Banking Holding Companys", prescribed by the Commission, the Holding Companys' accounting will adhere to Mexican Financial Reporting Standards, (MFRS or individually referred to as Normas de Informacion Financiera (NIFs)) defined by the Mexican Board of Financial Reporting Standards (previously the Mexican Board for Research and Development of Financial Reporting Standards (CINIF)), except when the Commission deems it necessary to apply a specific accounting standard or Circular, considering the fact that financial Holding Companys perform specialized operations.

Explanation for translation into English

The accompanying consolidated financial statements have been translated from Spanish into English for the convenience of users. These consolidated financial statements are presented on the basis of accounting practices prescribed by the Commission. Certain accounting practices applied by the Holding Company may not conform to Mexican Financial Reporting Standards ("MFRS") or other accounting principles generally accepted outside of Mexico.

Changes in accounting policies

Special accounting treatment of the support programs granted by the Holding Company derived from the COVID-19 Contingency

Given the negative impact generated in various activities of the economy derived from the epidemic by the SARS-CoV2 virus (COVID-19) in Mexico, the Holding Company determined to support its clients by implementing various support programs that were applicable to all customers who subscribed to the program from March 25 to July 31, 2020, as follows:

Credit card:

• The support consists of not requiring the minimum payment of the card for 4 months, without affecting the credit bureau, nor generating collection expenses or interest for non-compliance (arrears); The foregoing, as soon as the client received confirmation, via email, of having been enrolled in the program.

• The usual payment request resumes from the month immediately after the end of the support period, that was, August 2020.

• The balance maintained in the account during the support period generated ordinary interest that was calculated monthly, was reported to the client and was not capitalized.

• Payments can be made to the card at any time.

• The credit card enrolled in the support program remains available for purchases and cash withdrawals in accordance with applicable credit policies and current terms and conditions.

Payroll loan:

• Postpone the payment of capital, interest, insurance and commissions equivalent to 4 months, according to the periodicity of payment.

• The deferral applies from the moment the client receives confirmation, by email, that they have been enrolled in the program.

• At the end of the support period, the payment of the credit were resumed for the same amount that the client was paying before the deferral.

• The client were not pay additional interest during the program or the extension of the term.

• Advance payments can be made at any time without penalty to settle your credit on the original date.

Personal loan:

• It consists of postponing the payment of capital, interest, insurance and commissions equivalent to 4 months, according to the periodicity of payment.

• The deferral applies from the moment the client receives confirmation, by email, that they have been enrolled in the program.

• At the end of the support period, the payment of the credit were resumed for the same amount that the client was paying before the deferral.

• The client were not pay additional interest during the program or the extension of the term.

• Advance payments can be made at any time without penalty to settle your credit on the original date.

Auto loan:

• The support consists of deferring the payment of principal and interest on the loan for the next 4 months after receiving confirmation, via email, of having been enrolled in the aforementioned program.

• The payment of the 4 monthly payments wase made at the end of the originally agreed term.

• The regular payment resumes as of the month immediately after the deferral period has ended.

• The delayed interest of the 4 months indicated does not generate additional interest or commission.

• You can make advance payments at any time without penalty to settle your credit on the original date.

Mortgage loan:

• The support consists of deferring the payment of the credit for the next 4 months after receiving confirmation, via email, of having been enrolled in the aforementioned program.

• The payment of the 4 monthly payments was made at the end of the originally agreed term.

• The regular payment resumes as of the month immediately after the deferral period has ended.

• The delayed interest of the 4 months indicated does not generate additional interest or commission.

• Prepayments can be made at any time without penalty.

SME loan:

a) In simple loan:

• The support consists of not requiring the monthly payment (principal and interest) for up to 4 months.

• Deferred monthly payments are completed at the end of the term.

• The loans that are to be concluded were extended for up to 4 months.

b) In Current Account loans:

• The support consists of not requiring the monthly payment (interest) for up to 4 months and at the same time the term of the credit will be extended for up to 4 months.

• Interest was paid at the end of the term.

• Making the total or partial payment of the principal at the end of the original term of the loan or during its life, does not exempt the client from paying the deferred interest.

• The credits that are about to be concluded were have an extension of term according to the remaining months and the payment of the capital was carried out to the new expiration date.

• During the extension of the term, the corresponding interest payment were covered according to the obligations of the credit contract.

By virtue of the foregoing, on March 27, 2020 by letter P285 / 2020, on April 15, 2020 by letter P293 / 2020 and by statement of June 26, 2020, the National Banking and Securities Commission (the " Commission "), issued Special Accounting Criteria, applicable to the Holding Company for the period of February 28, 2020 and until July 31, 2020, by which it authorized that those loans in force as of February 28, 2020, and the loans granted In March 2020, according to paragraph 12 of criterion B-6 "loan portfolio" (criterion B-6) to which the payment of principal and interest was deferred according to the program, they are not considered as restructured credits in terms of paragraphs 79 and 80, likewise, if the requirements established in paragraphs 82 and 84 of Criterion B-6 are not applicable to them, as appropriate, and for them to remain as a portfolio in force during the term agreed upon in said Program. Therefore, these loans are considered as a current portfolio for the determination of the preventive estimate.

Additionally, the loans for which their payments were be deferred were not be considered as restructured in accordance with the provisions of paragraph 40 of Criterion B-6, nor should they be reported as overdue loans before the credit information companies.

The amounts that would have been recorded and presented both in the balance sheet and in the income statement by type of portfolio, if the special accounting criterion had not been applied, as well as the detail of the concepts and amounts by type of portfolio, for the Which accounting effects have been made due to the application of the special accounting criteria as of December 31, 2021, are shown below:

Concept	Balances with COVID support	Effects on loans and allowance	Balances without COVID support
PERFORMING LOAN PORTFOLIO			
Commercial loans	Ps. 498,499	(Ps. 31)	Ps. 498,468
Consumer loans	121,875	(15)	121,860
Mortgage loans	200,459	(146)	200,313
TOTAL PERFORMING LOAN PORTFOLIO	**820,833**	**(192)**	**820,641**
PAST-DUE LOAN PORTFOLIO			
Commercial loans	3,411	31	3,442
Consumer loans	3,018	15	3,033
Mortgage loans	2,077	146	2,223
TOTAL PAST-DUE LOAN PORTFOLIO	**8,506**	**192**	**8,698**
LOAN PORTAFOLIO	**829,339**	**-**	**829,339**
(Minus) Allowance for loan losses	(16,251)	(58)	(16,309)
LOAN PORTFOLIO	**813,088**	**(58)**	**813,030**
TOTAL ASSETS	**1,850,879**	**(58)**	**1,850,821**
Allowance for loan losses (net income)	11,351	58	11,409
NET INCOME	**35,048**	**(58)**	**34,990**
TOTAL STOCKHOLDERS' EQUITY	**237,240**	**(58)**	**237,182**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**Ps. 1,850,879**	**(Ps. 58)**	**Ps. 1,850,821**

As of December 31, 2021, the balance of loans subject to program support is Ps. 88,938.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value, except for precious metal coins, which are stated at fair value at the end of the period. Funds available in foreign currency are valued at the FIX exchange rate published by Banco de México at the Consolidated Balance Sheet.

Margin securities

Margin securities on cash in transactions with derivative financial instruments in recognized markets are recorded at nominal value.

The cash is intended to ensure the compliance with the obligations corresponding to derivatives held in recognized markets and correspond to the initial margin, to partial or total settlements, additional contributions or withdrawals, returns generated by the account itself, as well as commissions that correspond to charge in the validity of the corresponding contracts.

Partial or total settlements deposited and withdrawn by the clearing house due to fluctuations in the prices of derivatives must be recognized within the margin account, affecting as a counterpart a specific account that may be of a debtor or creditor nature, and that It will reflect the effects of the derivative valuation prior to its liquidation. The counterpart of a debtor or creditor nature will represent an advance received, or, a financing granted by the clearing house prior to the liquidation of the derivative.

The amount of margin accounts granted and received in cash in derivative transactions not carried out in recognized markets or exchanges will be presented under other accounts receivable, while the account payable generated by the receipt of cash collateral It will be presented in other accounts payable.

Collaterals granted in such operations, other than restricted cash must remain in the same area from which they originate. The payable account, which represents the obligation of the assignee to return to the transferor the collateral other than cash that has been sold must be presented in the balance sheet, on collaterals sold or given as collateral. The amount of the collateral other than cash on which the right to sell or give as guarantee has been granted shall be presented in memorandum accounts in a specific item.

As of December 31, 2021 and 2020, the Holding Company maintained standardized derivative and future operations, so cash collateral (cash margin calls) were recognized to ensure compliance with the obligations corresponding to the operations held in markets recognized for the purpose to mitigate the default risk.

Trading securities

Trading securities are securities owned by the Financial Group, acquired with the intention of selling them for a profit derived from the price differences in short-term purchase and sale operations made by the Financial Group as a market participant.

At the time of the acquisition they are initially recorded at fair value, which may include either a discount or premium.

These securities (including both principal and accrued interest) are stated at fair value, which is determined by the price vendor contracted by the Financial Group.

The trading securities valuation result is recorded in the results of the period.

Securities available for sale

Securities available for sale are debt or equity securities that are neither classified as trading nor held to maturity, therefore they represent a residual category, which means that, they are purchased with an intention different from trading or held to maturity.

They are recognized and valued in the same way as trading securities, but with unrealized gains and losses recognized in other comprehensive income in consolidated stockholders' equity.

If, in a subsequent period, the fair value of debt classified as available for sale were to be increased and such reversal of the impairment effect may be objectively related to an event occurring after the impairment were to be recognized in the results of the year, the loss due to impairment is reversed in the results of the year.

The loss due to impairment recognized in the income statement of securities classified as available for sale is not be reversed.

Securities held to maturity

Securities held to maturity consist of debt instruments whose payments are fixed or can be determined with a set maturity, which are acquired with the intent and capability to hold them to maturity.

They are initially recorded at fair value and valued at amortized cost, which means that the amortization of the premium or discount (included in the fair value at which they were initially recorded), is part of the earned interest.

Transfers between categories

Reclassification of securities from held to maturity to available for sale is allowed, provided there is no intention or ability of holding them to maturity. In the case of reclassifications to securities held to maturity or from trading securities to available for sale securities, which can be done in extraordinary circumstances (lack of market liquidity, absence of an active market for such securities, among others), the Commission will evaluate such circumstances and, if it determines they are valid, it will issue its express authorization for their reclassification.

During the years ended December 31, 2021 and 2020, the Holding Company did not transfer titles between categories.

General valuation standards

Upon the sale of trading securities, the valuation result previously recorded in the year's results is reclassified as part of the gain or loss on the sale. Similarly, upon the sale of securities available for sale, the cumulative valuation result recorded in other comprehensive income in stockholders' equity is reclassified as part of the gain or loss on the sale.

Accrued interest on debt instruments is determined using the effective interest method and is recorded in the corresponding category of investments in securities and in the year's results.

Dividends on equity instruments are recorded in the corresponding category of investments in securities and in the year's results when the right to receive such dividends is established.

The foreign exchange gain or loss on investments in securities denominated in foreign currency is recorded in the year's results.

If securities held to maturity are reclassified as available for sale, the corresponding valuation result on the reclassification date is recorded in other comprehensive income within stockholders' equity.

In the case of debt instruments that have been authorized for reclassification from available for sale securities to held to maturity securities, the valuation result on the transfer date continues to be reported in stockholders' equity, and it is amortized based on such instrument's remaining life.

Regarding authorized reclassifications from trading securities to any other category, the valuation result on the reclassification date is already recognized in the year's results.

An impairment loss on a security is recorded against the year's results if there is objective evidence of such impairment as a result of one or more events, occurring after the initial recording of the security, that have had an impact on the estimated future cash flows that can be reliably determined. The effect of recording the impairment of securities is shown in Note 6.

A previously recorded impairment loss is reversed against the year's results if, in a later period, the amount of the loss decreases and such decrease is objectively associated with an event occurring after the impairment was recorded.

The Financial Group periodically verifies if its securities available for sale and held to maturity indicate any impairment loss, by means of an evaluation on the quarterly balance sheet date or whenever there are indications of an impairment loss.

Securities are deemed as impaired and therefore incurring an impairment loss if and only if there is objective evidence of the impairment loss as a result of a set of events that occurred after their initial value was recorded. Such events should have had an impact on the estimated future cash flows, which can be determined in a reliable manner.

These events may include: issuer's significant financial difficulties; likelihood of the issuer's filing for bankruptcy or financial reorganization; noncompliance with contractual clauses such as failure to pay interest or the principal; loss of an active market for the securities due to financial difficulties; lower credit rating and sustained decline in the issuance price, in combination with additional information.

In addition to the aforementioned events, objective evidence of impairment loss for a net asset instrument includes information about significant changes with adverse effects that occurred in the technological, market, economic or legal situation in which the issuer operates, and which indicates a possible loss of the cost of investing in the net asset instrument.

The events considered by the model are divided into:

a) Information that the Financial Group has about the securities (breach of contract covenants, financial, economic or legal problems).
b) Information that the Financial Group has about the issuer (issuer's probability of bankruptcy, financial reorganization and financial difficulties).
c) Information that the market has about the securities (rating assigned by Commission-approved agencies).
d) Information that the market has about the issuer (rating assigned by Commission-approved agencies).

The evaluation model that the Financial Group applies to determine impairment loss incorporates the aforementioned events according to their importance and rates them as per the severity percentage used to estimate the return on investment. Similarly, it incorporates the existence of guarantees, which contributes to lower impairment losses.

The investments on which impairment losses have been recognized are analyzed on a quarterly basis to identify the possible recovery of their value and, if applicable, reverse the recorded loss in the Consolidated Income Statements for the year such recovery is achieved.

Customer repurchase agreements (repos)

This is a transaction through which the purchaser acquires ownership of credit securities for a sum of money and is obliged to transfer the property of another amount of securities of the same kind to the seller of the securities within the agreed term and in exchange for the same price plus a premium. The purchaser keeps the premium unless agreed otherwise.

Repurchase transactions are recorded according to their economic substance, which is financing with collateral, through which the Financial Group, acting as the purchaser, provides cash as financing in exchange for financial assets as guarantee in case of non-compliance.

On the repurchase agreement transaction contract date, the Financial Group, acting as the seller, records the cash inflow, or else a settlement debtor account as well as a payable account at its fair value, initially at the agreed price, which represents the obligation to reimburse the cash to the purchaser. The account payable is subsequently valued over the term of the repurchase agreement at amortized cost by recognizing the interest from the repurchase agreement in the year's results using the effective interest method.

As to the collateral granted, the Financial Group reclassifies the financial asset in the Consolidated Balance Sheet as restricted and values it according to the criteria mentioned earlier in this note until the maturity of the repurchase agreement.

The Financial Group, acting as the purchaser, on the repurchase transaction contract date records cash and cash equivalents or a creditor settlement account, with an account receivable at its fair value, initially at the agreed price, which represents the right to recover the cash that was delivered. The receivable is subsequently valued over the life of the repurchase agreement at amortized cost by recognizing the repurchase agreement interest in the year's results using the effective interest method.

As to the collateral received, the Financial Group records it in off balance sheet memorandum accounts until the repurchase agreement's maturity, following the guidelines of Circular B-9, "Asset Custody and Management", issued by the Commission.

Derivative financial instruments

The Financial Group is authorized to perform two types of transactions involving derivative financial instruments:

<u>Transactions to hedge the Financial Group's open risk position:</u> Such transactions involve purchasing or selling derivative financial instruments to mitigate the risk resulting from one or a group of given transactions.

<u>Transactions for trading purposes:</u> The Financial Group enters into such transactions as a market participant for reasons other than to hedge its exposed position.

Transactions with derivatives financial instruments are presented in assets or liabilities, as applicable, under the heading “Derivative financial instruments”, separating derivatives for trading purposes from those for hedging purposes.

When entering into transactions involving derivative financial instruments, the Financial Group’s internal policies and norms require an assessment and if necessary determination of different risk exposures for each counterparty in the financial system that have been authorized by Banco de México to enter into these types of transactions. Regarding corporate customers, a preauthorized credit line by the National Credit Committee must be granted or liquid guarantees must be given through a securitized collateral contract before entering into these types of transactions. Medium and small sized companies and individuals must provide liquid guarantees established in securitized collateral contracts with this type of transactions.

The recognition or cancellation of assets and/or liabilities resulting from transactions involving derivative financial instruments occurs when these transactions are entered into, regardless of the respective settlement or delivery date of the goods.

Forward and futures contracts

Forward and futures contracts with trading purposes establish an obligation to buy or sell a financial asset or an underlying at a future date in the quantity, quality and prices pre-established in the contract. Future contracts are recorded initially by the Financial Group in the Consolidated Balance Sheets as an asset and a liability at fair value, which represents the price agreed in the contract in order to acknowledge the right and obligation of receiving and/or delivering the underlying, as well as the right and obligation of receiving and/or delivering the cash equivalent to the underlying, object of the contract.

The derivatives are presented in a specific item of the assets or liability depending on whether their fair value (as a consequence of the rights and/or obligations it establishes) corresponds to the debtor balance or creditor balance Such debtor or creditor balances in the Consolidated Balance Sheets are offset when the Financial Group has the contractual right to offset the stated amount, the intention of liquidating the net amount or to realize the asset and cancel the liability simultaneously.

In the case of transactions for trading purposes, their balance represents the difference between the fair value of the contract and the established "forward" price.

Option contracts

Through paying a premium, options contracts grant the right but not the obligation to buy or sell a financial asset or underlying instrument at a given price within an established term.

Options are divided into: options to buy (calls) and options to sell (puts). Both can be used as trading or hedging instruments.

Options can be executed on a specific date or within a certain period of time. The price is agreed in the option and may be exercised at the discretion of the buyer. The instrument used to establish the price is the reference or underlying value.

The premium is the price the holder pays to the issuer for the option rights.

The holder of a call option has the right, but not the obligation, to purchase from the issuer a certain financial asset or underlying instrument at a fixed price (transaction price) within a certain term.

The holder of a put option has the right, but not the obligation, to sell a certain financial asset or underlying instrument at a fixed price (transaction price) within a certain term.

The Financial Group records the option premium as an asset or liability at the transaction date. The fluctuations resulting from market valuation of the option’s premium are recorded by affecting the Consolidated Income Statement in the account "Trading results” and the corresponding Consolidated Balance Sheet account.

Swaps

These are two-party contracts through which a bilateral obligation is established to exchange a series of cash flows for a certain period of time on pre-set dates at a nominal or reference value.

They are recorded at fair value which corresponds to the net amount between the asset and liability portion for the rights and obligations agreed upon; they are subsequently valued at fair value using the present value of the future flows to receive or grant according to the projections for future implicit applicable rates, discounting the market rate on the valuation date with yield curves given by the price provider. The result of such valuation is recorded in the year's results.

Management's risk policy regarding hedging contracts is to protect the Financial Group's Consolidated Balance Sheets and to anticipate interest and exchange rate fluctuations, thereby protecting the stockholders' equity.

For hedging derivatives, the Financial Group applies the fair value and cash flow hedging methods and the accumulated compensation method to measure effectiveness. Such methods are approved by current accounting standards. In case ineffective hedges are detected, they are recorded in the year's results.

The Financial Group documents hedging transactions from the moment that derivative instruments are designated as hedging transactions. A file for each transaction is created in order to have documented proof as per Circular B-5, paragraph 72 "Derivative financial instruments and hedging transactions" (B5) issued by the Commission, which establishes conditions for the use of hedging accounting.

Accordingly, the Financial Group documents its cash flow's hedging transactions based on the following guidelines:

a. The effective portion of the hedging instrument's gain or loss is recorded as a component of other comprehensive income in stockholders' equity using an asset or liability account called derivative financial instruments'' with an offsetting account in liquid assets or liabilities. The portion determined as ineffective is measured through retrospective testing, and when it results in over-hedging, it is immediately recognized in the period's results under "Trading results".

b. The effective hedging component recognized in stockholders' equity associated with the hedged item is adjusted to equal the lowest (in absolute terms) of:

   i. The accumulated gain or loss of the hedging instrument from its inception.
   ii. The accumulated change in fair value (present value) of the hedged expected future cash flows from the beginning of the transaction.

Valuation techniques

Since the derivatives used by the Financial Group are considered as conventional ('' Plain Vanilla'') standard valuation models contained in the derivative transaction systems and the Financial Group's risk management are used.

All of the valuation methods that the Financial Group uses result in fair value of the transactions and are periodically adjusted. Furthermore, they are audited by internal and external auditors as well as by the financial authorities.

Valuation of the positions is done on a daily basis and a price provider generates the input used by the transaction and risk management systems. The price provider generates these valuations based on daily market conditions.

The valuation methods are based on the market's accepted and commonly used principles. At present, derivatives are valued by the cash flow present value method, except in the case of options. This method consists of estimating future derivative flows, using the difference between the derivative's fixed level and the forward market curves on the valuation date, and then discounting such flows and updating them to the present value. Options are valuated under the Black_Scholes model, which in addition to the present value calculation, involves the volatility and probability of occurrence for calculating the premium. Once the option's market value is obtained, it is compared to the original premium accrued on the valuation date.

Cancellation of hedging accounting

A cash flow hedging relation is cancelled when:

1. The hedging instrument expires or is sold, terminated or enforced;
2. The hedging fails to meet the requirements of documentation, evaluation and effectiveness measuring;
3. The projected transaction is not expected to occur;
4. The hedging designation is revoked.

For cases 1 and 2, the profit or loss recorded in net income stays in that account until the projected transactions occurs. For case 3, the profit or loss recorded in net income should be immediately restated in results; and for case 4, if the hedging is on a projected transaction, the loss or profit stated in net income should stay in that account until the projected transactions is realized. Otherwise, it should be immediately restated in results.

A fair value hedging relation is canceled when:

1. The hedging instrument expires or is sold, terminated or enforced;
2. The hedging fails to meet the requirements of documentation, evaluation and effectiveness measuring;
3. The hedging designation is revoked.

Any adjustment to the result from the valuation adjustment of the hedged item attributable to the covered risk, should be amortized in the period’s results. The amortization begins as soon as the adjustment turns up, and under no circumstance after the hedged item is no longer adjusted due to changes in the fair value attributable to the risk covered. The adjustment should be amortized in full on the due date of the hedged item.

Operation strategies

Trading

The Financial Group participates in the derivatives market with trading purposes, and the risk exposures generated are computed within its overall VaR limit.

The trading strategy is submitted on a weekly basis to the Financial Group's Treasury Committee, which analyzes the current risks and takes any necessary decisions.

The trading strategy is carried out according to market levels and expectations, maximizing the circumstances to obtain a benefit by trading, margin and volatility. Each trading strategy is submitted to the Treasury Committee on a weekly basis for its consideration. The Risk Policies Committee analyzes the risks and then decides accordingly.

Hedging

The hedging strategy is determined annually and when market conditions require it. Hedging strategies are submitted to the Risk Policies Committee.

Hedging transactions comply with the applicable regulation set forth in Circular B-5, “Derivatives and hedging transactions”, issued by the Commission. This implies, among other things, that the hedge’s effectiveness must be evaluated both prior to its arrangement (prospective) as well as thereafter (retrospective). These tests are performed on a monthly basis.

The hedging strategy is determined annually and each time the market conditions require. Hedges are used to reduce foreign exchange risks, through both, exchange rate forwards and currency swaps, as well as interest rates by means of interest rate swaps. This is done with the purpose of setting the rates paid on debt issued by the Financial Group, thereby ensuring the debt servicing, as well as to make investments that generate greater value for the customers. The main strategy is to ensure that the Financial Group's future income and expenses are covered, maximizing its profitability.

Hedging derivatives can be restated whole or partially due to hedging inefficiencies, maturity or sale of primary position.

Contingencies

To enter the derivatives market, the Financial Group is bound by agreement to deliver its financial information in a timely manner and to abide by the applicable laws, regulations and provisions, as well as to provide written notice to the affected parties in case that an event arises that could be considered as early termination, which could lead to a credit contingency. These include the following: bankruptcy filing, payment suspension, restructuring, intervention, liquidation, dissolution or other similar judicial or extra-judicial proceedings that affect the Financial Group; if the statements stipulated in the contract are incorrect; the Financial Group's failure to fulfill its obligations and/or payments; breach of contract; the Financial Group's consolidates or merges with another entity thereby transferring a substantial portion of its assets; failure to provide the guarantees that were agreed in the event of noncompliance with obligations or if such guarantees expired or diminished in value; the Financial Group's falls into insolvency, lower credit quality or illegality due to changes in the tax or legal legislation; the existence of a ruling, proceeding or embargo against the Financial Group that could substantially affect its ability to fulfill its obligations in a timely manner; or general noncompliance with obligations. Each ground for early termination is subject to the counter-party's consideration in order to determine its importance and significance regarding the Financial Group's ability to comply.

As of December 31, 2021 and 2020, there have been no contingency situations.

Embedded derivatives

Embedded derivatives are those contract components that do not intend to explicitly originate a derivative financial instrument but rather that the implicit risks generated or hedged by those components differ in their economic and risk features from those of the contract, and therefore display a behavior and features similar to those of a common derivative.

Identified embedded derivatives are separated from the host contract for valuation purposes and are treated as a derivative when they meet the features outlined in Circular B-5 paragraph 22, unless the embedded derivative is denominated in a currency commonly used for the purchase and sale of non-financial items in the economic environment where the transaction takes place. The main embedded derivatives recognized by the Financial Group prior to January 2011 are from service and leasing contracts established in US dollars.

Loan portfolio

The loan portfolio represents the balance of amounts effectively granted to borrowers plus uncollected accrued interest minus interest collected in advance. The allowance for loan losses from credit risks is presented as a reduction of the loan portfolio.

The unpaid loan balance is classified as past-due portfolio as follows:

- Loans with bullet payment of principal and interest at maturity: 30 calendar days after being overdue.
- Loans involving a single principal payment at maturity, but with periodic interest payments: 90 calendar days after interest payment overdue, 30 calendar days after principal payment overdue.
- Loans for which the payment of principal and interest is agreed based on partial periodic payments, 90 calendar days after the first payment is due.

- In the case of revolving loans, whenever payment is outstanding for two billing periods or when they are 60 or more days overdue.

- Overdrawn customer checking accounts are considered as part of the past-due portfolio when such situations arise.

Interest is recognized and accrued as income when earned. The accrual of interest income is suspended when loans are transferred to the past-due portfolio.

The fees charged the initial granting, restructuring and renewal of loans will be recorded as a deferred credit, which will be amortized as interest income, using the straight line method over the loan's contractual term, except those originating from revolving loans, which are amortized over a 12-month period.

Annual credit card fees, whether the first annual charge or subsequent of a renewal, are recorded as a deferred credit and amortized over a 12-month period against the year's results in the commission and fee income line item.

The costs and expenses associated with the initial granting, restructuring and renewal of a loan are stated as a deferred charge which is amortized against the year's earnings as interest expense for the duration of the loan, except those originating from revolving loans and credit cards as they are amortized over a 12-month period.

Restructured past-due loans are not considered in the performing portfolio until evidence of sustained payment is obtained; this occurs when credit Holding Companys receive three timely consecutive payments, or a payment is received for periods exceeding 60 days.

The restructured credits are renewed with single payment of principal at maturity, regardless of whether the payment of interests is periodic or at maturity, it is considered that there is sustained payment of credit when, The accredited has covered at least 20% of the original amount of the loan at the time of the restructuring or renewal, or, has covered the amount of accrued interest in accordance with the scheme of payments by restructuring or renewal for a period of 90 days.

Accrued interest during the period in which the loan was included in the past-due portfolio is recognized as income when collected.

The recognition of interest income is renewed when the portfolio is no longer considered past-due, which occurs when the outstanding balances, including the principal, interest and any other item, are paid in full.

Restructured loans are those whose terms have been modified due to the borrowers' financial difficulties, and it was decided to grant them a concession. Such modifications may include reductions in the interest rate, debt discount or term extensions.

The Financial Group regularly evaluates whether a past-due loan should remain in the balance sheet or be written off. Such write-offs are done by canceling the outstanding loan balance against the allowance for loan losses. The Financial Group may opt to eliminate from its assets those past-due loans that are 100% provisioned according to the following parameters:

- Commercial loans – Must be classified in past-due loans, with an E risk rating, 100% reserved, unsecured by any fund.
- Consumer loans – 180 days or more overdue.
- Mortgage loans – 270 days or more overdue.

Allowance for loan losses

Internal methodology for credit portfolio, consumer credit rating and other revolving credits

On November 15, 2017, the Holding Company received approval from the banking regulator to use Internal Models (IM) for credit card rating for reserves and regulatory capital generation by credit risk with an advanced focus (Document 111-3/706/2017).

These internal models improve overall credit risk management by estimating risk parameters from the bank's own experience based on January 2018 data, and have been applied as of February 2018.

The internal methodology describes that the determination of the rating and estimation of the reservation of the credit card consumption portfolio and other revolving credits are considered as the following credit risk parameters:

Ri =PIi * SP * EIi

Where:
Ri = Loan reserves to record for EIi credit
PIi = Probability of default for EIi credit
SPi = Severity of the los for EIi credit
EIi = Expose to default for i – ésimo credit

For the determination of the allowance is necessary to use the probability of default, the severity of the loss and the exposure to breach, agree to the following:

1. Probability of default of the Internal Model

The probability of default (PI) measures how likely it is that an accredited leave to comply with their contractual obligations and is assigned with the information in the following table according to their risk level previously determined by the internal model of Credit Card.

Risk level	PI
A-01	0.00646233
A-02	0.00668129
A-03	0.00770357
A-04	0.00899237
B-01	0.01008105
B-02	0.01538093
B-03	0.01962636
B-04	0.02590753
C-01	0.03379690
C-02	0.04619679
C-03	0.06073381
C-04	0.08180872
D-01	0.11804428
D-02	0.17143767
D-03	0.30358352
D-04	0.71565748
E	1

2. Severity of the loss

Severity of Loss. Measures the intensity of the loss upon default expressed as a percentage of the Exposure at Default (EAD), once considered collateral values and the costs associated regarding the settlement (judicial, administrative collection, and deed in lieu, among others).

Clasification	Overdue payments	SP
Payed	0 – 3	87.16%
Unpayed	4	87.16%
	5	90.30%
	6 and more	100%

3. Probability of Default

Probability of Default (PD) shows the likelihood that a borrower defaults on its contractual obligations within twelve months after the month being rated. Default is defined when loans present 90 or more days past-due.

The credit conversion factor (FCC) assignment to estimate the EI is performing according to the following table:

Delay	Factor
01	1.8475
02	2.0624
03	1.2974
04	1.1693
05	1.2167
06	1.0985
11	1.2583
12	1.1074
13	1.0398
14	1.0790
15	1.0247
21	1.1145
22	1.0907
23	1.0385
24	1.0161
25	1.0241
31	1.0129
32	1.0086
33	1.0053
5	0.6549

Delay segment in defined in the internal model.

The value of the Factor assigned to each segment proceeds to rate the exposure to non-compliance.

When the accountant balance is greater than zero: EI = Factor_Tree * Accountant balance

When the accountant balance is less or equal than zero and the limit credit is empty: EI = 0.6549 * Credit limit.

Application of new portfolio rating criteria

The loan portfolio is classified according to the rules issued by the SHCP and the methodology established by the Commission. Internal methodology authorized by such Commission may also be used.

Such provisions also establish general methodologies for the rating and calculating the allowance for each type of loan, while also allowing credit Holding Companys to classify and calculate allowances based on internal methodologies, when previously approved by the Commission.

The commercial loan portfolio rating procedure requires credit Holding Companys apply the established methodology (general or internal) based on quarterly information for the periods ending in March, June, September and December of each year, while also recording the allowances determined at the close of each month in their financial statements. Furthermore, during the months following each quarterly close, financial Holding Companys must apply the respective rating to any loan used at the close of the immediately preceding quarter, based on the outstanding balance in effect on the last day of the aforementioned months. The allowances for loan risks that have exceeded the amount required to rate the loan will be cancelled against the period's results on the date of the following quarterly rating. Additionally, recoveries on the previously written-off loan portfolios are recorded in the period's results.

General description of rules established by the Commission

The rules for rating the consumer, mortgage and commercial loans (excluding loans to financial intermediaries and loans intended for investment projects having their own source of payment) indicate that their allowance for loan loss should be determined based on the estimated expected loss of the loans over the next twelve-month period.

Such methodologies stipulate the estimate of such loss evaluates the probability default, the severity of the loss and the exposure to non-compliance. The result of multiplying these three factors is the estimated expected loss that is the same as the amount of the reserves needed in order to face the loan risk.

Depending on the type of loan, the probability default, severity of the loss and exposure to non-compliance are determined by considering the following:

Probability of breach of contract

- Non-revolving consumer loan – takes into account the current delay, the payments made on the past due balances, how many times the original value is paid, the type of loan, the remaining terms, among others.
- Revolving consumer loan – considers the current situation and historical behavior regarding the number of outstanding payments, how old the accounts are, the payments on the balance, as well as what percentage of the authorized line of credit has been used.
- Mortgage loan – considers the current delay, maximum number of delays over the last four periods, willingness to pay and the value of the property with respect to the loan balance.
- Commercial loans – consider the type of debtor, payment experience, INFONAVIT payment history, rating agencies' evaluation, financial risk, social-economical risk, financial soundness, country and industry risk, market positioning, transparency, standards and corporate governance.

Severity of the loss

- Revolving and non-revolving
- Consumer loan – depends on the number of outstanding payments.
- Mortgage loan – considers the amount of the property sub-account, unemployment insurance and the state where the loan was granted.
- Commercial loans – consider actual financial and non-financial guarantees as well as personal guarantees.

Exposure to non-compliance

- Non-revolving consumer loan – loan balance at the rating date.
- Revolving consumer loan – considers the current use of the credit line to estimate how much its use would increase in the event of non-compliance.
- Mortgage loans – loan balance at the rating date.
- Commercial – for revocable loans, the loan balance at the rating date is considered. For irrevocable loans, the current use of the credit line to estimate how much its use would increase in the event of non-compliance is considered.

The Commission's rules for rating commercial loan debtors for loans intended for investment projects having their own source of payment, indicate that the rating must be done by analyzing the risk of projects in the construction and operation stage evaluating the project's cost overrun and cash flows.

Internal models ratings for reserves and regulatory capital constitution

Applicable Portfolio

The Holding Company owns a Rating Internal Model for Revolving Consumer portfolio for the constitution of reserves and capital under an Advanced Approach, estimating the three parameters required for its calculation: Probability of Default (PD), Severity of Loss (SL) and Exposure at Default (EAD). Additionally, owns a Rating Internal Model for

Corporations portfolio, for the constitution of reserves and capital under a Basic Approach, estimating only the Probability of Default (PD) parameter.

The exposures considered in the Commercial Loans portfolio are those pertaining to corporations (other than states, municipalities and financial entities), and individuals (sole proprietorships), both with annual sales higher or equal to 14 million UDIs.

The methodology used by the Holding Company in the estimation of the parameters and the calculation of reserves and capital, follows the guidelines established by the banking regulator CNBV (Comisión Nacional Bancaria y de Valores), in relation to the general provisions applicable to Credit Holding Companys stipulated in the Single Bank Circular (Circular Única de Bancos CUB).

Likewise, on November 30, 2018, GFNorte obtained authorization from the banking regulator CNBV (Comisión Nacional Bancaria y de Valores) to use the Internal Model (IM) for Commercial Loans for allowances generation and regulatory capital requirements by credit risk with a Basic Approach, as per Document 111-3/1472/2018 in Banco Mercantil del Norte, and on March 1, 2019 for Arrendadora y Factor Banorte, Sólida Administradora de Portafolios, as per Documents 111-1/160/2019 y 111-1/161/2019 respectively.

Internal Models used by the Holding Company, like the Standard Models, have an expected loss approach for the next twelve months.

Internal Models grant a comprehensive credit risk management, considering the portfolio's own risk in such a way that the resulting models show greater predictability, derived from the use of specific attributes for each of the segments.

One of the purposes of internal estimations, is to calculate Allowances and Capital Requirements for Credit Card and Commercial Loans Portfolios, which must be rated in accordance with the General Provisions Applicable to Credit Holding Companys described in the Single Bank Circular.

Internal Rating Process

Commercial Loans

For the Commercial Loans portfolio the estimation of the Probability of Default (PD) is performed using the Internal Model with Basic Approach, considering internal and external variables.

Once PD is determined, Severity of Loss (SL) and the Exposure at Default (EAD) are considered under the Standard Method, and once the above factors have been obtained, the Expected Loss (EL) is computed as follows:

EL = PD * SL * EAD

Credit Cards Portfolio

In the Credit Card portfolio, the Rating System scale allows the Holding Company to have a better credit risk management when considering the portfolio's own risk, in order to continuously monitor customers and to prevent or mitigate adverse events.

Its main purpose is to segregate population into homogeneous subsets (buckets), so that the resulting models show greater predictability, derived from the use of specific attributes for each of the segments.

Self Physical Person

Since January 2020, the Holding Company has been authorized to use an internal methodology under an advanced approach for the Auto Person Physical portfolio. This methodology is used to estimate allowances and capital requirements for credit risk, in accordance with what is established in the regulation.

The probability of default, the severity of the loss and the exposure to default of this methodology is determined considering the following:

Probability of Default

It takes into account overdue payments, seniority in the Holding Company and the age of the loan, as well as external behavior variables: maximum delinquency and use in other financial Holding Companys observed in different time windows.

Loss Severity

There are differentiated models for each segment based on the ratio of the book balance / amount of the guarantee that, through different time windows, brings the costs associated with the recovery (recoveries, deductions and discounts) to present value, and are expressed as a percentage of the exposure at default.

Exposure to Default

As it is a non-revolving credit, the amount of the accounting balance is taken at the time of qualification.

Internal Models' Variable Estimation

Probability of Default

Probability of Default (PD) shows the likelihood that a borrower defaults on its contractual obligations within twelve months after the month being rated. Default is defined when loans present 90 or more days past-due.

For its estimation, information from internal and external variables is used with which a score is obtained, which is mapped to a master rating measuring risk level.

Severity of Loss

Severity of Loss. Measures the intensity of the loss upon default expressed as a percentage of the Exposure at Default (EAD), once considered collateral values and the costs associated regarding the settlement (judicial, administrative collection, and deed in lieu, among others).

The estimation of the Severity of Loss (SL) implies calculating present value of flows at default date, granting a comparable measure for loans with different recovery periods.

Exposure at Default

Exposure at Default (EAD) is the amount of the debt at the time of default of a loan. It is estimated on a conversion factor basis, which considers the relationship between balance and the unused credit line.

In the particular case of the Commercial Loan portfolio, Severity of Loss (SL) and Exposure at Default (EAD) are used in accordance with those established on the CUB for Standard Models.

Acquired collection rights

This balance is represented by the acquisition cost of the various loan asset packages acquired by the Financial Group, which are subsequently valued by applying one of the three following methods:

Cost recovery method – Payments received are applied against the acquisition cost of the loan portfolio until the balance equals zero. Recoveries in excess of the acquisition cost are recognized in current earnings.

Interest method – The result of multiplying the acquired portfolio's outstanding balance by the estimated yield is recorded in current earnings. Differences between the Financial Group's collection estimates and actual collections are reflected prospectively in the estimated yield.

Cash basis method – The amount resulting from multiplying the estimated yield times the amount actually collected is recorded in the consolidated income statements provided it is not greater than the amount obtained by the interest method. The difference between the recorded amount and the amount collected reduces the outstanding portfolio balance, once the entire initial investment has been amortized. Any subsequent recovery will be recorded in the Consolidated Income Statements.

For the portfolios valued using the interest method, the Financial Group evaluates them twice a year to verify if the cash flow estimate of its collection rights is consistent with actual recoveries and therefore considered to be effective. The Financial Group uses the cost recovery method on those collection rights in which the expected cash flow estimate is not highly effective. The expected cash flow estimate is considered as "highly effective" if the result of dividing the sum of the flows collected by the sum of the expected cash flows is between 0.8 and 1.25 when such effectiveness is evaluated.

Loan asset impairment – The Financial Group carries out an expected cash flow assessment periodically while collection rights are still effective, and if based on the events and information gathered, it determines that said cash flows will drop, it develops an estimate of non-recoverability or doubtful accounts vs. the period's results in the amount in which said expected cash flows are lower than the book value of the account receivable.

Premium receivables

This balance represents the premiums pending collection on the balance date. Pursuant to the provisions of the General Law of Holding Companys and Mutual Insurance Companies (the Law) and the Mexican National Insurance Commission CNSF, premiums over 45 days old should be cancelled against the year's earnings including, if applicable, the technical reserves, acquisition cost and relative reinsurance granted, and should not be considered in the coverage of technical reserves.

Based on the internal policy approved by the CEO, the administration authorized excluding the cancellation process for certain policies with a premium over 45 days old and that has not been collected totally or partially. These accounts are indeed collectible and negotiations with the insured are currently underway, excluding debts under federal public administration's and entities' charge. The non-accrued net premium, fees and reinsurance should be subtracted from such amount to determine its net effect on earnings. This amount was not computed for the coverage of technical reserves.

Reinsurance

According to the rules of the CNSF, a portion of the insurance contracted by the Financial Group is ceded in reinsurance to other insurance or reinsurance companies. Therefore they are part of both the premiums and the casualty rate cost.

Securitization involving transfer of ownership

Through securitization transactions involving the transfer of ownership in mortgage and government loans, the Financial Group transfers those financial assets to a trust so that it may publicly issue securities through an intermediary. The securities represent the right to the yield on the securitized portfolio and, as compensation; the Financial Group receives cash and a record, which grants it the right over the trust's residual cash flows after settling the certificates to their holders. This record is registered at its fair value under "Receivables generated by securitizations".

The Financial Group provides administration services for the transferred financial assets and records the revenue thereof in the period's earnings when accrued. These revenues are recorded under "Other Operating Income (expenses)".

The valuation of the benefits to be received from securitization operations is recorded in the consolidated income statement under “Other revenues”, as applicable.

Other accounts receivable and payable

The Financial Group performs a study to quantify the different future events that could affect the amount in accounts receivable over 90 days and thus determine the percentage of non-recoverability in order to calculate its allowance for doubtful accounts, as per the provisions. The remaining balance of accounts receivable is reserved at 90 calendar days from the initial recognition.

The balances of asset and liability settlement accounts represent transactions involving the sale and purchase of currency and securities, recorded when entered into and are settled within 48 hours.

The investment projects’ balances represent financing to investment projects’ trusts (especially in the development of social housing). The Financial Group acknowledges a yield from the trust financing disposal, which is related to the construction project’s progress compliance and/or sale as stated in each trust’s agreement. Failure to meet the construction project’s progress and/or sale as stipulated in the agreement, the Financial Group stops recording the funding yield.

To assess investment projects, each project’s expected value is determined according to the expected flow of the sale of investment project’s potential inventory or that of a portfolio of investment projects of the Financial Group based on the current business plan.

The impairment of investment projects will be determined based on the projection of cash flows to be recovered discounted at present value using a corresponding interest rate, in accordance with the policy mentioned in note 3.

Merchandise inventory

This is comprised mainly of finished goods and is restated to the lower of replacement cost or market. Cost of sales, included in “Other Operating Income (expenses)” in the Consolidated Income Statements is restated using the replacement cost at the time of the sale.

Impairment of the value of long-lived assets and their disposal

The Financial Group has established guidelines to identify and, if applicable, record losses derived from the impairment or decrease in value of long-lived tangible or intangible assets, including goodwill.

Foreclosed assets, net

Foreclosed property or property received as payments in kind are recorded at the lower of their cost or fair value minus the strictly necessary costs and expenses disbursed in the foreclosure. Cost is determined as the forced-sale value established by the judge upon foreclosure or, in the case of payments in kind, the price agreed between the parties involved.

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is higher than the foreclosed property, the difference is recorded in the period's results under "Other operating income (expenses)”.

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is lower than the foreclosed property, its value is adjusted to the asset’s net value.

The carrying value is only modified when there is evidence that the fair value is lower than the recorded carrying value. Reductions in the carrying value of the loan are recorded in the current earnings as they occur.

The provisions applicable to the new valuation methodology for the allowance for loan losses mentioned above define the valuation methodology for reserves related to either foreclosed property or those assets received as payment in kind, establishing that additional quarterly provisions must be created to recognize the potential decrease in value over time of property awarded under legal proceedings, out-of-court or received as payment in kind and the investments in securities received as foreclosed goods or payment in kind, based on the following guidelines:

I. In the case of collection rights and movable property, the provisions referenced in the preceding paragraph must be treated as follows:

Movable property reserves	
Time elapsed as of award date or receipt as payment in kind (months)	**Reserve percentage**
Up to 6	-%
More than 6 and up to 12	10%
More than 12 and up to 18	20%
More than 18 and up to 24	45%
More than 24 and up to 30	60%
More than 30	100%

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the value of collection rights or foreclosed property, received as payment in kind or awarded in a court proceeding.

II. Investments in securities must be valued in accordance with the provisions of the Commission's accounting Circular B-2, using annual audited financial statements and monthly financial information of the issuer.

Following the valuation of foreclosed assets or those received as payment in kind, the reserves resulting from applying the percentages established in the table of Section I above to the estimated value, must be created.

III. In the case of real estate property, provisions must be created as follows:

Real estate property reserves	
Time elapsed as of award date or receipt as payment in kind (months)	**Reserve percentage**
Up to 12	-%
More than 12 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the awarded value of the property based on the accounting criteria. Furthermore, when problems are identified regarding the realization of the value of the foreclosed property, the Financial Group records additional reserves based on management's best estimates. On December 31, 2021, there were no reserves other than those created by the percentage applied based on the accounting criteria that could indicate realization problems with the values of the foreclosed properties.

If appraisals subsequent to the foreclosure or payment in kind result in the recording of a decrease in the value of the collection rights, securities, movable or real estate property, the reserve percentages contained in the preceding table can be applied to the adjusted value.

Property, furniture and equipment

Property, furniture and equipment are recorded at acquisition cost. The balances of acquisitions made up to December 31, 2007 are restated using factors derived from the value of the UDI of that date.

Depreciation is calculated using the straight-line method based on the useful lives of the assets as estimated by independent appraisers.

Permanent stock investments

The Financial Group recognizes its investments in associated companies where it has significant influence but not control using the equity method, based on the book values shown in the most recent financial statements of such entities.

Income taxes

Income tax (ISR) is recorded in the year it is incurred. Deferred income taxes are calculated by applying the corresponding tax rate to the applicable temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carryforwards and certain tax credits. The deferred income tax assets are recorded only when there is a high probability of recovery.

The net effect of the aforementioned items is presented in the Consolidated Balance Sheet under the "Deferred Income taxes, net" line.

Intangible assets

Intangible assets are recognized in the Consolidated Balance Sheets provided they are identifiable and generate future economic benefits that are controlled by the Financial Group. The amortizable amount of the intangible asset is assigned on a systematic basis during its estimated useful life. Intangible assets with indefinite lives are not amortized and their value is subject to the annual impairment tests.

Goodwill

The Financial Group records goodwill when the total fair value of the acquisition cost and the Non-controlling interest is greater than the fair value of the net assets of the acquired business, pursuant to NIF B-7, “Business acquisitions.” As goodwill is considered an intangible asset with an indefinite life, it is subject to impairment tests at least annually according to NIF C-15, “Impairment in the value of long-lasting assets and their disposal.” No indicators of impairment of goodwill have been identified as of December 31, 2021 and 2020.

Deposits

Liabilities derived from deposits, including promissory notes settled at maturity, are recorded at their funding or placement cost plus accrued interest, determined according to the number of days elapsed at each monthly close, which are charged against results when accrued as an interest expense.

Interbank and other loans

These loans are recorded based on the contractual value, recognizing the interest in the year’s earnings as accrued. The Financial Group records in this item the direct loans obtained from domestic and foreign banks, loans obtained through bids with Banco de Mexico and development funds’ financing. Furthermore, this includes discounted loan portfolios from funds provided by banks specializing in financing economic, productive or development activities.

Technical reserves

According to the Commission, all technical reserves must be audited by independent actuaries on a yearly basis. On February 8, 2022 and February 9, 2021, the actuaries have confirmed that in their opinion, the amounts of the reserves recorded by the Financial Group as of December 31, 2021 and 2020, respectively, are reasonably acceptable based on its liabilities, and are within the parameters that the actuarial practice indicates and comply with the criteria considered by the authorities in the matter.

Technical reserves are constituted pursuant to the terms set forth by the Law, as well as to the provisions issued by the CNSF. To value the technical reserves, the Insurance Company used the valuation methods of the provisions set forth in Chapter 5, “Technical Reserves” in the CUSF published in the Official Gazette on December 19, 2014.

1) Unexpired risk reserve:

In terms of the provisions of section I of article 217 of the LISF, the unexpired risk reserve is intended to cover the expected value of future liabilities arising from the payment of claims, benefits, guaranteed securities, dividends, acquisition and administrative costs, as well as any future liability arising from insurance contracts.

The unexpired risk reserve will include the amount of premiums issued in advance, understanding that a premium issued in advance is when it is ssued on a date prior to the effective date of the policy to which said premium corresponds.

The reserve for insurance operations is determined in accordance with actuarial formulas, considering the characteristics of policies in force, reviewed and approved by the Commission.

The unexpired risk reserve is valued in accordance with the following:

I. The amount of the unexpired risk reserve shall be equal to the sum of the best estimate and a risk margin, which shall be calculated separately.

II. The best estimate will be equal to the expected value of the future flows of liabilities, understood as the weighted average probability of these flows, considering the time value of t money based on the risk-free market interest rate curves for each currency or monetary unit provided by the price provider with which they maintain a contract.

III. The calculation of the best estimate shall be based on timely, reliable, homogeneous and sufficient information as well as realistic assumptions and shall be made using actuarial methods and statistical techniques based on the application of the actuarial practice standards referred to in Chapter 5.17 of the CUSF. For these purposes, when an Insurance Holding Company or Mutual Society does not have reliable, homogeneous and sufficient information of its own, it must use the corresponding market information.

IV. The projection of future flows used in the calculation of the best estimate will consider the total of gross revenues and expenses (without deducting Reinsurance Recoveries), which are necessary to meet the obligations of the insurance and reinsurance contracts throughout their period of validity, as well as other liabilities that the Insurance Holding Company or *Sociedad Mutualista* assumes in relation to them.

V. The future income flows will be determined as the best estimate of the expected value of the future income that the Insurance Holding Company or *Sociedad Mutualista* will have for premiums that, according to the payment method established in the contracts that are in force at the time of valuation, will mature in the future time of validity of such contracts, as well as recoveries and adjustments of less than the estimates of claims. Future premiums for these effects will not be considered as premiums due and unpaid at the time of valuation, or the fractional payments that are accounted for under the concept of debtor for the premium.

VI. Future outflows will be determined as the best estimate of the expected value of future payments and expenses to be incurred by the Insurance Holding Company or *Sociedad Mutualista* as a result of claims and adjustments of having more derivatives vs. the risks covered, dividend payments, redemptions, administrative and acquisition costs for contracts in force at the time of valuation. Future outflows must also consider all other payments to the insured and beneficiaries, as well as the expenses that the Insurance Holding Company or *Sociedad Mutualista* will incur in order to meet the obligations of the insurance and reinsurance contracts, as well as the effect of the exchange rate and inflation, including that relating to expenses and claims.

VII. In the constitution and valuation of the unexpired risk reserve, the amount of the guaranteed assets, as well as the possible options for the insured or beneficiary included in the insurance contracts, should be considered. Any hypothesis used by the Insurance Holding Company or *Sociedad Mutualista* with respect to the likelihood that the insured or beneficiaries will exercise the contractual options, including those related to resolution, termination and redemption, must be realistic and based on timely, reliable, homogeneous and sufficient information. The assumptions must consider, explicitly or implicitly, the consequences that future changes in financial and other conditions may have on the exercise of such options;

VIII. The risk margin will be calculated in accordance with the provisions of Chapter 5.4 of the CUSF.

IX. In the valuation and constitution of unexpired risk reserves, the liabilities should be segmented into homogeneous risk groups.

X. The short-term and long-term liabilities should be segmented in the valuation and constitution of the unexpired risk reserve so that the Holding Companys maintain an adequate balance in the investments of resources in the short and long term, and these hold are coherent with the nature of the liabilities to which they are related, and

XI. Processes and procedures should be established to ensure that the best estimate, as well as the assumptions underlying its calculation, is periodically compared with its previous experience. When such a comparison reveals a systematic deviation between the experience and the best estimate, the Insurance Holding Company or *Sociedad Mutualista* shall make the necessary adjustments to the actuarial methods or assumptions used. For these purposes, it will be understood that there is a systematic deviation when, in a given class or type of insurance, it is observed that the best estimate of the obligations differs by a reasonable amount from the actual value that the liabilities have attained, in a number of times Such that, by statistical criteria, it is determined that such number of times exceeds the maximum number of times that such estimate could have been deferred. The methodology for the estimation of Reinsurance Recovery should be included as part of the actuarial method.

2) Contractual obligations:

a) Claims and expirations - Claims for life, accidents, health and damage are recorded as soon as they are reported. Life insurance claims are based on the insured sums. Accident, illness and damage claims are adjusted based on the estimate of the amount of the obligations, and, at the same time, the pay back is recorded in the ceded reinsurance. Expirations are payments for expired endowments set forth in the insurance contract.

b) Unreported claims – This reserve is intended for recognizing the amount of actual claims not yet reported to the Financial Group. The estimate is based on prior years' casualty rate, adjusting the actuarial calculations on a quarterly basis, pursuant to the methodology approved by the cap.5.4 CNSF.

c) Dividends on policies - This reserve is determined based on actuarial studies, considering the casualty rate. The dividends are established in the insurance contract.

d) Insurance funds under management - These are the dividends on policies earned by the insured and withheld by the Financial Group to manage, as established in the insurance contract.

e) Security premiums - They are the amounts of segmented collections on the policies.

3) Catastrophic reserve:

The reserve for catastrophic risks is intended to cover the Financial Group's obligations assumed under insurance policies for earthquakes or other catastrophic risks. This reserve is increased as per the bases and percentages established by the CNSF. CNSF authorization is required to release this reserve.

4) Special Technical Reserve

In the operation of insurance that, due to its nature, special characteristics or lack of experience, experimental rates are used, the Insurance Holding Companys and Mutual Societies must constitute, by indication or prior authorization of the Commission, a technical reserve special for use of experimental rates.

Provisions

Provisions are recognized when the Financial Group has a current obligation resulting from a past event and is likely to result in the use of economic resources and can be reasonably estimated.

Employee retirement obligations

According to Mexican Federal Labor Law, the Financial Group has obligations derived from severance payments and seniority premiums payable to employees that cease to render their services under certain circumstances.

Defined benefit plan

The Financial Group records a liability for seniority premiums, pensions and post-retirement medical services as incurred based on calculations by independent actuaries using the projected unit credit method, using nominal interest rates. Accordingly, this recognizes the liability whose present value will cover the obligation from benefits projected to the estimated retirement date of the Holding Company overall employees, as well as the obligation related to retired personnel.

At the end of 2021, actuarial earning / losses were generated in all benefits, these amounts are integrated into the other comprehensive income account and will be recycled to results during the future working life of the workers according to the benefit.

The Financial Group applies the provision of NIF D-3 related to the recognition of the liability for severance payments for reasons other than restructuring, which is recorded using the projected unit credit method based on calculations by independent actuaries.

Defined contribution plan

As of January 2001, the Holding provided defined contribution pension plan in place. The participating employees are those hired as of this date as well as those hired prior to such date that enrolled voluntarily. The pension plan is invested in a fund, which is included in “Other assets”.

Employees who were hired prior to January 1, 2001 and who decided to enroll voluntarily in the defined contribution pension plan received a contribution from the Financial Group for prior services equivalent to the actuarial benefit accrued in their previous defined benefit plan that was cancelled. The initial contribution was made from the plan assets that had been established for the original defined benefit plan and participants were immediately assigned 50% of such amount with the remaining 50% to be assigned over 10 years.

The initial payment to the defined contribution plan for past services was financed with funds established originally for the defined benefit plan as a result of the early termination of its obligations and recognized in accordance with the provision guidelines.

The labor obligations derived from the defined contribution pension plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group’s contributions made to the plan’s participants.

Provisions for PTU are recorded in the results of the year in which they are incurred as administrative expenses. The Financial Group determines employee statutory profit sharing based on the criteria established in the guidelines set forth by the Mexican Constitution.

Foreign currency conversion

Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate at the close of each period. The exchange rate used to establish Mexican peso equivalence is the FIX exchange rate published by Banco de México. Foreign exchange fluctuations are recorded in the results of operations.

Interest from outstanding subordinated debentures

Accrued interest from outstanding subordinated debentures is recognized as it is accrued and translated according to the exchange rate in effect at each monthly close.

Transfer of financial assets

The Financial Group can act as the transferor or transferee, as applicable, in this type of transactions. Moreover the Financial Group evaluates whether or not to retain the risks and benefits associated with the asset property to determine whether or not there was a transfer of property in a transaction. In transactions involving the transfer of ownership in financial assets, the assignor yields control and substantially transfers all the risks and benefits over such assets. Therefore, the transferor derecognizes such assets and records the consideration received from the transaction. Conversely, the transferee recognizes such financial assets and the transfer consideration in its accounting records.

Share-based payments

The Financial Group grants stock options to key officers through different payment schemes based on stocks. The Financial Group has established trusts to manage the plans and contributes the necessary funds so that shares can be purchased directly from the market at the initiation of each plan.

The Financial Group records its stock option plans according to the guidelines of NIF D-8, “Share-based payments.” The compensation expense is recorded at fair value as of the date the stock options are granted. Pursuant to NIF D-8 and given that the Financial Group grants its own stock options, the Financial Group records the expense as if the plan were payable in equity. This expense is then restated at a fair value in each reporting period as per the provisions known on such date.

In accordance with NIF D-8, the Financial Group recognizes the expense as if the aircraft were payable in capital, which is revalued at fair value in each period that financial information is presented with the known assumptions on that date.

Memorandum accounts

Memorandum accounts are used to record assets or commitments that are not part of the Financial Group’s general balance sheet, as no rights are acquired on the assets and such commitments are not acknowledged as liabilities until they materialize, respectively. The accumulated amounts in the memorandum accounts have only been subject to audit tests when their information is derived from an accounting record. The memorandum accounts not audited are indicated in each case:

- Contingent assets and liabilities (unaudited):

  It records the amount of economic penalties imposed by the administrative or judicial authorities until such payments are made, as a motion for revocation has been filed. It also records the exposure to risk line item for its participation in the Expanded Use Electronic Payments System.

- Loan commitments (unaudited):

  The balance represents the amount of the letters of credit granted by the Financial Group that are considered as irrevocable commercial loans not disposed by the borrowers. It includes the lines of credit granted to clients that were not disposed.

- Assets in trust or mandate (unaudited):

  For the assets in trust, the value of the goods is recorded and any information related to their individual administration is recorded independently. For assets under mandate, the declared value of the assets, subject to the mandates executed by the Financial Group is recorded.

- Assets in custody or under management (unaudited):

  This account records the movement of others' assets and securities that are received in custody or are to be managed by the Financial Group.

- Collateral received:

  The balance represents all the collateral received in securities repurchase agreement operations when the Financial Group is the buyer.

- Collateral received and sold or given as a pledge:

  The balance represents all the collateral received in securities repurchase agreements when the Financial Group is acting as the buyer, and which in turn are sold by the Financial Group acting as the seller.

Main subsidiaries' income recognition

Banco Mercantil del Norte

- Income from cash equivalents, securities' investments, repurchasing operations, hedging transactions and loan interest is recorded as income when accrued.

- The fees charged for the initial granting, restructuring and renewal of loans will be recorded as a deferred credit, which will be amortized as interest income.

- Securities purchase-sales results are recorded when performed.

- The revenues from loan asset recovery are recorded when accrued, collected or both agree to the Valuation Method.

- Permanent stock investments in affiliates are originally recorded at their acquisition cost and are valued using the equity method based on the last available financial statements.

Casa de Bolsa Banorte Ixe

- Recognition of income from services, financial advisory and securities intermediation fees and commissions generated by customer securities' operations are recorded as they are performed.

- Income from financial advisory is recorded when accrued as per the contract.

- Securities intermediation results are recorded when performed.

- Income and expenses - are recorded as generated or accrued as per the relative contracts.

- Share dividends - share dividends are recorded at zero value in investments; therefore they only affect the results when the shares are sold.

- Permanent stock investments in affiliates – they are originally recorded at their acquisition cost and are valued using the equity method based on the last available financial statements.

Arrendadora y Factor Banorte

- Credit from financial leasing operations, net – financial leasing operations are recorded as direct financing, wherein the account receivable is the total amount of the settled rents, and potential profit is the difference between such amount and the cost of the leased properties. Net financed capital is recorded on the Consolidated Balance Sheet, deducting the total of rents from the potential profit.

- Loans from operating leasing operations – represent company assets given to a third party for the latter's temporary use and enjoyment for a given term equal to or over six months. The operating leasing contract rents are recorded as revenues when accrued.

- Loans from factoring operations, net – funded or non-funded factoring is recorded as follows:

  - Ceded portfolio – the amount is recorded in loan portfolios, minus the difference between loans and the financed amount.

  - Profit from acquired documents (interest) - calculated in advance, per month completed and upon maturity, recorded in factoring, and both are applied to results when accrued.

- Recognition of income – interest from leasing and financial factoring is recognized as income when accrued; however the accumulation of interest is suspended whenever the uncollected interest and/or total loan is transferred to past-due loans. Accrued, normal and past-due interest during the period the loan is considered past-due is recognized as income when collected.

- Profits to be realized from financial leasing are recognized as income when accrued. The final value of the good in financial leasing is recognized as income when purchased.

- The fees for credit opening in leasing and factoring operations are recognized as income as accrued.

Banorte Ahorro y Previsión (Seguros y Pensiones)

Income from premiums – Recognized as follows:

- The premium revenue for group and collective life insurance is recorded in income as the segmented payment receipt is issued, deducting the premiums ceded in reinsurance.

- Premium revenue for accidents, health and damage is recorded in terms of the policies contracted in the year, even though their term is for over one year, deducting the premiums ceded in reinsurance.

- The rights on premiums are recognized in the income at the time of issuance except for the policies that the Insurer agrees with the insured, where the right policy is fractioned in each of the receipts in this scheme, the right policy is recognized in income as it accrues. Revenue from surcharges on policyholders is recognized in income at the time of accrual and the unearned portion is recorded as deferred credits.

- Premium income is recorded at the time premiums are settled

5 - CASH AND CASH EQUIVALENTS

As of December 31, 2021 and 2020, cash and cash equivalents are as follows:

	2021	2020
Cash	Ps. 24,891	Ps. 26,710
Banks	73,887	82,525
Other deposits and available funds	64	71
	Ps. 98,842	**Ps. 109,306**

"Banks" is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de México of Ps. 20.5075 and Ps. 18.8642 as of December 31, 2021 and 2020, respectively, and is made up as follows:

	Mexican pesos		USD		Total	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Call money	Ps. -	Ps. 8,124	Ps. -	Ps. -	Ps. -	Ps. 8,124
Deposits with foreign credit Holding Companys	-	-	41,434	21,465	41,434	21,465
Domestic banks	5,577	6,924	-	-	5,577	6,924
Banco de México	26,137	45,071	739	941	26,876	46,012
	Ps. 31,714	**Ps. 60,119**	**Ps. 42,173**	**Ps. 22,406**	**Ps. 73,887**	**Ps. 82,525**

In June 2014, Banco de Mexico issued Circular 9/2014, which establishes banking Holding Companys' obligation to constitute a new monetary regulation deposit, and modifies the interest rate such deposits pay. As of December 31, 2021 and 2020, the Financial Group had made monetary regulation deposits of Ps. 25,930 and Ps. 25,920, respectively.

As of December 31, 2021 and 2020, the total sum of restricted cash and cash equivalents is de Ps. 25,930 y Ps. 34,044, respectively. This includes monetary regulation deposits, futures placed in the domestic and foreign market, call money and contracted transactions pending liquidation in 24 and 48 hours. As of December 31, 2021 and 2020, the balance with Banco de México are Ps. 940 and Ps. 19,978, respectively, related to the deposit auctions.

As of December 31, 2021 and 2020, “Other deposits and available funds” includes:

	2021	2020
Minted metals in gold and silver	Ps. 33	Ps. 39
Cashable checks received, pending payment at a 3-day term	28	13
Remittances	3	19
	Ps. 64	**Ps. 71**

The exchange rates used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 909.058 y Ps. 533.89, per unit, respectively, in 2021; and Ps. 924.28 y Ps. 587.01, per unit, respectively, in 2020.

6 - INVESTMENTS IN SECURITIES

a. Trading securities

As of December 31, 2021 and 2020, trading securities are as follows:

	2021				2020
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
Government securities	**Ps. 228,723**	**Ps. 1,321**	**Ps. 191**	**Ps. 230,235**	**Ps. 188,777**
Not restricted	**16,514**	**188**	**113**	**16,815**	**23,550**
D Bonds	(100)	-	-	(100)	-
M Bonds	(433)	-	-	(433)	(300)
BPA	23	-	-	23	-
CEBUR – Government	10	-	2	12	14
CETES	10,866	177	(33)	11,010	19,316
Eurobonds	156	3	(3)	156	-
UDIBONOS	5,992	8	147	6,147	4,520
Restricted	**212,209**	**1,133**	**78**	**213,420**	**165,227**
D Bonds	52,471	83	22	52,576	27,293
M Bonds	857	6	(5)	858	6,556
BPA	155,262	1,035	92	156,389	127,251
CEBUR – Government	2,147	6	1	2,154	-
CETES	43	-	-	43	1,344
UDIBONOS	1,429	3	(32)	1,400	2,783
Bank securities	**14,218**	**23**	**5**	**14,246**	**23,969**
Not restricted	**3,315**	**1**	**-**	**3,316**	**3,124**
Bank Acceptances	4	-	-	4	4
CEBUR – development bank	5	-	-	5	3
CEBUR – bank	8	-	-	8	40
CEDES	377	1	-	378	370
Other bank securities	121	-	-	121	156
Promissory Notes	2,800	-	-	2,800	2,551
Restricted	**10,903**	**22**	**5**	**10,930**	**20,845**
Bank Acceptances	2,913	4	-	2,917	1,638
CEBUR – development bank	3,223	8	2	3,233	4,641
CEBUR – bank	3,928	8	-	3,936	13,718
Other bank securities	839	2	3	844	848
Private securities	**12,366**	**23**	**1,331**	**13,720**	**10,644**
Not restricted	**11,875**	**23**	**1,334**	**13,232**	**10,519**
Shares	248	-	871	1,119	1,327
Investment funds	9,440	-	319	9,759	6,589
CEBUR – corporate	1,064	3	15	1,082	1,429
Eurobonds	1,123	20	129	1,272	1,174
Restricted	**491**	**-**	**(3)**	**488**	**125**
Shares	491	-	(3)	488	125
	Ps. 255,307	**Ps. 1,367**	**Ps. 1,527**	**Ps. 258,201**	**Ps. 223,390**

During 2021 and 2020, the Holding recognized under “Brokerage revenues” a loss of Ps.286 and Ps. (Ps.106), respectively, for the fair value valuation of these instruments.

As of December 31, 2021 and 2020, there are Ps. 224,838 and Ps. 186,197, respectively, in restricted trading securities associated mainly with repurchase operations.

b. Securities available for sale

As of December 31, 2021 and 2020, securities available for sale are as follows:

	2021				2020
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
Government securities	**Ps. 185,357**	**Ps. 1,839**	**Ps. 2,783**	**Ps. 189,979**	**Ps. 187,275**
Not restricted	**31,001**	**255**	**696**	**31,952**	**32,927**
D Bonds	88	-	-	88	-
M Bonds	722	3	(12)	713	-
BREMs	7,778	10	-	7,788	7,784
CEBUR – Government	847	2	(8)	841	2,077
CEBUR – Municipality	179	4	31	214	232
CEBUR – Udiz	102	1	190	293	-
CETES	8,431	-	(2)	8,429	635
Eurobonds	10,657	230	439	11,326	22,199
UDIBONOS	2,197	5	58	2,260	-
Restricted	**154,356**	**1,584**	**2,087**	**158,027**	**154,348**
D Bonds	3,030	1	3	3,034	3,026
M Bonds	1,992	29	(159)	1,862	3,539
BPA	105,138	1,092	113	106,343	106,414
CEBUR – Government	3,040	8	-	3,048	2,988
CEBUR – Municipality	2,534	4	15	2,553	2,568
CETES	1,206	-	(22)	1,184	2,444
Eurobonds	30,022	431	2,193	32,646	33,361
UDIBONOS	7,394	19	(56)	7,357	8
Bank securities	**25,271**	**80**	**(35)**	**25,316**	**38,065**
Not restricted	**17,390**	**65**	**(48)**	**17,407**	**27,324**
CEBUR – development bank	2,356	24	(78)	2,302	1,946
CEBUR – bank	1,488	6	31	1,525	2,390
CEDES	11,672	32	(7)	11,697	20,847
Promissory Notes	572	-	1	573	567
Promissory Notes	-	-	-	-	300
Other bank securities	1,302	3	5	1,310	1,274
Restricted	**7,881**	**15**	**13**	**7,909**	**10,741**
CEBUR – development bank	7,881	15	13	7,909	10,741
Private securities	**18,164**	**397**	**(262)**	**18,299**	**19,483**
Not restricted	**15,831**	**352**	**(243)**	**15,940**	**17,047**
Shares	32	-	51	83	81
Investment funds	-	-	-	-	932
CEBUR – BORHIS	77	-	(77)	-	-
CEBUR – corporate	6,291	63	(345)	6,009	6,455
Eurobonds	9,431	289	128	9,848	9,579
Restricted	**2,333**	**45**	**(19)**	**2,359**	**2,436**
Eurobonds	1,661	44	(25)	1,680	1,766
CEBUR – corporate	672	1	6	679	670
	Ps. 228,792	**Ps. 2,316**	**Ps. 2,486**	**Ps. 233,594**	**Ps. 244,823**

As of December 31, 2021 and 2020, there are Ps. 168,295 and Ps. 167,525, respectively, in restricted securities available for sale, mainly associated with securities repurchasing transactions.

As of December 31, 2021 and 2020, the balance of BREMSR amounted to 77,783,110 securities, acquired in May 2016, these BREMSRs were initially classified as securities available due to the legal impossibility to classify them as trading securities since they did not have a secondary market, ie they are not subject to trading operations. They could not be classified as securities held to maturity because this category was restricted in accordance with paragraph 13 of criterion B-2. In addition, it is contemplated to hedge these securities through cash flow hedging operations on TIIE28 interest rate, which is feasible only in the category of securities available for-sale in accordance with paragraph 60 of the Criterion B-5.

As of December 31, 2021, the amount of the valuation recognized in other items of comprehensive income within stockholders' equity amounts to ($2,207) and the amount reclassified to income was $482. As of December 31, 2020, the amount of the valuation recognized in other items of comprehensive income within stockholders' equity amounts to $2,042 and the amount reclassified to income was $1,102.

c. Securities held to maturity

As of December 31, 2021 and 2020, securities held to maturity are as follows:

	2021			2020
	Acquisition cost	**Accrued interest**	**Book value**	**Book value**
Government securities	**Ps. 252,762**	**Ps. 940**	**Ps. 253,702**	**Ps. 186,811**
Not restricted	**234,327**	**820**	**235,147**	**171,294**
M Bonds	929	5	934	245
CEBUR – Government	1,587	23	1,610	1,638
CEBUR – Municipality	2,184	44	2,228	2,154
CEBUR – Udizados	228	2	230	225
CETES – Specials	616	-	616	591
UDIBONOS	190,962	433	191,395	152,348
Eurobonds - Government	37,821	313	38,134	14,093
Restricted	**18,435**	**120**	**18,555**	**15,517**
M Bonds	15,531	109	15,640	12,647
CEBUR – Municipality	2,904	11	2,915	2,567
UBIBONOS	-	-	-	303
Bank securities	**1,045**	**232**	**1,277**	**2,224**
Not restricted	**1,045**	**232**	**1,277**	**2,224**
CEBUR – Bank	865	18	883	821
CEDES	-	-	-	1,034
Promissory Notes	180	214	394	369
Private securities	**2, 613**	**970**	**3,583**	**4,617**
Not restricted	**2,613**	**970**	**3,583**	**3,071**
CEBUR – corporate	986	953	1,939	1,802
CEBUR – BORHIS	2	-	2	-
EUROBONOS	700	17	717	-
Other private securities	925	-	925	1,269
Restricted	**-**	**-**	**-**	**1,546**
CEBUR – Corporate	-	-	-	1,546
	Ps. 256,420	**Ps. 2,142**	**Ps. 258,562**	**Ps. 193,652**

As of December 31, 2021 and 2020, there are Ps. 18,555 and Ps. 17,063, respectively, in restricted trading securities associated mainly with repurchasing operations.

As of December 31, 2021, the maturities of the securities (expressed at their acquisition cost), are as follows:

	More than one and up to 5 years	More and 5 and up to 10 years	More than 10 years	Total
M Bonds	Ps. 2,714	Ps. 13,860	Ps. -	Ps. 16,574
Eurobonds - Government	12,509	17,327	8,298	38,134
Eurobonds - Private	-	717	-	717
CEBUR – Bank	883	-	-	883
CEBUR – BORHIS	-	-	2	2
CEBUR – Corporate	831	84	1,024	1,939
CEBUR – Government	48	-	1,562	1,610
CEBUR – Municipality	-	-	5,144	5,144
CEBUR – Udizados	81	126	23	230
CETES – Specials	183	433	-	616
Promissory Notes	394	-	-	394
UDIBONO	-	-	191,395	191,395
Other private securities	-	-	924	924
	Ps. 17,643	**Ps. 32,547**	**Ps. 208,372**	**Ps. 258,562**

Some of the investments in securities are given as collateral in derivative transactions without any restriction; therefore, the receiver has the right to trade them and offer them as collateral.

During the years ended December 31, 2021 and 2020, the Parent Company did not carry out sales of held-to-maturity securities.

d. Collateral

The fair value of the collateral given in derivative transactions as of December 31, 2021 and 2020 is as follows:

		2021		
		Fair value in millions		
Type of collateral:	**Instrument category**	**Pesos**	**USD**	**EUR**
Cash	-	Ps. 2,369	Ps. 988	Ps. 38
		Ps. 2,369	**Ps. 988**	**Ps. 38**

		2020		
		Fair value in millions		
Type of collateral:	**Instrument category**	**Pesos**	**USD**	**EUR**
Cash	-	Ps. 2,516	Ps. 923	Ps. 38
		Ps. 2,516	**Ps. 923**	**Ps. 38**

As of December 31, 2021 and 2020, the Holding had no instruments received as collateral.

As of December 2021 and 2020, interest income is as follows:

Concept	2021	2020
Trading securities	Ps. 18,997	Ps. 20,330
Securities available for sale	10,871	11,395
Securities held to maturity	1,669	1,387

	Ps. 31,537	**Ps. 33,112**

e. Impaired instruments

The objective evidence that a instrument is impaired includes observable information on, among others, the following events:

a) considerable financial difficulties of the instrument's issuer;
b) the issuer may be declared bankrupt or in some other financial reorganization;
c) breach of contractual clauses, such as failure to pay interest or the principal;
d) unavailability of an active market for the instrument in question due to financial difficulties; or
e) a measurable reduction in future estimated cash flows of a group of instruments from the initial recording of such assets, although the reduction cannot be identified with individual instruments of the group, including:

    i. adverse changes in the payment status of the issuers in the group, or
    ii. local or national economic conditions that are correlated with the groups defaults.

During 2021 and 2020, there was no recorded impairment of securities available for sale.

During 2021 and 2020, no interest income was recorded related to the impairment instruments.

As of December 31, 2021 and 2020, there are no investments in debt securities other than government securities of the same issuer greater than 5% of the global quity of the Holding Company.

7 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

As of December 31, 2021 and 2020, creditor balances under repurchase and resale agreements are as follows:

Acting as seller of securities

	2021				2020			
Instrumento	**Repurchase agreement from debtors**	**Received, sold collateral in repurchase**	**Debit difference**	**Credit difference**	**Repurchase agreement from debtors**	**Received, sold collateral in repurchase**	**Debit difference**	**Credit difference**
CEBUR – Government	Ps. 8,515	Ps. 8,509	Ps. 6	Ps. -	Ps. 3,867	Ps. 3,867	Ps. -	Ps. -
CETES	73,318	73,017	332	31	196	196	-	-
BONDES	190	190	-	-	31,913	30,837	1,089	13
CEBUR – Developement Bank	-	-	-	-	1,590	1,590	-	-
UMS (Fix) Bondes - Goverment	1,916	-	1,916	-	1,916	-	1,916	-
IPAB Bonds	27,903	27,453	450	-	19,402	19,286	116	-
Quarterly Bonos IPAB	109,270	108,269	1,001	-	60,138	59,613	525	-
Semi-annual IPAB Bonds	28,789	28,014	775	-	34,872	34,487	385	-
CEBUR	-	-	-	-	-	-	-	-
20 years Bonds	5,815	5,810	5	-	10,120	10,115	5	-
Udibonos	1,000	1,000	-	-	-	-	-	-
Government securities	**256,716**	**252,262**	**4,485**	**31**	**164,014**	**159,991**	**4,036**	**13**
CEDES	3,063	3,063	-	-	7,206	7,206	-	-
Bank Bonds	-	-	-	-	245	245	-	-
CEBUR - Bank					9,274	9,274	-	-

Instrumento	2021 Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference	2020 Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference
	2,843	2,843	-	-				
Bank securities	**5,906**	**5,906**	-	**-**	**16,725**	**16,725**	-	**-**
CEBUR Short-Term	3,364	3,362	2	-	5,274	5,274	-	-
Private securities	**3,364**	**3,362**	**2**	**-**	**5,274**	**5,274**	**-**	**-**
	Ps. 265,986	**Ps. 261,530**	**Ps. 4,487**	**Ps. 31**	**Ps.186,013**	**Ps.181,990**	**Ps.4,036**	**Ps. 13**

With the Holding acting as the vendor, accrued premiums were charged to the results of operations as of December 31, 2021 and 2020 for Ps. 4,396 y Ps. 2,792, respectively, which are presented in the "Interest Expenses heading."

During 2021, the period of repurchase transactions carried out by the Holding in its capacity as vendor ranged in term from 1 to 365 days.

As of December 31, 2021, the amount of the delivered and received securities as collateral in repurchase transactions that represent a transfer of ownership, amount to Ps. 550,622 and Ps. 386,700, respectively, and as of December 31, 2020, the collaterals delivered was Ps. 421,090 and the collaterals received was Ps. 282,054.

<u>Acting as securities purchaser</u>

Instrumento	2021	2020
CETES	Ps. 5,202	Ps. 2,988
CEBUR	164	3,300
CEBUR – Development Bank	2,918	1,638
UMS (FIX) Bonds Government	19,404	19,343
D Bonds	33,272	32,921
IBAP (BPAG28) Bonds	165,065	147,874
IPAB (BPAG91) Bonds	53,802	52,524
Semi-Annual IPAB (BPAT182) Bonds	54,254	29,334
Government Bonds – Fix Rate	18,555	23,267
UDIBONOS	2,357	2,624
Goverment securities	**354,993**	**315,813**
CEDES – Fix Exchange Rate	11,149	15,387
CEBUR – Bank	3,936	13,731
Multilateral Financial Organizations Securities	845	848
Bank securities	**15,930**	**29,966**
Sort- term CEBUR	6,146	7,315
Private securities	**6,146**	**7,315**
	Ps. 377,069	**Ps. 353,094**

With the Holding acting as the purchaser, accrued premiums charged to the results of operations as of December 31, 2021 and 2020 were Ps. 19,699 y Ps. 21,755, respectively, which are presented in the "Interest Income" Heading.

During 2021, repurchase transactions carried out by the Financial Group in its capacity as purchaser ranged in term from 1 to 12 years.

8 - DERIVATIVE FINANCIAL INSTRUMENTS

Transactions carried out by the Financial Group involving derivatives correspond mainly to futures, swaps and options contracts. These transactions are done to hedge various risks and for trading purposes.

As of December 31, 2021, the Financial Group has evaluated the effectiveness of derivatives' transactions for hedging purposes and has concluded that they are highly effective.

As of December 31, 2021 and 2020, positions in derivatives financial instruments are as follows:

Asset position	2021	2020
Forwards		
Foreign currency forwards	Ps. 471	Ps. 746
Options		
Interest rate options	332	219
Foreign currency options	281	499
Shares options	23	-
Swaps		
Interest rate swaps	19,896	41,601
Foreign currency swaps	5,847	5,015
Credit swaps	91	153
Total trading	**26,941**	**48,233**
Swaps		
Exchange rate swaps	-	546
Interest rate swaps	1,055	1,497
Total hedging	**1,055**	**2,043**
Total position	**Ps. 27,996**	**Ps. 50,276**

Posición pasiva	2021	2020
Forwards		
Foreign currency forwards	Ps. 12	Ps. 106
Options		
Interest rate options	396	161
Foreign currency options	220	430
Share options	14	-
Swaps		
Interest rate swaps	14,053	36,410
Foreign currency swaps	7,747	6,990
Total trading	**22,442**	**44,097**
Swaps		
Interest rate swaps	1,052	-
Foreign currency swaps	5,519	4,990
Total hedging	**6,571**	**4,990**
Total position	**Ps. 29,013**	**Ps. 49,087**

Trading instruments:

Instrumento	MXN	USD	EUR	CHF	UDI
Foreign currency forwards	Ps. 15,591	Ps. 731	Ps. 1	Ps-	-
Interest rate options	48,833	2,285	-	-	-
Foreign currency swaps (receiving leg)	87,698	2,610	254	160	-
Foreign currency swaps (paying leg)	66,695	3,852	254	-	841
Interest rate swaps (receiving leg)	900,222	15,679	-	-	-
Interest rate swaps (paying leg)	900,222	15,679	-	-	-
Credit swaps	-	54	-	-	-

Hedging instruments

Instrumento	MXN	USD	EUR	GBP	CHF	UDI
Foreign currency swaps (receiving leg)	Ps. 18,914	Ps. -	Ps.-	Ps.-	Ps. 475	Ps. 107
Foreign currency swaps (paying leg)	9,855	493	351	128	-	-

Interest rate swaps (receiving leg)	34,750	-	-	-	-	-
Interest rate swaps (paying leg)	34,750	-	-	-	-	-

The hedging instruments operated and their main underlying instruments are as follows

Forwards	**Options**	**Swaps**	**CCS**
Fx-USD	Fx-USD	TIIE 28	TIIE 28
Fx-EUR	TIIE 28	TIIE 91	TIIE 91
Fx-CAD	TIIE 91	CETES 91	Libor
Fx-CHF	Libor	Libor	Euribor

The risk management policies and internal control procedures for managing risks inherent to derivatives are described in Note 34.

Transactions carried out for hedging purposes have maturities from 2022 to 2041 and are intended to mitigate the financial risk derived from long-term loans offered by the Financial Group at fixed nominal rates, as well as the exchange rate risk generated by market instruments in the Financial Group's portfolio.

As of December 31, 2021 and 2020, the collateral was comprised mainly of cash. Their fair value is shown in Note 6 d).

During 2021 and 2020, the net earnings from the valuation and realization of derivative financial instruments were Ps. 612 and Ps. 1,994, respectively.

The net amount estimated of losses originating by transactions or events recorded in “Comprehensive income” as of December 31, 2021 and 2020 and that are expected to be reclassified to results within the next 12 months, increasing to ($239) and ($209), respectively.

As of December 31, 2021 and 2020, the main positions hedged by the Holding and the derivatives designated to cover such positions are:

Cash flow hedging:

- Forecast funding using TIIE rate Caps and Swaps.
- Recorded assets in foreign currency using Cross Currency Swaps.
- Recorded liabilities in foreign currency using Cross Currency Swaps.

As of December 31, 2021, there are 131 hedge files related to hedging transactions. Their effectiveness ranges 100%, well within the range established by the accounting standards in effect (80% to 125%). Furthermore, there is no over hedging on any of the derivatives; therefore as of December 31, 2021, there are no ineffective portions that are recorded at the market value that the Financial Group has to record in earnings.

The following are the Financial Group’s hedged cash flows as of December 31, 2021, expected to occur and affect earnings:

Concept	**Up to 3 months**	**More than 3 months and up to 1 year**	**More than 1 and up to 5 years**	**More than 5 years**
Forecast funding	Ps. 78	Ps. 321	Ps. 1,345	Ps. 98
Monetary regulation deposits	428	1,255	4,902	2,208

UDI Emission	11	11	79	70
	-	5	2	-
Assets denominated in USD	53	155	400	-
Assets denominated in Euros	56	157	301	-
Assets denominated in GBP	178	563	1,812	63
	Ps. 804	**Ps. 2,467**	**Ps. 8,841**	**Ps. 2,439**

The fair value of the instruments designated as cash flows hedging, recognized in overall earnings in stockholders' equity as of December 31, 2021 and 2020 totaled (Ps. 2,257) and Ps. 448, respectively. Furthermore, (Ps.193) and (Ps. 266), respectively, were reclassified from stockholders' equity to results.

Trading derivatives and hedging derivatives: the loan risk is minimized through means of contractual compensation agreements, in which asset and liability derivatives with the same counterparty are settled for their net balance. Similarly, there may be other types of collateral such as credit lines, depending on the counterparty's solvency and the nature of the transaction.

The following table shows the cash flows hedging valuation balance:

Saldo	Valuation of cash flows hedging instruments	Net change in period	Reclassified to income
Balance, December 31, 2019	(Ps. 1,275)	Ps. 3,726	(Ps. 71)
Balance, December 31, 2020	Ps. 448	Ps. 1,723	(Ps. 266)
Balance, December 31, 2021	(Ps. 2,257)	(Ps. 2,705)	(Ps. 193)

9 - LOAN PORTFOLIO

Credit risk management

The objectives of Credit Risk Management in the Parent Company are:

- Comply with the Desired Risk Profile defined by the Group's Board of Directors.
- Improve the quality, diversification and composition of the financing portfolio to optimize the risk-return ratio.
- Provide Senior Management with reliable and timely information to support decision-making regarding financing.
- Provide the Business Areas with clear and sufficient tools to support the placement and monitoring of financing.
- Support the creation of economic value for shareholders through efficient Credit Risk Management.
- Define and update the regulatory framework for Credit Risk Management.
- Comply with the authorities with the information requirements regarding Credit Risk Management.
- Carry out Risk Management in accordance with the best practices, implementing models, methodologies, procedures and systems based on the main international advances.
- Measure the Parent Company's vulnerability to extreme conditions, and consider said results for decision making.

The policies of the Credit Risk Management in the Financial Group are applicable to:

- Granting and Administration of Consumer Credit in accordance with the best market practices through Parametric Models that allow identifying risk, minimizing losses and increasing the placement of quality credit.
- Granting and Administration of Credit to Companies and other entities, in accordance with the best market practices, through a credit strategy that includes Target Markets and Risk Acceptance Criteria, identifying and managing risk through Rating methodologies. Portfolio and Early Warnings.
- Follow-up and control of credit quality through a Credit Classification System that indicates the treatment and general actions that derive from defined situations, as well as the areas or officials responsible for said actions.

- Surveillance and control of Credit Risk through Global and Specific Limits, portfolio classification policies and Credit Risk models at the portfolio level that allow identifying the expected loss and unexpected loss at a specific confidence level.
- Information and disclosure of the Credit Risk to the risk-taking areas, the CPR, the Board of Directors, the Financial Authorities and the Investing Public.
- Definition of faculties in taking Credit Risks for the Financial Group.

In order to comply with the objectives and policies, a series of strategies and procedures have been defined that include origination, analysis, approval, administration, monitoring, recovery and collection.

Credit portfolio analysis

As of December 31, 2021 and 2020, the loan portfolio by loan type is as follows:

	Performing loan portfolio		Past-due loan portfolio		Total	
	2021	2020	2021	2020	2021	2020
Commercial loans						
Denominated in domestic currency						
Commercial	Ps. 258,635	Ps. 262,164	Ps. 2,919	Ps. 2,339	Ps. 261,554	Ps. 264,503
Rediscounted portfolio	7,866	9,001	-	-	7,866	9,001
Denominated in USD						
Commercial	65,218	52,611	333	191	65,551	52,802
Rediscounted portfolio	1,546	1,407	-	-	1,546	1,407
Total commercial loans	**333,265**	**325,183**	**3,252**	**2,530**	**336,517**	**327,713**
Loans to financial Holding Companys	10,916	11,172	-	-	10,916	11,172
Consumer loans						
Credit card	39,108	36,651	1,343	3,120	40,451	39,771
Other consumer loans	82,767	79,833	1,675	1,585	84,442	81,418
Mortgage loans						
Denominated in domestic currency	200,390	187,655	2,071	1,647	202,461	189,302
Denominated in UDIS	69	81	6	12	75	93
Government loans	154,318	161,563	159	37	154,477	161,600
	487,568	**476,955**	**5,254**	**6,401**	**492,822**	**483,356**
Total loan portfolio	**Ps. 820,833**	**Ps. 802,138**	**Ps. 8,506**	**Ps. 8,931**	**Ps. 829,339**	**Ps. 811,069**

Restructured loans

The restructured loans on December 31, 2021 and 2020 that modified their terms and rates are shown below:

	2021		2020	
	Performing	Past-due	Performing	Past-due
Commercial loans				
Business loans	Ps. 55,061	Ps. 4,207	Ps. 21,756	Ps. 2,956
Consumer loans	1,286	819	4,663	1,021
Mortgage loans	132	34	1,219	520
	Ps. 56,479	**Ps. 5,060**	**Ps. 27,638**	**Ps. 4,497**

As of December 31, 2021, past-due loans showed the following periods of delinquency:

	From 1 to 180 days	From 181 to 365 days	From 366 days to 2 years	More than 2 years	Total
Commercial loans	Ps. 1,556	Ps. 1,059	Ps. 694	Ps. 102	Ps. 3,411
Consumer loans	2,924	93	-	1	3,018
Mortgage loans	1,288	786	3	-	2,077
	Ps. 5,768	**Ps. 1,938**	**Ps. 697**	**Ps. 103**	**Ps. 8,506**

As of December 31, 2020, past-due loans showed the following periods of delinquency:

	From 1 to 180 days	From 181 to 365 days	From 366 days to 2 years	More than 2 years	Total
Commercial loans	Ps. 1,938	Ps. 485	Ps. 105	Ps. 39	Ps. 2,567
Consumer loans	4,604	100	-	1	4,705
Mortgage loans	1,076	583	-	-	1,659
	Ps. 7,618	**Ps. 1,168**	**Ps. 105**	**Ps. 40**	**Ps. 8,931**

Past due loan movements for the years ended on December 31, 2021 and 2020 are shown below:

	2021	2020
Balance at the beginning of the year	Ps. 8,931	Ps. 12,806
Liquidations	(4,050)	(2,253)
Write-offs*	(15,304)	(19,643)
Renewals	(704)	(578)
Discounts	(1,079)	(1,742)
Foreclosures	(179)	(79)
Consumer loans	(6,090)	(6,309)
Mortgage loans	27,004	26,557
Fluctuation from foreign exchange rate	(17)	340
Sales loans	(6)	(168)
Year-end balance	**Ps. 8,506**	**Ps. 8,931**

* Corresponds to 100% hedged loans.

As of December 31, 2021, the balance of deferred loan origination fees was Ps. 2,777 and the amount recorded in results was Ps. 1,1470. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 3,982, and the amount recorded in results was Ps. 1,308.

As of December 31, 2020, the balance of deferred loan origination fees was Ps. 2,363 and the amount recorded in results was Ps. 1,1440. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 3,533, and the amount recorded in results was Ps. 1,156.

The collected fees and costs are presented net in the line item of “Deferred credits and advance collections” within the Consolidated Balance Sheets as well as in Interest Income and Interest Expenses, respectively, in the Consolidated income statements.

The average terms of the portfolio's main balances are: a) commercial, 2.03 years; b) financial Holding Companys, 3.49 years; c) mortgage, 18.81 years; d) government loans, 10.02 years; and e) consumer, 3.51 years.

During the years ended December 31, 2021 and 2020, the balance of written off loans that had been fully reserved as past due was Ps. 15,567 and Ps. 19,643, respectively.

During the years ended December 31, 2021 and 2020, revenues from recoveries of previously written-off loan portfolios were Ps. 2,633 and Ps. 2,137, respectively.

The loans granted per economic sectors as of December 31, 2021 and 2020, are shown below:

	2021	2020

	Amount	Concentration percentage	Amount	Concentration percentage
Private (companies and individuals)	Ps. 336,517	40.58%	Ps. 327,713	40.41%
Financial Holding Companys	10,916	1.32%	11,172	1.38%
Credit card and consumer	124,893	15.06%	121,189	14.94%
Mortgage	202,536	24.42%	189,395	23.35%
Government loans	154,477	18.62%	161,600	19.92%
	Ps. 829,339	**100.00%**	**Ps. 811,069**	**100.00%**

Policies and procedures for granting Loans

The granting, control and recovery of loans are regulated by the Financial Group's Credit Manual, which has been authorized by the Board of Directors. Accordingly, administrative portfolio control is performed in the following areas:

I. Business Areas (includes Corporate, Commercial, Business, Governmental and Consumer Banking), primarily through the branch network.
II. Operations Areas
III. General Comprehensive Risk Management
IV. Recovery Management

Similarly, the Financial Group has manuals establishing the policies and procedures to be utilized for credit risk management purposes.

The structure of the credit management process is based on the following stages:

a) Product design
b) Promotion
c) Evaluation
d) Formalization
e) Operation
f) Administration
g) Recovery

Procedures have also been implemented to ensure that past-due loans are timely transferred and recorded in the accounting, and those loans with recovery problems are properly and promptly identified.

Pursuant to the Commission Circular B6, “Loan Portfolio”, the distressed portfolio is defined as the commercial loans which, based on the current information and facts as well as on the loan revision process, are very unlikely to be fully recovered (both principal and interest) pursuant to the original terms and conditions. The performing and past due portfolios are susceptible to be identified as a distressed portfolio. D and E risk degrees of the commercial loans' ratings are shown below as distressed loans:

	2021	2020
Distressed commercial loans	**Ps. 3,961**	**Ps. 3,172**
Performing	798	857
Past-due	3,163	2,315
Commercial loans	**542,700**	**534,748**
Performing	542,451	534,495
Past-due	249	253
Total rated commercial loans	**546,661**	**537,920**
Total portfolio	**Ps. 872,946**	**Ps. 847,102**
Distressed commercial loans/total portfolio	**0.45%**	**0.37%**

The Holding's Treasury Department is the central unit responsible for balancing resource requirements and eliminating the interest rate risk derived from fixed rate transactions through the use of hedging and arbitrage strategies.

10 - LOANS RESTRUCTURED IN UDIS

As of December 31, 2021 and 2020, the Holding has no mortgage loans restructured in UDIS.

Early termination of mortgage loan borrower support programs

On June 30, 2010, the Federal Government through the SHCP and Banking Holding Companys signed an agreement for the early termination of the mortgage loan debtors support programs (*Final Point* and *UDIS trusts*) (the Agreement); consequently as of January 1, 2011, the Financial Group absorbed its part of the early discount granted to mortgage loan debtors participating in the program.

The Agreement established a series of obligations for the Federal Government payable in 5 annual amortizations with a due date of June 1, 2015 which is when the last payment of Ps. 29 was received. Such payment included the monthly financial cost from the day immediately following the cut-off date and up to closing of the month immediately preceding the due date.

As of December 31, 2021, the remaining balance of SPECIAL CETES not repurchased by the Federal Government is Ps. 616 with maturities between 2022 and 2027.

11 - ALLOWANCE FOR LOAN LOSSES

The Financial Group's portfolio classification, which serves as the basis for recording the allowance for loan losses, is detailed below:

	2021						
		Required allowances for losses					
Risk category	**Loan portfolio**	**Companies**	**Govern ment**	**Financial Holding Companys' loans**	**Consumer portfolio**	**Mortgag e portfolio**	**Total**
Risk A1	Ps. 730,074	Ps. 1,135	Ps. 421	Ps. 104	Ps. 712	Ps. 251	Ps. 2,623
Risk A2	43,325	168	171	-	257	23	619
Risk B1	30,870	86	18	8	811	15	938
Risk B2	16,704	39	121	-	446	20	626
Risk B3	15,969	93	240	8	390	14	745
Risk C1	12,624	75	153	-	653	73	954
Risk C2	11,896	152	-	-	1,577	164	1,893
Risk D	8,625	1,397	70	-	949	438	2,854
Risk E	4,006	140	-	-	2,550	78	2,768
Unclassified	(1,147)	-	-	-	-	-	-
	Ps. 872,946	**Ps. 3,285**	**Ps. 1,194**	**Ps. 120**	**Ps. 8,345**	**Ps. 1,076**	**Ps.14,020**
Less: Recorded allowance	-	-	-	-	-		**16,251**
Reserve supplement*							**Ps. 2,231**

	2020						
		Required allowances for losses					
Risk category	**Loan portfolio**	**Companies**	**Govern ment**	**Financial Holding Companys' loans**	**Consumer portfolio**	**Mortgag e portfolio**	**Total**
Risk A1	Ps.701,736	Ps.1,009	Ps.486	Ps.70	Ps.649	Ps.259	**Ps.2,473**
Risk A2	46,696	181	163	7	339	33	**723**
Risk B1	31,411	77	54	2	837	17	**987**
Risk B2	10,866	52	23	3	282	19	**379**
Risk B3	20,261	113	337	3	485	12	**950**
Risk C1	11,982	124	101	-	675	53	**953**
Risk C2	10,461	116	135	-	944	140	**1,335**
Risk D	10,413	959	16	-	2,572	397	**3,944**
Risk E	4,683	318	-	-	2,722	88	**3,128**

Unclassified	(1,407)	-	-	-	-	-	-
	Ps.847,102	**Ps.2,949**	**Ps.1,315**	**Ps.85**	**Ps.9,505**	**Ps.1,018**	**Ps.14,872**
Less: Recorded allowance	-	-	-	-	-		**20,004**
Reserve supplement*							**Ps. 5,132**

*The complement of constituted reserves obeys the Provisions to reserve 100% of the overdue interest and for the effects resulting from the consultation in the credit bureau and by the Buffer requested by the Commission for the use of Internal Methodology. Additionally, within the reserve complement, there is a remaining Ps. 1,800 corresponding to the additional reserves that were originally constituted for COVID-19, which were requested from the CNBV by means of a letter dated December 28, 2021, to be able to continue with the recognition of said amount as of December 31, 2021 and during fiscal year 2022, to cover risks that are not foreseen in the portfolio rating methodologies and to face the possible deterioration of the credit portfolio due to new variants of COVID-19.
As of December 31, 2021 and 2020, the provisions to cover 100% of the rating base for loan portfolios includes Ps. 24,743 y Ps. 20,776, respectively, for Granted Guarantors and Loan Acquisitions, which were recorded in memorandum accounts. Ps. 15,744 y Ps. 15,257 were also added for loans to related parties.

As of December 31, 2021 and 2020, the estimated allowance for loan losses is determined based on portfolio balances at those dates.

As of December 31, 2021 and 2020, the allowance for loan losses represents 191% and 224%, respectively, of the past-due portfolio.

The estimated allowance includes the classification of loans granted in foreign currency, which are evaluated at the exchange rate in effect as of December 31, 2021 and 2021.

According to the current regulation, as of December 31, 2021, the Holding Company rated under the regulatory methodologies based on expected losses the commercial portfolios (except credits destined to investment projects with own payment source), Mortgage portfolio and non-revolving consumer portfolio. In the case of the revolving consumption portfolio, beginning January 2020, the Holding Company uses an internal methodology authorized by the Commission.

Below are shown for each type of portfolio, the exposure to default, probability of breach of contract, and severity of the loss as of December 31, 2021.

Type of portfolio	Exposure to Default	Weighted Probability of Non-compliance	Weighted Severity of Loss
Commercial*	Ps. 421,020	3.8%	25.5%
Mortgage	202,536	3.1%	17.1%
Non-revolving consumer	84,445	8.1%	68.3%
Revolving Consumer loan	50,797	8.6%	83.7%

* Loans to financial intermediaries and loan intended for investment projects having their own source of payment are not included.

Movements in allowance for loan losses

An analysis of the movements in allowance for loan losses is detailed below:

	2021	2020
Balance at the beginning of the year	Ps. 20,004	Ps. 17,639
Increase charged to results	13,989	24,067
Discounts and write-offs	(17,747)	(21,914)
Rebates granted to housing debtors	(8)	(7)
Others	13	219
Year-end balance	**Ps. 16,251**	**Ps. 20,004**

As of December 31, 2021, the net amount of preventive loan loss reserves charged to the consolidated income statement totals Ps. 11,351, and is presented net of Ps. 2,626 paid to which is recorded in "Other income or (expenses,)", and due to the variation of the USD Ps. 12 exchange rate; such amounts are offset against results and comprised of Ps. 13,989 credited directly to the provision.

As of December 31, 2020, the net amount of preventive loan loss reserves charged to the consolidated income statement totals Ps. 21,930, and is presented net of Ps. 2,088 paid to which is recorded in "Other income or (expenses,)", and due to the variation of the USD (Ps. 49) exchange rate; such amounts are offset against results and comprised of Ps. 24,067 credited directly to the provision.

12 - ACQUIRED COLLECTION RIGHTS

The acquired collection rights are comprised as follows:

Valuation Method	2021	2020
Cash basis method	Ps. 327	Ps. 647
Cost recovery method	709	970
	PS. 1,036	**Ps. 1,617**

As of December 31, 2021, derived from applying the valuation methods (described in Note 4), the Financial Group recognized income from credit asset portfolios of Ps. 635, coupled with the corresponding amortization of (Ps. 336), the effects of which were recognized under the "Other income (expense)" heading in the consolidated income statement. For the year ended December 31, 2020, the Holding recognized income of Ps. 626, together with the respective amortization of (Ps. 378).

The Holding performs an analysis based on events or information to estimate the amount of expected cash flows to determine the estimated rate of return used in applying the valuation method for the amortization of the accounts receivable. If based on current events information, the analysis demonstrates that the expected future cash flows will decrease to the degree that they will not cover the book value, it will constitute an estimate for non-recoverability or difficult collection against the year's results for the amount that such expected cash flows are lower than the book value of the accounts receivable.

Assets different from cash that the Financial Group has received as part of portfolio collection or recovery have been mainly in real estate property.

The main feature considered for segmenting acquired portfolios has been the type of loan.

13 – PREMIUM RECEIVABLES, NET

This item is made up as follows:

	2021	2020
Maritime and transportation	Ps. 22	Ps. 14
Automobile	1,334	1,306
Various	716	966
Accidents and health	878	831
Life	690	856
Pensions	610	366
	4,250	**4,339**
Federal public administration agencies' indebtedness	34	14
	Ps. 4,284	**Ps. 4,353**

14 – ACCOUNTS RECEIVABLE FROM REINSURANCE

This item is made up as follows:

	2021	2020
Insurance and annuities	Ps. 3,403	Ps. 2,594
Reinsurers' participation for pending claims	3,375	4,120
Reinsurers' participation for current risk	534	422
Other participations	184	177
Preemptive credit risk assessment of Foreign Reinsurers Foreing	(2)	(2)
Estimate for punishments	(43)	(42)
	Ps. 7,451	**Ps. 7,269**

15 - OTHER ACCOUNTS RECEIVABLE, NET

This item is made up as follows:

	2021	2020
Loans to officers and employees	Ps. 3,279	Ps. 3,123
Debtors from liquidation settlements	8,480	10,552
Debtors from cash collateral	15,525	21,823
Real estate property portfolios	930	1,460
Sundry debtors in Mexican pesos	4,357	4,268
Sundry debtors in foreign currency	632	832
Others	701	708
	33,904	**42,766**
Allowance for doubtful accounts	(239)	(285)
	Ps. 33,665	**Ps. 42,481**

Loans to officers and employees mature within 3 to 30 years, and accrue an interest rate from TIIE +0.6% to TIIE +1 %.

16 - FORECLOSED ASSETS, NET

As of December 31, 2021 and 2020, the foreclosed assets balance is as follows:

	2021	2020
Moveable property	Ps. 450	Ps. 529
Real estate property	3,443	3,535
Goods pledged for sale	113	108
	4,006	**4,172**
Allowance for losses on foreclosed assets	(201)	(240)
Allowance for losses on foreclosed real estate assets	(1,872)	(2,322)
Allowance for losses on assets pledged for sale	(60)	(57)
	(2,133)	**(2,619)**
	Ps. 1,873	**Ps. 1,553**

As of December 31, 2021, aging of the reserves for foreclosed assets is made up as follows:

Concept / Months	18 to 24	More than 24	Total
Moveable property	Ps. 50	Ps. 151	**Ps. 201**

Concept / Months	12 to 24	24 to 30	30 to 36	36 to 42	42 to 48	More than 48	Total
Real estate property	Ps. 58	Ps. 40	Ps. 24	Ps. 26	Ps. 19	Ps. 1,705	**Ps. 1,872**
Goods pledged for sale	-	2	4	-	-	54	**60**
	Ps. 58	**Ps. 42**	**Ps. 28**	**Ps. 26**	**Ps. 19**	**Ps. 1,759**	**Ps. 1,932**

As of December 31, 2020, aging of the reserves for foreclosed assets is made up as follows:

Concept / Months	18 to 24	More than 24	Total
Moveable property	Ps. 6	Ps. 234	**Ps. 240**

Concept / Months	12 to 24	24 to 30	30 to 36	36 to 42	42 to 48	More than 48	Total
Real estate property	Ps. 41	Ps. 15	Ps. 16	Ps. 21	Ps. 21	Ps. 2,208	**Ps. 2,322**
Goods pledged for sale	2	-	1	3	-	51	**57**
	Ps. 43	**Ps. 15**	**Ps. 17**	**Ps. 24**	**Ps. 21**	**Ps. 2,259**	**Ps. 2,379**

17 - PROPERTY, FURNITURE AND EQUIPMENT, NET

This item is made up as follows:

	2021	2020
Furniture and equipment	Ps. 19,194	Ps. 37,493
Property intended for offices	10,040	9,704
Installation costs	10,414	9,178
	39,648	**56,375**
Less - Accumulated depreciation and amortization	(18,197)	(23,748)
	Ps. 21,451	**Ps. 32,627**

Depreciation recorded in the results of 2021 and 2020 was Ps. 1,906 and Ps. 2,287, respectively.

The average estimated useful lives of the Holding's assets subject to depreciation are listed below:

	Useful Life
Furniture and equipment	From 4 to 10 years
Property intended for offices	From 4 to 99 years
Installation costs	10 years

18 - PERMANENT STOCK INVESTMENTS

Investments in associated companies and venturers are valued according to the equity method, as detailed below:

	Share %	2021	2020
Afore XXI-Banorte, S.A. de C.V.	50%	Ps. 14,329	Ps. 14,102
Capital I CI-3, S.A.P.I. de C.V.	50%	6	10
Maxcom Telecomunicaciones, S.A.B. de C.V.	3.69%	-	31
F-741723 - Valle de San Pedro	20%	27	27
Controladora PROSA, S.A. de C.V.	19.73%	318	117
PAYCLIP INC	2.62%	-	208
Sociedades de Inversión Ixe Fondos	Varios	117	111
Fondo Chiapas, S.A. de C.V.	11.11%	14	13
Fideicomiso de Coinversión F/2504 (CKD)	Varios	32	32
Fideicomiso 73789-Banco Monex	4.88%	-	13
Fideicomiso 11769-Carretera Lerma	4.88%	24	23
Fideicomiso 12040-La Gloria	4.88%	5	5
Fideicomiso Actinver 3650	4.88%	3	1
Fideicomiso F/3937	4.88%	17	5
Fideicomiso F/4280	4.88%	9	4
Others	Varios	103	103
		Ps. 15,004	**Ps. 14,805**

The Holding exercises significant influence over its affiliates valued under the equity method through its representation in the board of directors or equivalent management body, as well as through significant intercompany transactions.

The relevant activities of the Afore are directed by both the Financial Group and the Mexican Institute of Social Security [*Instituto Mexicano del Seguro Social*], with equal rights and responsibilities. Therefore the Financial Group has no control over such entity and does not consolidate it.

19 - DEFERRED TAXES, NET

The tax reported by the Financial Group is calculated based on the current taxable result of the year and enacted tax regulations. However, due to temporary differences between how income and expenses are recognized for accounting and tax purposes, as well as the differences between the accounting and tax balance sheet accounts, the Financial Group has recognized a recoverable net deferred tax asset of (Ps. 3,346) y (Ps. 1,618) as of December 31, 2021 and 2020, respectively, as detailed below:

	2021		2020	
	Temporary Differences	Deferred Effect ISR	Temporary Differences	Deferred Effect ISR
Temporary Differences - Assets				
Allowance for loan losses	Ps. 955	Ps. 286	Ps. 1,151	Ps. 345
Tax loss carryforwards	1,400	420	2,694	808
Surplus allowances for credit risks over the net tax limit	15,744	4,723	19,464	5,839
Excess of tax over book value of foreclosed and fixed assets	1,254	393	2,085	639
PTU	1,473	442	529	159
Fees collected in advance	3,488	1,046	3,543	1,063
Accounting provisions	3,718	1,115	5,564	1,669
Other assets	613	184	1,089	327
Total assets	**Ps. 28,645**	**Ps. 8,609**	**Ps. 36,119**	**Ps. 10,849**
Temporary Differences - Liabilities				
Excess of tax over book value of foreclosed and fixed assets and expected payments	Ps. 276	Ps. 83	Ps. 525	Ps. 158
Adquisition of Portafolios	1,310	393	1,899	570
Capitalizable projects' expenses	22,136	6,641	20,243	6,073
Provisions	14,557	4,367	16,835	5,050
Financial instruments valuation	178	53	576	173
Intangible assets	1,099	330	1,159	348
Deferred from the IXE purchase method	30	9	185	54
Other	263	79	136	41
Total Liabilities	**39,849**	**Ps. 11,955**	**Ps. 41,558**	**Ps. 12,467**
Deferred tax, net		**(Ps. 3,346)**		**(Ps. 1,618)**

As explained in Note 29, the applicable income tax rate is 30% for 2021, 2020 and later years.

At December 31, 2021, the tax loss carry forwards prescription is as follows:

Due date	Amount
2024	$35

2028	989
2029	396
2030	178
	Ps. 1,598

Banorte USA's deferred tax assets and liabilities are determined using the liability method. According to this method, the net asset or liability of deferred taxes is determined based on the tax effects of temporary differences between the book and tax base of assets and liabilities. Due to the consolidation of Banorte USA, as of December 31, 2021 and 2020, a net amount of Ps. 39 and Ps. 31, respectively, was added to deferred taxes determined at a rate of 21% as per the tax law of the USA.

20 - OTHER ASSETS, NET

This item is made up as follows:

	2021	2020
Net asset forecast from labor obligations and savings fund	Ps. 5,028	Ps. 5,246
Payments to amortize	38,996	21,091
Accumulated payment amortization	(11,697)	(8,371)
Goodwill	26,732	26,720
	Ps. 59,059	**Ps. 44,686**

As of December 31, 2021 and 2020, goodwill is as follows:

	2021	2020
Originated by the merger with Grupo Financiero Interacciones, S.A.B. de C.V.	Ps. 14,070	Ps. 14,070
Originated by the merger with Ixe Grupo Financiero, S.A.B. de C.V.	11,258	11,258
Originated by the merger with Banorte-Ixe Tarjetas, S.A. de C.V., SOFOM, ER	1,005	1,005
Originated by the merger with Uniteller Financial Services	399	387
	Ps. 26,732	**Ps. 26,720**

As mentioned in Note 4, goodwill is not amortized since 2007 and since then is subject to annual impairment tests. No impairment to goodwill value was detected as of December 31, 2021 and 2020.

21 - DEPOSITS

Liquidity coefficient

The "Investment regime for transactions in foreign currency and conditions to be fulfilled during the term of transactions in such currency", designed for credit Holding Companys by Banco de México, establishes the mechanism for determining the liquidity coefficient of liabilities denominated in foreign currency.

In accordance with such regime, during 2021 and 2020, the Financial Group generated a liquidity requirement of USD 576,041 thousand and USD 990,864 thousand, respectively, and held investments in liquid assets of USD 3,471,125 thousand and USD 2,378,899 thousand, representing a surplus of USD 3,029,830 thousand and USD 1,396,437 thousand, respectively.

Deposits

The liabilities derived from core deposits are made up as follows:

	2021	2020
Demand deposits		
Non-interest bearing checking accounts:		
Cash deposits	Ps. 269,096	Ps. 236,786
Checking accounts in US dollars for individual residents on the Mexican border	4,097	3,097
Demand deposits accounts	108,341	98,841
Interest bearing checking accounts:		
Other bank checking deposit	130,222	172,495
Checking accounts in US dollars for individual residents on the Mexican border	2,373	1,898
Demand deposits accounts	13,922	7,166
	528,051	**520,283**
Time deposits		
General public:		
Fixed-term deposits	27,816	32,037
Retail time deposits	211,201	219,385
Promissory note with interest payable at maturity PRLV primary market for individuals	143	75
Promissory note with interest payable at maturity PRLV primary market for Holding Companys	208	271
Foreign residents deposits	4	6
Provision for interest	679	497
	240,051	**252,271**
Money market:		
Over the counter promissory notes	100	14,187
Provision for interest	-	61
	100	**14,248**
	240,151	**266,519**
Senior debt	**27,800**	**32,325**
Global account of deposits without movement	**3,023**	**2,585**
	Ps. 799,025	**Ps. 821,712**

The funding rates which the Financial Group uses as reference are: a) for Mexican pesos, Interbank Interest Rate (TIIE), Average Cost of Funds (CCP) and; b) for foreign currency, the London Interbank Offered Rate (LIBOR).

These liabilities incur interest depending on the type of instrument and average balance held in the investments. The average interest rates and their currency of reference are shown below:

Immediately due and payable deposits:

	2021				2020			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Mexican pesos and UDIS	1.16%	1.06%	1.02%	0.97%	1.25%	1.38%	1.22%	1.16%
Foreign currency	0.03%	0.02%	0.02%	0.02%	0.09%	0.04%	0.03%	0.03%

Time deposits:

	2021				2020			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
General public								
Mexican pesos and UDIS	3.13%	3.09%	3.26%	3.67%	5.59%	4.71%	3.63%	3.25%
Foreign currency	0.25%	0.23%	0.23%	0.24%	0.31%	0.30%	0.26%	0.25%
Money market	4.21%	4.36%	4.34%	4.28%	7.20%	6.00%	4.74%	4.22%

As of December 31, 2021 and 2021, the terms set for these deposits are as follows:

	2021			
	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total
General public				
Fixed-term deposits	Ps. 21,680	Ps. 933	Ps. 5,203	Ps. 27,816
Demand deposits	193,946	17,009	246	211,201
Promissory note with interest payable at maturity PRLV primary market for individuals	142	1	-	143
Promissory note with interest payable at maturity PRLV primary market for entities	194	10	4	208
Foreign residents deposits	4	-	-	4
Provision for interest	219	456	4	679
	216,185	**18,409**	**5,457**	**240,051**
Money market:				
Promissory notes	-	-	100	100
Provision for interest	-	-	-	-
	-	**-**	**100**	**100**
Senior debt issued	**27,800**	**-**	**-**	**27,800**
Global account of deposits without movements	**3,023**	**-**	**-**	**3,023**
	Ps. 247,008	**Ps. 18,409**	**Ps. 5,557**	**Ps. 270,974**

	2020			
	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total
General public				
Fixed-term deposits	Ps. 19,589	Ps. 1,686	Ps. 10,762	Ps. 32,037
Demand deposits	213,402	5,279	254	219,385
Promissory note with interest payable at maturity PRLV primary market for individuals	71	-	4	75
Promissory note with interest payable at maturity PRLV primary market for entities	252	10	9	271
Foreign residents deposits	6	-	-	6
Provision for interest	246	246	5	497
	233,566	**7,671**	**11,034**	**252,271**
Money market:				
Promissory notes	-	-	14,187	14,187
Provision for interest	-	-	61	61
	-	**-**	**14,248**	**14,248**
Senior debt issued	**32,325**	**-**	**-**	**32,325**
Global account of deposits without movements	**2,585**	**-**	**-**	**2,585**
	Ps. 268,476	**Ps. 7,671**	**Ps. 25,282**	**Ps. 301,429**

22 - INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2021 and 2020 are as follows:

	Mexican pesos		Denominated in USD		Total	
	2021	2020	2021	2020	2021	2020
Demand deposits:						
Call Money	Ps. 7,809	Ps. -	Ps. -	Ps. -	Ps. 7,809	Ps. -
	7,809	**-**	**-**	**-**	**7,809**	**-**
Short-term:						
Bank of Mexico	202	-	-	-	202	-
Commercial banking	3,764	6,254	6,995	7,984	10,759	14,238
Development banking	3,103	3,506	6	12	3,109	3,518
Public trusts	3,651	4,502	341	241	3,992	4,743
Provision for interest	25	-	2	-	27	-
	10,745	**14,262**	**7,344**	**8,237**	**18,089**	**22,499**
Long-term:						
Commercial banking	6,007	6,051	1,160	1,067	7,167	7,118
Development banking	-	-	39	44	39	44
Public trusts	5,305	5,337	1,078	1,023	6,383	6,360
	11,312	**11,388**	**2,277**	**2,134**	**13,589**	**13,522**
	Ps. 29,866	**Ps. 25,650**	**Ps. 9,621**	**Ps. 10,371**	**Ps. 39,487**	**Ps. 36,021**

These liabilities incur interest depending on the type of instrument and average balance of the loans.

The average interest rates are shown below:

	2021				2020			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Call money								
Mexican pesos and UDIS	0.00%	4.10%	3.72%	5.34%	7.55%	7.25%	5.63%	4.53%
Other bank loans								
Mexican pesos and UDIS	6.14%	6.00%	6.74%	7.44%	8.37%	10.22%	7.94%	6.58%
Foreign currency	1.50%	1.46%	1.43%	1.46%	2.60%	0.11%	0.11%	0.25%

The loans contracted by Arrendadora and Factor Banorte accrue an average interest rate of 5.89% and 5.43% in Mexican pesos and 1.55% and 2.18% in USD as of December 31, 2021 and 2020, respectively.

23 - TECHNICAL RESERVES

	2021	2020
Current risk:		
Life	Ps. 205,902	Ps. 163,932
Accidents and health	2,016	1,907
Damages	2,701	2,718
	210,619	168,557
Contractual obligations:		
Claims and expirations	7,015	7,567
Unreported claims	5,567	5,575
Dividends on policies	60	56
Insurance funds under management	80	81
Security premiums	90	240
	12,812	13,519
Contingency:		
Catastrophic risk	1,491	1,431
Contingencies	3,783	3,044
Special	1,720	1,295
	6,994	5,770

	Ps. 230,425	**Ps. 187,846**

24 - SUNDRY CREDITORS AND OTHER PAYABLES

This item is made up as follows:

	2021	2020
Cashier and certified checks and other negotiable instruments	Ps. 3,633	Ps. 3,654
Provision for employee retirement obligations and saving fund	3,363	3,202
Provisions for other obligations	11,188	10,245
Others	16,206	18,814
	Ps. 34,390	**Ps. 35,915**

25 - EMPLOYEE RETIREMENT OBLIGATIONS

The Holding recognizes the liabilities for pension plans and seniority premiums using the "Projected Unit Credit Method", which considers the benefits accrued at the date of the Consolidated Balance Sheets and the benefits generated during the year.

The amount of current and projected benefits as of December 31, 2021 and 2020, related to the Defined Benefit Pension Plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

	2021			
	Pension plan	**Seniority premiums**	**Medical services**	**Total**
Projected benefit obligation (PBO)	(Ps. 1,703)	(Ps. 3,517)	(Ps. 624)	(Ps. 6,024)
Fund market value	470	2,424	113	3,351
Funded status	(1,233)	(1,093)	(511)	(2,673)
Unrecognized prior service cost	-	-	-	-
Unrecognized actuarial losses	-	-	-	-
Net projected asset	**(Ps. 1,233)**	**(Ps. 1,093)**	**(Ps. 511)**	**(Ps. 2,673)**

	2020			
	Pension plan	**Seniority premiums**	**Medical services**	**Total**
Projected benefit obligation (PBO)	(Ps. 1,899)	(Ps. 3,661)	(Ps. 464)	(Ps. 6,024)
Fund market value	556	2,620	175	3,351
Funded status	(1,343)	(1,041)	(289)	(2,673)
Unrecognized prior service cost	-	-	-	-
Unrecognized actuarial losses	-	-	-	-
Net projected asset	**(Ps. 1,343)**	**(Ps. 1,041)**	**(Ps. 289)**	**(Ps. 2,673)**

Moreover, as of December 31, 2021, a separate fund amounting to Ps. 4,339 ($3,351 en 2020) has been set aside to meet the above-mentioned obligations, in accordance with NIF D-3 and is recorded under "Other assets".
The net periodic pension cost is as follows:

	2021	2020
Service cost	Ps. 92	Ps. 85
Interest cost	516	456
Expected return on plan assets	(286)	(269)
Amortizations of unrecognized items:		
Profits (actuarial losses)	135	130
Cost of the advance reduction/liquidation of obligations	26	13

Net periodic pension cost	Ps. 483	Ps. 415

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2021 and 2020, are shown below:

Concept	2021 Nominal	2020 Nominal
Discount rate	9.75%	8.50%
Rate of wage increase	4.50%	4.50%
Long-term inflation rate	3.50%	3.50%
Expected long-term rate of return on plan assets	3.50%	3.50%

The liability for severance indemnities due to causes other than organization restructuring, which was also determined by independent actuaries, is comprised as follows:

Concept	2021	2020
Defined and projected benefit obligations	(Ps. 361)	(Ps. 349)
Net projected liability	**(Ps. 361)**	**(Ps. 349)**

The net periodic pension cost is as follows:

Concept	2021	2020
Service cost	Ps. 31	Ps. 67
Interest cost	(8)	17
Net periodic pension cost	**Ps. 23**	**Ps. 84**

Pursuant to the law, the Financial Group makes payments equivalent to 2% of its workers' salary to the contribution plan defined for the retirement saving fund established by law. The expense for this concept was de $188 en 2021 and $167 in 2020.

The balance of the employee retirement obligations presented in this Note refers to the Holding's Defined Benefit Pension Plan for those employees who remain enrolled.

The labor obligations derived from the Defined Contribution Pension Plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan's participants. This pension plan is invested in a fund as of December 31, 2021 and 2020, equivalent to Ps. 4,339 y Ps. 3,351, respectively, which is recorded under "Other assets" and is equivalent to the recorded plan liability.

As of December 31, 2021 and 2020, the PTU provision was Ps. 1,380 and Ps. 538, respectively.

26 - SUBORDINATED DEBENTURES

As of December 31, 2021 and 2020, the subordinated debentures in circulation are as follows:

	2021	2020
Non-preferred subordinated obligations, non-preferent, perpetual, non-cumulative 5 years callable BANOD19 999999 denominated in USD, with an interest rate of 6.875%.**	Ps.7,178	Ps. 6,969
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 10 years callable BANOE91 999999 denominated in USD, with an interest rate of 7.625%.**	11,279	10,950
Preferred subordinated obligations not susceptible to be converted into share capital BANOC36 311004 with maturity in October 2031, denominated in USD, with an interest rate of 5.75% payable semiannually and amortizing the capital at maturity.	6,034	5,857
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, interest at a 4.95% annual rate.	1,969	1,829
Non-preferred subordinated obligations, non-preferent, perpetual, non-cumulative 5 years callable NC5 Notes denominated in USD, with an interest rate of 6.750%**	12,305	11,945
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 10 years callable NC10 Notes denominated in USD, with an interest rate of 7.50%**	10,253	9,954
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 10 years callable NC10 Notes denominated in USD, with an interest rate of 8.375%.	10,253	9,954
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 5 years callable NC10 Notes denominated in USD, with an interest rate of 5.875%.	10,253	-
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 10 years callable NC10 Notes denominated in USD, with an interest rate of 6.625%.	11,279	-
Accrued interest.	118	113
Issuance and placement expenses.	(347)	(419)
	Ps. 80,574	**Ps. 57,152**

The costs related to these debentures are amortized using the straight-line method over the term of the debt. The amortization charged to results were Ps. 90 and Ps. 106 in 2021 and 2020, respectively.

** The above mentioned emission was registered as a liability and the interests generated by the notes are payable against the retained earnings from prior years, considering the characteristic established in the obligations to pay in an optional way the yields to election of the issuer, what is considered to be a capital component.

27 - TRANSACTIONS AND BALANCES WITH NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Pursuant to Article 73 Bis of the LIC, the loans granted by Banking Holding Companys to related parties may not exceed 35% of the basic part of its net capital.

For the years ended December 31, 2021 and 2020, the amount of the loans granted to related parties were as follows:

Holding Company granting the loan	2021	% over the limit	2020	% over the limit
Banco Mercantil del Norte, S.A.	Ps. 13,353	7.5%	Ps. 14,844	8.3%

The loans granted by Banorte are under the 100% limit set forth by the LIC.

28 - INFORMATION BY SEGMENT

The main operations and balances per concept and/or business segment in the General Balance Sheet and the Income Statement are comprised as follows:

a. Interest and fees income is made up as follows:

	2021		
	Interest	Fees	Total
	M.N.	M.N.	M.N.
Cash and cash equivalents	Ps. 1,899	Ps. -	Ps. 1,899
Margin securities	127	-	127
Investment in securities	31,537	-	31,537
Securities repurchasing and loans	4,396	-	4,396
Hedging transactions	4,031	-	4,031
Commercial loans	33,782	397	34,179
Mortgage loans	17,791	750	18,541
Consumer loans	26,381	323	26,704
Others	13,311	-	13,311
	Ps. 133,255	**Ps. 1,470**	**Ps. 134,725**

	2020		
	Interest	Fees	Total
	M.N.	M.N.	M.N.
Cash and cash equivalents	Ps. 2,513	Ps. -	Ps. 2,513
Margin securities	156	-	156
Investment in securities	33,112	-	33,112
Securities repurchasing and loans	2,792	-	2,792
Hedging transactions	3,947	-	3,947
Commercial loans	39,166	419	39,585
Mortgage loans	17,253	697	17,950
Consumer loans	27,872	322	28,194
Others	5,344	-	5,344
	Ps. 132,155	**Ps. 1,438**	**Ps. 133,593**

b. The balances by service sector of the Financial Group, without considering the eliminations relative to the consolidation of the financial statements, are as follows:

	2021	2020
Banking sector:		
Net income	Ps. 26,086	Ps. 20,384
Stockholders' equity	144,635	135,047
Total portfolio	810,697	791,112
Past-due loan portfolio	7,836	8,580
Allowance for loan losses	(15,744)	(19,464)
Total net assets	1,236,490	1,262,185
Brokerage sector:		
Net income	1,621	1,492
Stockholders' equity	7,635	6,130
Portfolio balance	956,344	889,022
Total net assets	297,859	245,860
Long term saving sector*		
Net income	6,056	7,239
Stockholders' equity	31,071	35,915
Total net assets *	271,137	233,007
Other finance companies sector:		
Net income	692	641
Stockholders' equity	11,908	9,753
Total portfolio	40,754	35,215
Past-due loan portfolio	669	351
Allowance for loan losses	(507)	(540)
Total net assets	50,257	47,014
Grupo Financiero Banorte (Financial Group)		
Net income	35,032	30,484
Stockholders' equity	234,252	222,262
Total assets	**234,261**	**222,267**

*For sector comparisons, Afore XXI Banorte's results are shown at 100% in this table. As of the fourth quarter of 2016, results are reported in Seguros Banorte through participation method.

c. The trading results for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Trading results:		
Spot foreign currency	(Ps. 69)	(Ps. 1,059)
Derivatives financial instruments	879	742
Investments in securities	286	(106)
Valuation	**1,096**	**(423)**
Purchase-sales result, net		
Spot foreign currency	3,155	2,307
Derivatives financial instruments	(267)	1,252
Investments in securities	412	1,718
Purchase and Sale	**3,300**	**5,277**
Total trading results	**Ps. 4,396**	**Ps. 4,854**

d. The performing loan portfolio, grouped by economic sector and geographical location, is as follows

Economic sector	2021	%	2020
Agriculture	Ps. 9,568	1.2%	Ps. 9,325
Commerce	79,936	9.7%	74,706
Construction	34,719	4.2%	38,366
Manufacturing	42,496	5.2%	41,224
Mining	3,936	0.5%	4,744
Services	45,593	5.6%	42,874
Financial and real estate services	57,273	7.0%	53,292
Transportation	40,497	4.9%	43,177
Government	154,318	18.8%	161,563
Mortgage	200,459	24.4%	187,736
Credit card	39,108	4.8%	36,651
Other consumer loans	82,766	10.1%	79,833
Leasing	17,392	2.1%	17,019
Factoring	12,649	1.5%	11,352
Fid. FCICK16-1	83	0%	76
Valuation of portfolio of GFInteracciones´s Entities	40	0%	200
	Ps. 820,833	**100%**	**Ps. 802,138**

e. The past-due loan portfolio, grouped by economic sector and geographical location, is as follows

Economic Sector	2021	%	2020
Agriculture	Ps. 187	2.2%	Ps.170
Commerce	667	7.8%	637
Construction	572	6.7%	773
Manufacturing	646	7.6%	289
Mining	30	0.4%	-
Services	376	4.4%	250
Financial and real estate services	64	0.8%	28
Transportation	46	0.5%	35
Government	159	1.9%	38
Mortgage	2,077	24.4%	1,658
Credit card	1,343	15.8%	3,120
Other consumer loans	1,675	19.7%	1,586
Leasing	180	2.1%	253
Factoring	484	5.7%	94
	Ps. 8,506	**100%**	**Ps. 8,931**

f. Deposit accounts grouped by product and geographical location are as follows:

	2021							
	Geographical location							
Producto	**Monterrey**	**México**	**Occidente**	**Noroeste**	**Sureste**	**Tesorería y Otros**	**Extranjero**	**Total**
Non-interest bearing checking accounts	Ps. 80,369	Ps. 130,639	Ps. 35,198	Ps. 47,534	Ps. 47,377	Ps. 1,623	Ps. -	**Ps. 342,740**
Interest-bearing checking accounts	14,637	57,957	8,091	8,177	19,898	733	-	**109,493**
Current account Ps. and pre-established	4,274	6,804	1,746	1,761	2,035	9	-	**16,629**
Non-interest bearing demand deposits, USD	9,540	10,323	3,119	13,182	3,067	1	-	**39,232**
Interest bearing demand deposits, USD	8,186	6,743	1,206	5,560	1,283	-	-	**22,978**
Retail time deposits	48,575	86,311	20,803	20,277	28,557	658	-	**205,181**
Time deposits, USD	1,929	2,862	391	724	220	4	-	**6,130**
Customers money market	16,098	7,598	2,493	1,294	1,206	52	-	**28,741**
Financial intermediaries	-	-	-	-	-	24,786	3,115	**27,901**

Total deposits	Ps. 183,608	Ps. 309,237	Ps. 73,047	Ps. 98,509	Ps. 103,643	Ps. 27,866	Ps. 3,115	Ps. 799,025

Producto	2020 Geographical location							
	Monterrey	México	Occidente	Noroeste	Sureste	Tesorería y Otros	Extranjero	Total
Non-interest bearing checking accounts	Ps. 72,199	Ps. 120,298	Ps. 31,402	Ps. 39,653	Ps. 42,357	Ps. 1,294	Ps. -	**Ps. 307,203**
Interest-bearing checking accounts	15,922	93,516	7,943	8,862	21,857	283	-	**148,383**
Current account Ps. and pre-established	3,753	5,865	1,449	1,422	1,588	9	-	**14,086**
Non-interest bearing demand deposits, USD	7,636	9,963	1,777	9,715	2,429	1	-	**31,521**
Interest bearing demand deposits, USD	7,341	7,568	1,227	4,306	1,235	-	-	**21,677**
Retail time deposits	47,481	88,519	20,658	19,085	28,484	430	-	**204,657**
Time deposits, USD	3,156	5,035	1,421	2,408	586	6	-	**12,612**
Customers money market	17,400	10,913	3,616	1,159	1,815	98	-	**35,001**
Financial intermediaries	-	-	-	-	-	40,756	5,816	**46,572**
Total deposits	**Ps. 174,888**	**Ps. 341,677**	**Ps. 69,493**	**Ps. 86,610**	**Ps. 100,351**	**Ps. 42,877**	**Ps. 5,816**	**Ps. 821,712**

29 - INCOME TAXES

The Financial Group is subject to Income Tax (ISR).

ISR

Pursuant to the ISR Law the rate for 2021 and 2020 was 30% and will continue at the same rate for subsequent years.

Reconciliation of the ISR legal rate and the effective rate expressed as a percentage of the income before ISR and PTU is:

	2021	2020
Legal rate	30%	30%
Provisions	1%	3%
Allowance for loan losses	11%	15%
Tax inflation	(4%)	(1%)
Non-tax accounting write-offs	1%	1%
Non-cumulative recoveries	(1%)	(1%)
Deductions by discounts and write-offs	(11%)	(16%)
Other entriers	(3%)	(5%)
Effective rate	**24%**	**26%**

30 - STOCKHOLDERS' EQUITY

The Financial Group's shareholders' common stock is comprised as follows:

Paid-in Capital	Number of shares with a nominal value of Ps. 3.50	
	2021	2020
"O" Series	2,857,438,516	2,846,844,254

Paid-in Capital	Historical Amounts	
	2021	2020
"O" Series	Ps. 10,001	Ps. 9,964

Restatement in Mexican pesos through December 2007	4,956	4,955
	Ps. 14,957	**Ps. 14,919**

Restrictions on profits

The distribution of stockholders' equity, except restated paid-in capital and retained tax earnings, will be subject to income tax on dividends payable by the Financial Group at the effective rate. Any tax paid on such distribution may be credited against that year's income tax paid on dividends and the two immediate fiscal years following such payment, charged against that year's tax and the provisional payments made.

The dividends paid derived from the profits generated as of January 1, 2014 to individuals residing in Mexico and abroad may be subject to additional 10% ISR which will be withheld by the Financial Group.

The following are prior years' results that may be subject to withheld ISR for up to 10% on the paid out dividends:

Year	Amount that may be subject to withholding	Amount not subject to withholding
Retained earnings until December 31, 2013	Ps. -	Ps. 39,303
Net income 2014	50,407	-
Net income 2015	62,860	-
Net income 2016	68,492	-
Net income 2017	71,294	-
Net income 2018	76,550	-
Net income 2019	90,084	-
Net income 2020	118,773	-
Net income 2021	130,076	-

As of December 31, the stockholders' equity tax account balances are as follows:

	2021	2020
Capital contribution account	Ps. 90,870	Ps. 84,649
Net tax profit account at the end of 2013 (CUFIN)	6,159	18,540
CUFIN as of 2014	38,921	19,433
Total	**Ps. 135,950**	**Ps. 122,622**

The Financial Group's net profit is subject to the requirement of transferring at least 5% of each year's net income to the legal reserve until the reserve equals 20% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Financial Group, except in the form of a stock dividend. As of December 31, 2021 and 2020, the legal reserve is Ps. 3,000 and Ps. 3,000 and represents 20% of paid-in capital.

Share-based payments

The Financial Group grants stock options to key officers through different payment schemes based on stocks. The Financial Group has established trusts to manage the plans and contributes the necessary funds so that shares can be purchased directly from the market at the initiation of each plan.

The Financial Group records its stock option plans according to the guidelines of NIF D-8, "Share-based payments". The compensation expense is recorded at fair value as of the date the stock options are granted. The NIF D-8 guidelines stipulate that the fair value determined at the beginning is not revalued at a later date.

During 2021 and 2020, the Holding Company recorded Ps. 891 and Ps. 841, respectively in Non-interest expense compensation for share-based payments against the paid-in capital.

As of December 31, 2021 and 2020, the Holding Company has 2,180,639 and 35,493,301 granted to its executives through various share-based payment plans. The share's average weighted price for all the plans during the year was Ps. $106.16 y $106.16, respectively.

During 2021 and 2020, 10,449,300 and 5,922,884 shares were operated, respectively.

Capitalization ratio (Banorte) (not audited)

The capitalization rules for financial Holding Companys establish requirements for specific levels of net capital, as a percentage of assets subject to both market and credit risk.

The information for December 31, 2021 sent to Banco de México to review is shown below. n 2021 Banorte was ratified as a Multiple Banking Institution of Local Systemic Importance Grade II, for which it must maintain a capital conservation supplement of 0.90 pp. With the above, the minimum Capitalization Index required for Banorte amounts to 11.40% as of December 2020.

Banorte's capitalization ratio as of December 31, 2021 was 24.69% of total risk (market, credit and operational), and 34.82% of credit risk, which in both cases exceed the current regulatory requirements.

I. Integration of Equity

Table I.1

Format of disclosure of the integration of capital without considering transitory requirements in the application of regulatory adjustments

Referencia	Common equity level 1 (CET1): securities and allowance	Amount
1	Ordinary shares that qualify for common capital of level 1 plus its corresponding premium	22,646
2	Retained earnings from prior years	79,931
3	Other elements of comprehensive income (and other allowances)	42,019
4	Equity subject to gradual elimination of the common equity of level 1 (only applicable for companies that are not linked to shares)	N/A
5	Ordinary shares issued by subsidiaries in third-party ownership (amount allowed in the common equity of level 1	N/A
6	Common tier 1 equity before regulatory adjustments	144,597
	Common tier 1 equity regulatory adjustments	
7	Adjustments for prudential valuation	N/A
8	Goodwill (net of deferred taxes to charge)	1,005
9	Other intangibles different to servicing asset of mortgage loans (net of deferred taxes to charge)	10,266
10 (conservative)	Recoverable deferred income taxes that depend on future earnings excluding those that derive from temporary differences (net of payable deferred income tax)	-
11	Result from valuation of instruments for cash flow hedging	(2,710)
12	Reserves pending to constitute	-
13	Receivables generated by securitizations	-
14	Profits and losses caused by changes in the own credit rating on liabilities valued at fair value	N/A
15	Defined benefit pension plan	(2,036)
16 (conservative)	Investments in own shares	-
17 (conservative)	Reciprocal Investments in the ordinary capital	-
18 (conservative)	Investments in ordinary shares of banks, financial Holding Companys and insurance companies outside the scope of regulatory consolidation, net of the short positions eligible, where the Holding Company does not holds more than 10% of the issued share capital (amount that exceeds the threshold of 10%)	-

19 (conservative)	Significant investments in ordinary shares of banks, financial Holding Companys and insurance companies outside the scope of regulatory consolidation, net of the short positions eligible, where the Holding Company holds more than 10% of the issued share capital (amount that exceeds the threshold of 10%)	1,712
20 (conservative)	Mortgage service rights (amount that exceeds the 10% threshold)	-
21	Recoverable deferred income taxes from temporary differences (amount that exceeds the 10% threshold, net deferred tax payable)	-
22	Amount exceeding 15% threshold	N.A.
23	Of which: significant investments where the Holding Company has more than 10% in common shares of financial Holding Companys	N.A.
24	Of which: mortgage service rights	N.A.
25	Of which: recoverable deferred income taxes from temporary differences	N.A.
26	Repealed	
A	of which: Other elements of comprehensive income (and other allowance)	34
J	of which: Deferred Charges and advance payments	3,133
27	Ajustes regulatorios que se aplican al capital común de nivel 1 debido a la insuficiencia de capital adicional de nivel 1 y al capital de nivel 2 para cubrir deducciones	-
28	**Total regulatory adjustments to common equity level 1**	12,904
29	**Common equity level 1 (CET1)**	131,693
	Additional equity level 1: instruments	
30	Instruments issued directly that qualify as additional equity of level 1, plus premium	72,802
31	Of which: classified as equity under applicable accounting criteria	-
32	Of which: classified as liability under applicable accounting criteria	N.A.
33	Instruments issued directly subject to gradual elimination of additional equity level 1	-
34	Instruments issued of Tier 1 additional capital and Tier 1 common equity instruments not included in item 5 that were issued by subsidiaries in third party	N.A.
35	Of which: Instruments issued by subsidiaries subject to gradual elimination	N.A.
36	Additional equity level 1 before regulatory adjustments	72,802
	Additional equity: regulatory adjustments	
37 (conservative)	Investments in additional equity instruments of Level 1 (amount allowed in the additional level 1)	N.A.
38 (conservative)	Equity investments in Tier 1 additional capital instruments	N.A.
39 (conservative)	Investments in the equity of banks, financial Holding Companys and insurers beyond the scope of regulatory consolidation, net of eligible short positions, where the Holding Company has no more than 10% of the share capital issued (amount exceeding the threshold of 10%)	N.A.
40 (conservative)	Significant Investments in the equity of banks, financial Holding Companys and insurers beyond the scope of regulatory consolidation, net of eligible short positions, where the Holding Company owns more than 10% of the share capital issued	N.A.
41	National regulatory adjustments	-
42	Regulatory Adjustments applied to Tier-1 additional capital due to inadequacy of Tier 2 capital to cover deductions	N.A.
43	**Total Adjustment to additional capital of level 1**	-
44	**Additional Capital of Level 1 (AT1)**	72,802
45	Equity level 1 (T1 = CET1 + AT1)	204,495
	Equity level 2: instruments and allowances	
46	Instruments issued directly that qualify as equity of level 2, plus premium	6,034
47	Instruments issued directly subject to gradual elimination of additional equity level 2	1,038

48	Tier 2 equity instruments and Tier 1 equity instruments and Tier 1 additional capital that have not been included in lines 5 or 34, which have been issued by subsidiaries in third-party ownership (amount allowed in the supplementary capital D E Level 2)	N.A.
49	of which: Instruments issued by subsidiaries subject to gradual elimination	N.A.
50	Allowances	728
51	**Equity level 2 before regulatory adjustments**	7,800
	Equity level 2: regulatory adjustments	
52 (conservative)	Investments in own shares level 2	N.A.
53 (conservative)	Reciprocal Investments in the ordinary capital level 2	N.A.
54 (conservative)	Investments in ordinary shares of banks, financial Holding Companys and insurance companies outside the scope of regulatory consolidation, net of the short positions eligible, where the Holding Company does not holds more than 10% of the issued share capital (amount that exceeds the threshold of 10%)	N.A.
55 (conservative)	Significant Investments in the equity of banks, financial Holding Companys and insurers beyond the scope of regulatory consolidation, net of eligible short positions, where the Holding Company owns more than 10% of the share capital issued	N.A.
56	National regulatory adjustments	-
57	Total regulatory adjustments in common equity level 2	-
58	Equity nivel 2 (T2)	7,800
59	Total Equity (TC = T1 + T2)	212,295
60	Total risk weighted assets	859,798
	Equity ratios and supplements	
61	Common equity level 1 (as a percentage of weighted assets for total risk)	15.32%
62	Equity level 1 (as a percentage of weighted assets for total risk)	23.78%
63	Total equity (as a percentage of weighted assets for total risk)	24.69%
64	Holding Companyal specific supplement (at least must consist of: the requirement of Level 1 common equity plus the capital conservation mattress plus the countercyclical mattress plus the G-SIB mattress; expressed as a percentage of weighted assets for total risk)	7%
65	Of which: Equity preservation supplement	2.50%
66	Of which: countercyclical specific bank supplement	N.A.
67	Of which: Systemically Important Global Banks (G-SIB) supplement	0.90%
68	Tier 1 Common Equity available to cover supplements (as a percentage of total weighted assets risk)	0.07%
	National minimums (if different from Basel 3)	
69	National minimum reason for CET1 (if it differs from the minimum established by Basel 3)	N.A.
70	National minimum reason for T1 (if it differs from the minimum established by Basel 3)	N.A.
71	National minimum Reason for TC (if it differs from the minimum established by Basel 3)	N.A.
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financial Holding Companys	N.A.
73	Significant investments in common shares of financial Holding Companys	N.A.
74	Rights for mortgage services (net of tax deferred earnings in charge)	N.A.
75	Deferred tax asset due to temporary differences (net of deferred tax liability)	3,312
	Limits applicable to the inclusion of reserves in the capital of Level 2	

76	Reserves eligible for inclusion in level 2 capital with respect to exposures subject to standardized methodology (prior to the application of the limit)	695
77	Limit on the inclusion of provisions in Level 2 capital under standardized methodology	2,374
78	Reserves eligible for inclusion in Level 2 capital with respect to exposures subject to internal qualifications methodology (prior to the application of the limit)	33
79	Limit on the inclusion of reserves in the capital of level 2 under the methodology of internal qualifications	1,109
	Equity instruments subject to gradual elimination (applicable only between 1 January 2018 and 1 January 2022)	
80	Current limit of CET1 instruments subject to gradual elimination	N.A.
81	Amount excluded from the CET1 due to the limit (excess over the limit after amortizations and maturities)	N.A.
82	Current limit of AT1 instruments subject to gradual elimination	-
83	Amount excluded from the AT1 due to the limit (excess over the limit after amortizations and maturities)	-
84	Current limit of AT2 instruments subject to gradual elimination	1,038
85	Amount excluded from T2 due to limit (excess over the limit after amortizations and maturities)	-

II. Relation of net capital with the Balance Sheet

Table II.1
Balance Sheet figures

Reference of balance sheet items	Balance Sheet figures	Amount presented in the balance sheet
	Asset	1,235,910
BG1	Cash and cash equivalents	97,629
BG2	Margin securities	7,999
BG3	Investments in securities	228,601
BG4	Debtor balances under repurchase en resale agreements	3,037
BG5	Securities lending	-
BG6	Derivatives financial instruments	27,920
BG7	Valuation adjustments for asset hedging	40
BG8	Loan portfolio, net	795,907
BG9	Receivables generated by securitization	-
BG10	Other accounts receivables	30,263
BG11	Foreclosed assets	1,717
BG12	Property, furniture and equipment	17,464
BG13	Permanent stock investment	2,364
BG14	Long-term assets available for sale	-
BG15	Deferred taxes	-
BG16	Other assets	22,970
	Liabilities	**1,091,279**
BG17	Deposits	803,541
BG18	Interbank and other loans	21,562
BG19	Creditor balances under repurchase and resale agreements	111,813
BG20	Securities lending	-

Reference of balance sheet items	Balance Sheet figures	Amount presented in the balance sheet
BG21	Colateral sold or pledged	31
BG22	Derivatives financial instruments	29,058
BG23	Valuation adjustments for financial liabilities coverage	-
BG24	Obligations in securitization operations	-
BG25	Other accounts payable	42,468
BG26	Subordinated debentures	80,574
BG27	Deferred taxes	1,093
BG28	Deferred credits and advance collections	1,138
	Stockholders' equity	144,631
BG29	Paid-in capital	22,646
BG30	Other capital	121,985
	Memorandum accounts	2,033,035
BG31	Guarantees granted	-
BG32	Contingent assets and liabilities	120
BG33	Credit commitments	288,260
BG34	Assets in trust or under mandate	295,482
BG35	Financial agent of the federal government	-
BG36	Managed assets in custody	365,569
BG37	Collateral received	362,484
BG38	Collateral received and sold or given as a pledge	259,597
BG39	Investment banking transactions on account of third parties, (net)	140,989
BG40	Interest accrued but not charged of past due loans	220
BG41	Other registration accounts	320,313

Table II.2
Regulatory concepts considered for calculating the components of net capital

Identifier	Regulatory concepts considered for calculating the components of net capital	Reference to the disclosure format for the capital integration of subparagraph (I) of this Annex	Amount in accordance with the notes to the table concepts regulatory considered for the calculation of the components of the net capital	Reference (s) of the item of the balance sheet and amount related to the regulatory concept considered for the calculation of the net capital coming from the mentioned reference.
	Activo			
1	Goodwill	8	1,005	BG16: 1,005 (Goodwill)
2	Other intangibles	9	10,266	BG16: 10,266 (Other intangibles)
3	Deferred income tax (recoverable) from tax losses and credits	10	-	
4	Receivables generated by securitization	13	-	BG9: - (Receivables generated by securitization)

Identifier	Regulatory concepts considered for calculating the components of net capital	Reference to the disclosure format for the capital integration of subparagraph (I) of this Annex	Amount in accordance with the notes to the table concepts regulatory considered for the calculation of the components of the net capital	Reference (s) of the item of the balance sheet and amount related to the regulatory concept considered for the calculation of the net capital coming from the mentioned reference.
5	Investments of the pension plan for benefits defined without restricted access and unlimited	15	-	
6	Investments in its own shares	16	-	
7	Mutual Investments in ordinary capital	17	-	
8	Direct Investments in the equity of financial Holding Companys where the Holding Company has no more than 10% of the shares issued	18	-	
9	Indirect investments in the equity of financial Holding Companys where the Holding Company has no more than 10% of the shares issued	18	-	
10	Direct investments in the capital of financial entities where the Institution owns more than 10% of the issued share capital	19	-	
11	Direct investments in the equity of financial Holding Companys where the Holding Company owns more than 10% of the shares issued	19	1,712	BG13: 1,712 (Permanent stock investment)
12	Indirect investments in the capital of financial Holding Companys where the Holding Company owns more than 10% of the share capital issued	21	No aplica	
13	Deferred income tax (recoverable) from temporary differences	50	728	BG16: 728 Reserves)
14	Reserves recognized as complementary capital	26 - B	-	
15	Subordinated debt investments	26 - D	-	
16	Investments in multilateral organisms	26 - E	-	
17	Investments in related companies	26 - F	-	
18	Investments in risk capital	26 - G	-	

Identifier	Regulatory concepts considered for calculating the components of net capital	Reference to the disclosure format for the capital integration of subparagraph (I) of this Annex	Amount in accordance with the notes to the table concepts regulatory considered for the calculation of the components of the net capital	Reference (s) of the item of the balance sheet and amount related to the regulatory concept considered for the calculation of the net capital coming from the mentioned reference.
19	Investments in societies of investment	26 - H	-	
20	Financing for the acquisition of own shares	26 - J	-	
21	Deferred charges and advance payments	26 - L	-	
22	Workers ' participation in deferred earnings (net)	26 - N	-	
23	Investments of the pension plan for defined benefits	26 - P	-	
	Libiality			
24	Deferred tax (liability) associated to goodwill	8	1,005	BG16: 1,005 (Goodwill)
25	Deferred tax (liability) associated to other intangible	9	10,266	BG16: 10,266 (Other intangibles)
26	Liabilities of the pension plan for defined benefits without unrestricted and unlimited access	15	-	
27	Deferred income tax (payable) associated with pension plan for defined benefits	15	-	
28	Deferred income tax (payable) associated with others other than the above	21	-	
29	Subordinated obligations amount complying with Annex 1-R	31	-	
30	Subordinated debentures subject to transitory computing as basic Capital 2	33	-	
31	Subordinated obligations amount complying with Annex 1-S	46	-	
32	Subordinated debentures subject to transitory computing as complementary capital	47	1,038	BG26: 1,038 (Subordinated debentures)
33	Deferred income tax (in charge) associated with deferred charges and advance payments	26 - J	-	
	Stockholders' equity			

Identifier	Regulatory concepts considered for calculating the components of net capital	Reference to the disclosure format for the capital integration of subparagraph (I) of this Annex	Amount in accordance with the notes to the table concepts regulatory considered for the calculation of the components of the net capital	Reference (s) of the item of the balance sheet and amount related to the regulatory concept considered for the calculation of the net capital coming from the mentioned reference.
34	Contributed capital that complies with annex 1-Q	1	22,646	BG29; 22,646 (Earned Capital)
35	Retained earnings from prior years	2	79,931	BG30; 79,931 (Earned Capital)
36	Result from valuation of instruments for cash flow hedging of items accounted at fair value	3	(2,710)	BG30; (2,701) (Earned Capital)
37	Other elements of capital earned other than previous	3	44,729	BG30; 44,729 (Earned Capital)
38	Contributed capital that complies with Annex 1-R	31	-	
39	Contributed capital that complies with Annex 1-S	46	-	
40	Result from valuation of instruments for cash flow hedging of items not accounted at fair value	3, 11	(2,710)	BG30; (2,710) (Earned Capital)
41	Result from convertions	3, 26 - A	-	BG30; - (Earned Capital)
42	Income from non-monetary assets	3, 26 - A	-	
	Memorandum accounts			
43	Positions in First-Loss Schemes	26 - K	-	
	Regulatory Concepts not considered in the balance sheet			
44	Reserves pending to constitute	12	-	
45	Profit or increase the value of the assets by acquisition of positions of securitizations (Originating Holding Companys)	26 - C	-	
46	Operations that violate the dispositions	26 - I	-	
47	Operations with Relevant Related People	26 - M	-	
48	Abrogated	26 - O, 41, 56	-	

III. Weighted Assets Subject to Total Risk

Table III.1
Positions exposed at market risk by risk factor

Concept	Amount of equivalent positions	Capital requirements
Transactions in local currency with nominal rate	135,768	10,861
Transactions in local currency with securities in local currency with surcharge and a rate reviewable	3,022	242
Transactions in local currency with real rate or denominated in UDI's	2,085	167
Operations in local currency with performance rate referred to the growth of the General Minimum Wage	-	-
Positions in UDI's or with yield referred to INPC	95	8
Positions in local currency with performance rate referred to the growth of the General Minimum Wage	-	-
Operations in foreign currency with nominal rate	17,654	1,412
Positions in foreign currency or with yield indexed to a exchange rate	12,637	1,011
Positions in capital instruments or with yield indexed at the cost of a capital instruments group	3,300	264
Positions in goods	-	-

Table III.2
Weighted Assets subject to credit risk by risk group

Concept	Risk Weighted Assets	Capital requirement
Grupo I-A (weighted al 0%)	-	-
Grupo I-A (weighted al 10%)	-	-
Grupo I-A (weighted al 20%)	-	-
Grupo I-B (weighted al 20%)	379	30
Grupo II (weighted al 100%)	-	-
Grupo III (weighted al 20%)	8,940	715
Grupo III (weighted al 23%)	-	-
Grupo III (weighted al 50%)	-	-
Grupo III (weighted al 57.5%)	-	-
Grupo III (weighted al 100%)	8,265	661
Grupo III (weighted al 115%)	-	-
Grupo III (weighted al 120%)	-	-
Grupo III (weighted al 138%)	-	-
Grupo III (weighted al 150%)	-	-
Grupo III (weighted al 172.5%)	-	-
Grupo IV (weighted al 0%)	-	-
Grupo IV (weighted al 20%)	11,218	897
Grupo V (weighted al 10%)	-	-
Grupo V (weighted al 20%)	19,416	1,553
Grupo V (weighted al 50%)	7,270	582
Grupo V (weighted al 115%)	1,051	84
Grupo V (weighted al 150%)	12,879	1,030
Grupo VI (weighted al 20%)	-	-
Grupo VI (weighted al 50%)	35,030	2,802
Grupo VI (weighted al 75%)	15,366	1,229
Grupo VI (weighted al 100%)	177,624	14,210
Grupo VI (weighted al 120%)	-	-
Grupo VI (weighted al 150%)	-	-
Grupo VI (weighted al 172.5%)	-	-

Concept	Risk Weighted Assets	Capital requirement
Grupo VII_A (weighted al 10%)	-	-
Grupo VII_A (weighted al 11.5%)	-	-
Grupo VII_A (weighted al 20%)	6,047	484
Grupo VII_A (weighted al 23%)	-	-
Grupo VII_A (weighted al 50%)	1,099	88
Grupo VII_A (weighted al 57.5%)	-	-
Grupo VII_A (weighted al 100%)	133,047	10,644
Grupo VII_A (weighted al 115%)	-	-
Grupo VII_A (weighted al 120%)	-	-
Grupo VII_A (weighted al 138%)	-	-
Grupo VII_A (weighted al 150%)	67	5
Grupo VII_A (weighted al 172.5%)	-	-
Grupo VII_B (weighted al 0%)	-	-
Grupo VII_B (weighted al 20%)	4,890	391
Grupo VII_B (weighted al 23%)	-	-
Grupo VII_B (weighted al 50%)	2,848	228
Grupo VII_B (weighted al 57.5%)	-	-
Grupo VII_B (weighted al 100%)	187,652	15,012
Grupo VII_B (weighted al 115%)	-	-
Grupo VII_B (weighted al 120%)	-	-
Grupo VII_B (weighted al 138%)	-	-
Grupo VII_B (weighted al 150%)	73	6
Grupo VII_B (weighted al 172.5%)	-	-
Grupo VIII (weighted al 115%)	2,063	165
Grupo VIII (weighted al 150%)	1,635	131
Grupo IX (weighted al 10%)	-	-
Grupo IX (weighted al 50%)	-	-
Grupo IX (weighted al 100%)	8,141	651
Grupo IX (weighted al 115%)	-	-
Grupo X (weighted al 1250%)	-	-
Securitizations with a Risk Degree 1 (weighted al 20%)	1,085	87
Securitizations with a Risk Degree 2 (weighted al 50%)	340	27
Securitizations with a Risk Degree 3 (weighted al 100%)	3	-
Securitizations with a Risk Degree 4 (weighted al 350%)	712	57
Securitizations with a Risk Degree 5, o No calificados (weighted al 1250%)	-	-
Re-Securitizations with a Risk Degree 1 (weighted al 40%)	-	-
Re-Securitizations with a Risk Degree 2 (weighted al 100%)	-	-
Re-Securitizations with a Risk Degree 3 (weighted al 225%)	-	-
Re-Securitizations with a Risk Degree 4 (weighted al 650%)	-	-
Re-Securitizations with a Risk Degree 4, 5 o No Calificados (weighted al 1250%)	-	-

Table III.3
Weighted assets subject to operational risk

Method	Weighted assets by risk	Capital requirement
Alternative Standard Method	75,386	6,031

Average requirement for market and credit risk in the past 36 months	Average of the annual positive net income of last 36 months

61,547	86,241

IV. Characteristics of the securities that are part of the net Capital

Reference	Characteristics	Q BANORTE 08U
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	MX0QBA070037
3	Legal framework	LMV, LIC, CIRCULAR 2019/95, LGTOC
Regulatory treatment		
4	Level of capital with transience	Complementary Capital
5	Level of capital without transience	N.A.
6	Level of security	Credit Holding Company without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	276,936,300 (Two hundred and seventy-six million, nine hundred and thirty six thousand and three hundred) UDIs, respective to Ps. 1,772,120,368.55 (One billion seven hundred and seventy-two million one hundred and twenty thousand and three hundred and sixty-five pesos 55/100 M.N.).
9	Nominal value	100 (One hundred) UDIs
9A	Currency	UDI
10	Accounting classification	Liability at amortized cost
11	Date of issuance	11/03/2008
12	Security term	Maturity
13	Date of maturity	15/02/2028
14	Clause of advance payment	Yes
15	First date of advance payment	22/08/2023
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any date of interest payment from the fifth year counted from the date of issue
Yields / dividends		
17	Type of yields/Dividends	Fix
18	Interest rate/Dividends	Real Gross (Yield)
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Partially discretionary
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulative
23	Security convertibility	Non-convertibles
24	Convertibility conditions	N. A.
25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertibles
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	No
31	Condiciones value decrease	N.A.
32	Grade of value decrease	N.A.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.

Reference	Characteristics	Q BANORTE 08U
35	Position of subordination in the event of liquidation	Preferential subordinated debentures
36	Default characteristics	No
37	Description of non-compliance features	N.A.

Reference	Characteristics	D2 BANOD19 999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP14008AD19
3	Legal framework	New York Laws
Regulatory treatment		
4	Level of capital with transience	Complementary capital
5	Level of capital without transience	N.A.
6	Level of security	Credit Holding Company without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.$350,000,000 (Trescientos cincuenta millones de Dólares 00/100 USD)
9	Nominal value	U.S. $1,000.00 (Mil dólares 00/100 USD)
9A	Currency	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Date of issuance	06/07/2017
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Perpetual
15	First date of advance payment	Yes
15A	Regulatory or fiscal events	At any time before the expiration date
15B	Settlement price of the advance payment clause	Yes
16	Subsequent dates of payment in advance	Nominal value plus interest accrued at the date of the anticipated amortization
Yields / dividends		
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0Libor
19	Clause of cancellation of dividends	Sí
20	Discretion in payment	Discrecional
21	Clause of increase of interest	No
22	Yields/Dividends	No acumulables
23	Security convertibility	No convertibles
24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	No convertibles
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	No
31	value decrease conditions	N.A.
32	Grade of value decrease	N.A.

Reference	Characteristics	D2 BANOD19 999999
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-Preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

Reference	Characterístic	D2 BANOE91 999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP14008AE91
3	Legal framework	New York Law
Regulatory treatment		
4	Level of capital with transience	Basic Capital 2
5	Level of capital without transience	N.A.
6	Level of security	Credit Holding Company without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.Ps. 550,000,000 (Five hundred and fifty million dollars 00/100 USD)
9	Nominal value	U.S. Ps. 1,000.00 (One thousand dollars 00/100 USD)
9A	Currency	USD dollars
10	Accounting classification	Liability at amortized cost
11	Date of issuance	04/10/2018
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Yes
15	First date of advance payment	At any time before the expiration date
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
Yields / dividends		
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0LIBOR
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulative
23	Security convertibility	Non-convertibles
24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertibles in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	No
31	Value decrease condition	N.A.

Reference	Characterístic	D2 BANOE91 999999
32	Grade of value decrease	N.A.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-Preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

Reference	Characteristic	D2 BANOC36 311004
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP14008AC36
3	Legal framework	New York Law
Regulatory treatment		
4	Level of capital with transience	Complementary capital
5	Level of capital without transience	N.A.
6	Level of security	Credit Holding Company without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.Ps. 500,000,000 (Five hundred million dollars) 00/100 USD)
9	Nominal value	U.S. Ps. 1,000.00 (One thousand dollars 00/100 USD)
9A	Currency	USD dollars
10	Accounting classification	Liability at amortized cost
11	Date of issuance	04/10/2016
12	Security term	Maturity
13	Date of maturity	04/10/2031
14	Clause of advance payment	Yes
15	First date of advance payment	At any time before the expiration date
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
Yields / dividends		
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0LIBOR
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulable
23	Security convertibility	Non-convertibles
24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	Yes

Reference	Characteristic	D2 BANOC36 311004
31	Value decrease conditions	Yes
32	Grade of value decrease	7%.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

Reference	Characteristics	D2 BANOA64 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP1400MAA64
3	Legal framework	New York Law
Regulatory treatment		
4	Level of capital with transience	Complementary capital
5	Level of capital without transience	N.A.
6	Level of security	Credit Holding Company without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.$600,000,000 (Six hundred million dollars 00/100 USD)
9	Nominal value	U.S. $1,000.00 (One thousand dollar 00/100 USD)
9A	Currency	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Date of issuance	27/06/2019
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Yes
15	First date of advance payment	27/09/2024
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
Yields / dividends		
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0LIBOR
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulable
23	Security convertibility	Non-convertibles
24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.

Reference	Characteristics	D2 BANOA64 0999999
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	Yes
31	Value decrease conditions	Yes
32	Grade of value decrease	7%.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

Reference	Characteristic	D2 BANOB48 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP1400MAB48
3	Legal framework	New York Laws
Regulatory treatment		
4	Level of capital with transience	Complementary capital
5	Level of capital without transience	N.A.
6	Level of security	Credit Holding Company without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.$500,000,000 (Five hundred million dollar 00/100 USD)
9	Nominal value	U.S. $1,000.00 (One thousand 00/100 USD)
9A	Currency	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Date of issuance	27/06/2019
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Yes
15	First date of advance payment	27/06/2029
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
Yields / dividends		
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0LIBOR
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulable
23	Security convertibility	Non-convertibles

Reference	Characteristic	D2 BANOB48 0999999
24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	Yes
31	Value decrease conditions	Yes
32	Grade of value decrease	7%.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

Reference	Characteristic	D2 BANOC21 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP1400MAC21
3	Legal framework	New York Laws
Regulatory treatment		
4	Level of capital with transience	Complementary capital
5	Level of capital without transience	N.A.
6	Level of security	Credit Holding Company without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.$500,000,000 (Five hundred million dollar 00/100 USD)
9	Nominal value	U.S. $1,000.00 (One thousand 00/100 USD)
9A	Currency	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Date of issuance	14/07/2020
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Yes
15	First date of advance payment	01/07/2030
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
Yields / dividends		
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0Libor
19	Clause of cancellation of dividends	Yes

Reference	Characteristic	D2 BANOC21 0999999
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulable
23	Security convertibility	Non-convertibles
24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	Yes
31	Value decrease conditions	Yes
32	Grade of value decrease	7%.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

Reference	Characteristic	D2 BANOB72 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP1401KAB72
3	Legal framework	New York Laws
Regulatory treatment		
4	Level of capital with transience	Non-Core Equity
5	Level of capital without transience	N.A.
6	Level of security	Credit Holding Company without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.$550,000,000 (Five hundred million dollar 00/100 USD)
9	Nominal value	U.S. $1,000.00 (One thousand 00/100 USD)
9A	Currency	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Date of issuance	24/11/2021
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Yes
15	First date of advance payment	24/01/2027
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date

Reference	Characteristic	D2 BANOB72 0999999
Yields / dividends		
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0Libor
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulable
23	Security convertibility	Non-convertibles
24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	Yes
31	Value decrease conditions	Yes
32	Grade of value decrease	7%.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

Reference	Characteristic	D2 BANOA99 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP1401KAA99
3	Legal framework	New York Laws
Regulatory treatment		
4	Level of capital with transience	Non-Core Equity
5	Level of capital without transience	N.A.
6	Level of security	Credit Holding Company without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.$500,000,000 (Five hundred million dollar 00/100 USD)
9	Nominal value	U.S. $1,000.00 (One thousand 00/100 USD)
9A	Currency	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Date of issuance	24/11/2021
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Yes
15	First date of advance payment	24/01/2027

Reference	Characteristic	D2 BANOA99 0999999
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
Yields / dividends		
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0Libor
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulable
23	Security convertibility	Non-convertibles
24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	Yes
31	Value decrease conditions	Yes
32	Grade of value decrease	7%.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

V. Management

Pursuant to the regulations in effect and the requirements of the CNBV, the Holding Company is developing its Capital Sufficiency Assessment which will consider the risks the Holding Company is exposed to as well as its major vulnerabilities in order to prove the Holding Company's solvency by means of financial forecasts with adverse macro-economic scenarios.
In order to manage capital, a weekly follow-up analysis is conducted on the requirements derived from the risk position, as well as supporting through strategy or transactions' simulations of the various areas of business operation in order to determine their consumption.

Additionally, with the purpose of managing the capital, weekly is carried out an analysis of follow-up to the requirements of the risk positions, in addition to supporting in simulations of operations or strategies to the different business areas in order to know their consumption.

VI.Weights involved in calculating the countercyclical Capital supplement of the Holding Companys.

Countercyclical Capital supplement of the Holding Company
0.10 million

Jurisdiction	Weighting
Germany	0.00%
Saudi Arabia	0.00%
Argentina	0.00%
Australia	0.00%
Belgium	0.00%
Brasil	0.00%
Canada	0.00%
China	0.00%
Spain	0.00%
US	0.00%
France	0.00%
Netherlands	0.00%
Hong Kong	1.25%
India	0.00%
Indonesia	0.00%
Italy	0.00%
Japan	0.00%
South Korea	0.00%
Luxemburg	0.00%
Mexico	0.00%
UK	0.00%
Russia	0.00%
Singapore	0.00%
South Africa	0.00%
Sweden	2.00%
Swiss	0.00%
Turkey	0.00%
Other jurisdictions different from the above	0.00%

ANNEX 1-O BIS

TABLE I.1
DISCLOSURE OF INFORMATION REGARDING LEVERAGE RATIO

STANDARDIZED DISCLOSURE FORMAT FOR LEVERAGE RATIO		
REFERENCE	**ITEM**	**AMMOUNT**
	Exposure inside the balance	
1	Items within the balance sheet (excluding derivative financial instruments and securities lending operations-SFT for its acronym in English-but including collateral received and recorded in the balance sheet)	1,204,953
2	(amounts of assets deducted to determine level 1 capital of Basel III)	(12,938)
3	Exhibitions within the balance sheet (Net) (excluding financial derivatives and SFT, sum of lines 1 and 2)	1,192,016
	Exposurestoderivativefinancialinstruments	
4	Current cost of replacement associated with all operations with financial derivative instruments (net of margin of variation in cash admissible)	11,329
5	amounts of additional factors for potential future exposure, associated with all operations with derivative financial instruments	9,929

6	Increase in collateral provided in transactions with derivative financial instruments when such collaterals are discharged from the balance sheet under the operating accounting framework	N/A
7	(Deductions to the account receivables for change margin in cash contributed in operations with derivative financial instruments)	-
8	(Exposure by transactions in financial instruments derived by client accounts, in which the liquidating partner does not grant its guarantee in case of non-fulfilment of the obligations of the Central Counterpart)	N/A
9	Adjusted effective notional Amount of credit-derived financial instruments subscribed	N/A
10	(Compensations made to the notional adjusted cash of the financial instruments derived from credit subscribed and deductions of the additional factors by the credit derivatives financial instruments subscribed)	N/A
11	Total exposures to derivative financial instruments (sum of lines 4 to 10)	21,258
Exhibitionsbyfinancingoperationswithvalues		
12	Assets SFT gross (without recognition of compensation), after adjustments for accounting transactions for sales	261,535
13	(Accounts payable and for charging of compensated SFT)	(3,037)
14	Exposure of counterpart risk by SFT	13,035
15	Exposure by SFT acting on behalf of third parties	-
16	Total exposures for financing operations with securities (sum of lines 12 to 15)	271,533
Otherexposuresoutofbalancesheet		
17	Exposure out of balance (gross notional amount)	288,260
18	(Conversion adjustments to credit equivalents)	(251,958)
19	Off-balance sheet items (sum of the lines 17 and 18)	36,303
Capitalandtotalexposure		
20	Equity level 1	204,495
21	Total exposures (Sum of lines 3, 11, 16 and 19)	1,521,109
Leverageratio		
22	Leverage ratio of Basilea III	**13.44%**

TABLE I.2
Notes to standardized disclosure format for leverage ratio

REFERENCE	EXPLANATION
1	Total assets of the Holding Company without consolidate subsidiaries or entities of specific purpose (less the assets presented in the above mentioned balance for: 1) operations with derivative financial instruments, 2) repurchase agreements and 3) securities.
2	Amount of deductions from the core capital laid down in subparagraphs (b) to (r) of the fraction I of article 2 Bis 6 of the present provisions. The amount must be registered with a negative sign.
3	Sum of lines 1 and 2
4	Current Cost of replacement (RC) of transactions with derivative financial instruments, in accordance with those laid down in annex 1-L of these provisions, minus the partial cash settlements (cash variation margin) received, provided that the following conditions are fulfilled:

REFERENCE	EXPLANATION
	a) In the case of counterparts other than the clearing houses referred to in the second subparagraph of article 2 Bis 12 (a), the cash received shall be available to the Holding Company.
	b) The valuation at market of the operation is carried out daily and the received cash is exchanged with the same frequency.
	c) The cash received as well as the operation with the derivative instrument, are denominated in the same currency.
	d) The amount exchanged from the cash variation margin is at least the amount necessary to cover the market value considering the threshold and the minimum amount transferred agreed in the corresponding framework contract.
	e) The amount exchanged from the cash variation margin is at least the amount necessary to cover the market value considering the threshold and the minimum amount transferred agreed in the corresponding framework contract.
	In any case, the maximum amount of cash variation margins received that may be considered will correspond to the positive value of the current replacement cost of each counterpart.
5	Additional Factor in accordance with annex 1-L of these provisions, of operations with derivative financial instruments. In addition, in the case of credit-derived financial instruments which provide credit protection, the conversion value must be included at the credit risk in accordance with article 2 Bis 22 of these provisions.
	In no case may they be used the real guarantees financial that the Holding Company has received to reduce the amount of the additional factor reported in this line.
6	Not applicable. The accounting framework does not allow the cancel of assets given as collateral.
7	Total of margins of change in cash delivered in operations with derivative financial instruments that fulfill with the conditions indicated in the line 4 to reduce the in cash received change margins. The total must register with negative sign.
8	N.A.
9	Not applicable. The exhibition that is considered for the purposes of solvency framework in operations with financial derivative instruments of credit which provides credit protection corresponds to 100 per cent of the amount actually guaranteed in the operations concerned. This exhibition is regarded in Line 5.
10	Not applicable. The exhibition that is considered for the purposes of solvency framework in operations with financial derivative instruments of credit which provides credit protection corresponds to 100 per cent of the amount actually guaranteed in the operations concerned. This exhibition is regarded in Line 5.
11	Sum of lines 4 to 10
12	Amount of the assets recorded in the balance sheet (accounts receivable recorded) of operations of reported and securities lending. The amount shall not consider any compensation in accordance with the Accounting Criteria.
13	Positive amount resulting from deducting the accounts payable Accounts receivable generated by operations of reported and securities lending, by its own account, with a same counterpart, and provided that the following conditions are met:
	a) The corresponding operations have the same settlement date.
	b) The right to settle the operations at any time.
	c) The operations are liquidated in the same system and there is a mechanism or arrangements of liquidation (lines or guarantees) that allow the liquidation takes place at the end of the day in which it was decided to liquidate.
	d) Any problems related to the liquidation of collateral flows in the form of securities, do not obstruct the settlement of accounts payable and cash.
	The amount must be registered with a negative sign.
14	Value of conversion to credit risk of the operations of reported and loan of securities on their own account, in accordance with Article 2 Bis 22 These provisions when there is not a framework contract of compensation. And in accordance with Article 2 Cis 37 when there is such an

REFERENCE	EXPLANATION
	agreement. The foregoing is without considering adjustments by eligible collateral that applies to the guarantee in the framework of capitalization.
15	In the case of operations of reported and securities lending for the account of third parties, in which the Holding Company granted warranty with their clients before the breach of the counterpart, the amount that should be register is the positive difference between the value of the title or cash that the customer has delivered and the value of the guarantee that the borrower has provided.
	Additionally, if the Holding Company can have the collateral delivered by their clients, for their own account, the amount equivalent to the value of the securities and/or cash delivered by the customer of the Holding Company.
16	Sum of lines 12 to 15
17	Amounts of credit commitments recognized in memorandum accounts according to accounting criteria.
18	Amounts of the reductions in the value of the credit commitments recognized in memorandum accounts by applying conversion factors to credit risk set out in the first title Bis of the present provisions, considering that the conversion factor to credit risk is a minimum of 10 % (for those cases in which the conversion factor is 0 %).
	The amount must be registered with a negative sign.
19	Sum of lines 17 and 18
20	Basic Capital calculated in accordance with article 2 Bis 6 of provisions.
21	Sum of lines 3, 11, 16 and 19
22	Reason of Leverage. Quotient of the line 20 between the line 21.

II Comparative of total assets and the assets adjusted

TABLE II.1
COMPARATIVE OF TOTAL ASSETS AND ASSETS ADJUSTED

REFERENCE	DESCRIPTION	AMOUNT
1	Total assets	1,235,91
2	Adjustment for investments in the capital of banks, financial, insurance or commercial entities that are consolidated for accounting purposes, but are outside the scope of regulatory consolidation	(12,938)
3	Adjustment for investments in the capital of banks, financial, insurance or commercial entities that are consolidated for accounting purposes, but are outside the scope of regulatory consolidation	N.A.
4	Adjustment for derivative financial instruments	(6,662)
5	Adjustment for repurchase agreements and securities lending operations [1]	268,497
6	Adjustment for items recognized in memorandum accounts	36,303
7	Other adjustments	-

8	Leverage coefficient exposure	1,521,109

[1] In which the value of the operation is the valuation at market of operations and are generally subject to margins agreements.

TABLE II.2
NOTES TO THE COMPARATIVE OF TOTAL ASSETS AND ASSETS ADJUSTED

REFERENCE	DESCRIPTION
1	Total assets of the Holding Company without consolidate subsidiaries or entities of specific purpose
2	Total of the deductions of the basic capital contained in the interjections b), d), e), f), g), h), i), j) and l) of the fraction I, of the Article 2 Bis 6 of dispositions.
	The amount must be registered with a negative sign.
3	Not applicable. The scope is on the Holding Company without consolidate subsidiaries or entities of specific purpose.
4	Amount equivalent to the difference between the figure contained in line 11 of Table I.1 and the figure presented in transactions with financial derivative instruments contained in the balance sheet.
	The amount must be registered with the sign resulting from the difference mentioned, could be positive or negative.
5	Amount equivalent to the difference between the figure in line 16 of Table I.1 and the figure presented by repurchase agreements and lending operations of securities contained in the balance sheet.
	The amount must be registered with the sign resulting from the difference mentioned, could be positive or negative.
6	Amount recorded in line 19 of Table I.1.
	The amount must be registered with a positive sign.
7	Amount of the basic capital deductions contained in subparagraphs (c)), (k), M), N), (p), q) and R) of Fraction I, of article 2 Bis 6 of provisions.
	The amount must be registered with a positive sign.
8	Sum of lines 1 to 7, which must coincide with line 21 of table I.1.

III conciliation of total assets and the exposure inside balance

TABLE III.1
CONCILIATION OF TOTAL ASSETS AND THE EXPOSURE INSIDE BALANCE

REFERENCE	CONCEPT	AMOUNT
1	Total assets	1,235,910
2	Operations in derivative financial instruments	(27,920)

3	Operations in repurchase agreements and lending of securities	(3,037)
4	Trust assets recognized in the balance sheet under the accounting framework, but excluded from the measure of the leverage ratio exposure	N/A
5	Exposure inside balance	1,204,953

TABLE III.2

NOTES TO CONCILIATION OF TOTAL ASSETS AND THE EXPOSURE INSIDE BALANCE

REFERENCE	DESCRIPTION
1	Total assets of without consolidate subsidiaries or entities of specific purpose.
2	The amount corresponding to the operations in financial derivative instruments presented in the asset from the last financial statements. The amount must be registered with a negative sign.
3	The amount corresponding to the operations of repurchase agreements and loan of values presented in the assets of the final financial statements. The amount must be registered with a negative sign.
4	Does Not apply. The scope of application is on the Holding Company without consolidating subsidiaries or specific-purpose entities.
5	Sum of lines 1 to 4, which must coincide with Line 1 of table I.1

IV Main causes of significant variances of the elements (numerator and denominator) of the leverage ratio covenant

TABLE IV.1

MAIN CAUSES OF SIGNIFICANT VARIANCES OF THE ELEMENTS (NUMERATOR AND DENOMINATOR) OF THE LEVERAGE RATIO COVENANT

CONCEPT/TRIMESTRE	SEPTEMBER '21	DECEMBER '21	VARIATION (%)
Basic capital	177,381	204,494	15.285%
Adjusted assets	1,528,104	1,521,109	(0.458%)
Leverage ratio	11.61%	13.44%	15.815%

31 - FOREIGN CURRENCY POSITION

As of December 31, 2021 and 2020, the Financial Group holds certain assets and liabilities in foreign currency, mainly US dollars, converted to the exchange rate issued by Banco de México Ps. 19.9087 y Ps. 19.9087 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	2021	**2020**
Assets	10,856,835	10,332,241
Liabilities	11,058,180	10,414,634
Net liability position in US dollars	**(201,345)**	**(82,393)**
Net liability position in Mexican pesos	**(Ps. 4,129)**	**(Ps. 1,640)**

32 - POSITION IN UDIS

As of December 31, 2021 and 2020, the Holding holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps 7.108233 y Ps. 6.605597, per UDI, respectively, as shown below:

	Thousands of UDIS	
	2021	**2020**
Assets	1,617,475	368,869
Liabilities	804,544	647,844
Net asset position in UDIS	**812,931**	**(278,975)**
Net asset position in Mexican pesos	**Ps. 5,779**	**(Ps. 1,843)**

33 - EARNINGS PER SHARE

Earnings per share are the result of dividing the net income by the weighted average of the Financial Group's shares in circulation during the year.

Earnings per share for the years ended December 31, 2021 and 2020 are shown below:

	2021			2020
	Net Income	**Weighted share average**	**Earnings per share**	**Earnings per share**
Net income per share	Ps. 35,048	2,866,873,610	Ps. 12.2253	Ps. 10.6998

Net earnings per share diluted for the years ended December 31, 2021 and 2020 are shown below:

	2021			2020
	Net Income	**Weighted share average**	**Earnings per share**	**Earnings per share**
Net income per share	Ps. 35,048	2,883,456,594	Ps. 12.1549	Ps. 10.5804

34 - RISK MANAGEMENT (unaudited)

Authorized bodies

For proper Risk management, the Board of Directors established since 1997 the Risk Policy Committee (CPR) to manage the risk that the Financial Group is exposed to as well as to monitor the performance of operations and that it sticks to the objectives, policies and procedures for risk management.

In addition, the CPR monitors the overall limits of risk exposure approved by the Board of Directors, in addition to approving specific risk limits for exposure to different types of risk.

The CPR is integrated with proprietary members of the Board, the CEO, the Directors of the entities, Risk Management and Audit, this last one participates with voice but no vote.

For the adequate performance of its objective, the CPR plays, among others, the following functions:

1. Propose for approval by the Board:

• The objectives, guidelines and policies for overall risk management.
• The global limits for risk exposure.
• The mechanisms for the implementation of corrective actions.
• The cases or special circumstances which may exceed the overall limits as much as the specifics.

2. Approve and review at least once a year:

• Specific limits for discretionary risks and the risk tolerance levels for non-discretionary.
• The methodology and procedures to identify, measure, monitor, limit, control, report and disclose various types of risk to which the Financial Group is exposed to.
• The models, parameters and settings used to carry out the valuation, measurement and control of risks proposed by the unit for comprehensive risk management.

3. Approve:

• The methodologies for the identification, valuation, measurement and control of risks of new business, products and services that the holding intends to offer to the market.
• The corrective actions proposed by the drive for comprehensive risk management.
• Manuals for comprehensive risk management.
• The technical evaluation aspects of risk management.

4. Appoint and remove the unit responsible for overall risk management, it is ratified by the Board.

5. Report to the Board at least quarterly, the risk exposure and its possible negative effects and follow-up to the limits and tolerance levels.

6. Report to the Board on corrective actions taken.

35 - COMPREHENSIVE RISK MANAGEMENT UNIT (UAIR) (unaudited)

Risk management at Grupo Financiero Banorte is a key element in determining and implementing the Group's strategic planning. The Group's risk management and policies comply with regulations and market's best practices.

1. OBJECTIVES, SCOPE AND RISK MANAGEMENT FUNCTIONS

GFNorte's Risk Management main objectives are:

- To provide clear rules to different business areas, that contribute to minimizing risk and ensuring compliance with the parameters established and approved by the Board of Directors and the Risk Policies Committee (CPR by its acronym in Spanish).
- To establish mechanisms to monitor risk-taking across GFNorte, through the use of robust systems and processes.
- To verify the observance of Risk Appetite.

- To estimate and control GFNorte's capital, under regular and stressed scenarios, aiming to provide coverage for unexpected losses from market movements, credit bankruptcies, and operational risks.
- To implement pricing models for different types of risks.
- To establish procedures for portfolio's optimization and credit portfolio management.
- To update and monitor Contingency Plan in order to restore capital and liquidity levels in case of adverse events.

Moreover, GFNorte owns sound methodologies to manage quantifiable risks such as Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Concentration Risk and Counterparty Risk.

Credit Risk: revenue volatility due to constitution of provisions for impaired loans, and potential losses on borrower or counterparty defaults.

Market Risk: revenue volatility due to market changes, which affect the valuation of book positions for active, liabilities or contingent liabilities operations, such as: interest rates, spread over yields, exchange rates, price indices, etc.

Liquidity Risk: potential loss by the impossibility of renewing liabilities or securing resources in normal conditions, and by early or forced sale of assets at unusual discounts to meet their obligations.

Operational Risk: loss resulting from inadequate or failed internal processes, employees, internal systems or external events. This definition includes Technology Risk and Legal Risk. Technology Risk, groups all those potential losses from damage, interruption, disruption or failures resulting from use of or reliance on hardware, software, systems, applications, networks and any other information distribution channel, while the Legal Risk involves the potential loss by sanctions for noncompliance with laws and administrative or judicial decisions unfavorable related to GFNorte's operations.

Concentration Risk: potential loss by high and disproportional exposure to particular risk factors within a single category or among different risk categories.

Likewise, regarding unquantifiable risks, Risk Management's Manual in GFNorte establish specific objectives for:

Reputational Risk: potential loss in the performance of Institution's activities, due to an inappropriate or unethical perception of the different stakeholders, internal or external, on their solvency and viability.

1.1 Risk Management – Structure and Corporate Governance

Regarding the structure and organization for a comprehensive Risk Management, the Board of Directors is responsible for authorizing policies and overall strategies such as:

- GFNorte's Risk Appetite.
- Comprehensive Risk Management Framework.
- Risk exposure limits, risk tolerance levels and mechanisms for corrective actions.
- Contingency Plan and the Contingency Funding Plan.
- The outcome of the internal and regulatory capital adequacy scenarios.

The Board of Directors designates the CPR (Risk Policy Committee by its acronym in Spanish) as accountable for managing the risks that GFNorte is exposed to, in order to ensure that operations comply with objectives, policies and procedures established by Risk Management.

The CPR also monitors the overall limits of risk exposure approved by the Board of Directors, in addition to approving specific limits for exposure to different types of risk.

The CPR is integrated by members and deputies of the Board, the CEO, the Managing Directors of the Group's Entities, the Risk and Credit Managing Director and the Audit Managing Director, the latter participates with voice but no vote.

Moreover, the Assets and Liabilities Committee (ALCO) and the Capital and Liquidity Group, analyze, monitors, and decide regarding interest rate risks in the balance sheet, the financial margin, liquidity and net capital of the Institution.

The Unit for the Comprehensive Risk Management (UAIR by its acronym in Spanish) is in charge of the Risk Management and Credit Department (DGARC by its acronym in Spanish), and among its functions, is responsible to identify measure, monitor, limit, control, report and disclose the different types of risk to which the GFNorte is exposed to.

The DGARC reports to CPR, in compliance with the regulation related to its independence from the Business areas.

1.2 Scope and Nature of GFNorte's Risk Management

The Risk Management function extends to all subsidiaries that comprise GFNorte. Depending on the line of business of each of the Businesses, Credit, Concentration, Market, Liquidity and Operational Risks are measured, managed and controlled.

For this purpose, DGARC relies on different information and risk measurement systems, which comply with regulatory standards and align with the best international practices in Risk Management's matters. It's worth mentioning that information and reports contained and produced in the risk systems are constantly backed up following institutional procedures in IT security matters. Furthermore, risk systems enclose transactions susceptible to Credit, Market, Liquidity and Operational Risks, processed through revised models and methodologies, thus generating periodic reports for each one of these risks.

At GFNorte, there are policies and procedures for hedging, risk mitigation and compensation strategies for each type of risk in and off balance, all of them enclosed in models, methodologies and procedures for Risk Management. Within these policies, there are certain variables that must be considered for risk mitigation, such as: general features, loan to value, legal terms, instrumentation and hedging level. These policies and procedures also consider collateral execution as a risk compensation mechanism in the case of non-fulfillment by debtors. As part of the strategies and processes for monitoring the coverage or mitigation effectiveness for each type of risk, there are limits for each one of them (Credit, Market, Liquidity and Operational Risks), which are continuously monitored, as well as established procedures for the documentation of excesses and its causes, and the corrective actions implemented to return to acceptable risk levels.

2. CREDIT RISK

Credit risk is the risk of clients, issuers or counterparties not fulfilling their payment obligations. Therefore, proper management is essential to maintain loan quality of the portfolio.

The objectives of Credit Risk Management at GFNorte are:

- Comply with the Risk Appetite defined by the Board of Directors.
- Improve the quality, diversification and composition of the loan portfolio in order to optimize the risk- reward ratio.
- Provide Executive Management with reliable, timely information to assist decision making regarding funding.
- Provide Business Areas with clear and sufficient tools to support and monitor funding placement.
- Create economic value for shareholders through an efficient Credit Risk Management.
- Define and update the regulatory framework for the Credit Risk Management.
- Comply with the information requirements that the authorities establish regarding Credit Risk Management.
- Perform Risk Management in accordance with the best practices, implementing models, methodologies, procedures and systems based on best practices worldwide.
- Measure Institution's vulnerability to extreme conditions and consider those results for decisions making.

GFNorte's Credit Risk Management policies are:

- Grant and Manage Retail Credit Risk according to best market practices through Parametric Models aimed to identify risk, minimize losses and increase loan origination with quality.
- Grant and Manage Wholesale Loans to companies and other entities, according to best market practices through a credit strategy including Target Markets and Risk Acceptance Criteria, identifying and managing risk through Loan Rating and Early Warnings methodologies.
- Monitor and control asset quality through Loan Classification System which provides treatment and general actions for defined situations, as well as departments or officers responsible for carrying out such actions.
- Surveillance and Control through Global and Specific Limits, loan rating policies, and Portfolio Credit Risk models that identify expected and unexpected losses at specific confidence levels.
- Inform and disclose Credit Risks to risk taking areas, CPR, Board of Directors, Financial Authorities and Investors.
- Define faculties for Credit Risks taking at Institution.

In order to comply with objectives and policies, a series of strategies and procedures have been defined including origination, analysis, approval, management, monitoring, recovery and collections.

2.1 Credit Risk Scope and Methodology

2.1.1 Individual Credit Risk

GFNorte segments the loan portfolio into two large groups: retail loans and wholesale loans.

The individual Credit Risk for retail loans is identified, measured and controlled through a parametric system (scoring) that includes models for each of the SME (small and medium enterprises) and consumer products (mortgage, auto, payroll, personal loans and credit cards).

Individual risk for wholesale loans is identified, measured and controlled through Target Markets, Risk Acceptance Criteria, Early Warnings and GFNorte's Internal Risk Rating (CIR Banorte).

The Target Markets, Risk Acceptance Criteria and Early Warnings are tools that, together with the Internal Risk Rating, are part of GFNorte's Loan Strategy and support the estimated level of Credit Risk.

The Target Markets are categories of economic activity by region, backed by economic research and loan behavior analysis as well as by expert opinions, where GFNorte is interested in granting loans.

The Risk Acceptance Criteria are parameters that describe different types of risks by industry, in order to estimate the risk taking when granting loans to customers based on their economic activity. The types of risk observed in the Risk Acceptance Criteria are: Financial, Operation, Market, and Enterprise's life cycle, Legal and Regulatory Risks, besides credit experience and management quality.

Early Warnings are a set of criteria based on borrower's information and indicators, as well as their environment, as a mechanism for timely prevention and identification of a probable deterioration in the loan portfolio, thereby enabling the Institution to take prompt preventive actions to mitigate Credit Risk.

Banorte's CIR is a borrower's rating methodology which assesses quantitative and qualitative criteria in order to determine credit quality. CIR applies to commercial loans equal to or greater than the equivalent of four million investment units (UDIs) in Mexican pesos on the rating date, or borrowers whose annual sales or income are greater or equal to 14 million UDIs (in case of being enterprises).

2.1.2 Portfolio Credit Risk

GFNorte developed a portfolio Credit Risk methodology that, besides including international standards for identifying, measuring, controlling and monitoring, has been adapted to function within the context of the Mexican Financial System.

This Credit Risk methodology provides current value of the entire loan's portfolio at GFNorte, that is, the loan exposure, in order to monitor risk concentration levels through risk ratings, geographical regions, economic activities, currency and type of product in order to observe the portfolio's profile and act to improve diversification, which will maximize profitability with the lowest risk.

The model considers the loan portfolio exposure directly to the balance of each loan, whereas for the financial instruments' portfolio, considers the present value of the instruments and their future cash flows. This exposure is sensible to changes in the market, thereby facilitating estimations under different economic scenarios.

The methodology, besides loan exposure, takes into consideration the probability of default, recovery level associated to each client and the classification of the debtor based on the Merton model. The probability of default is the probability that the debtor will not fulfill his/her debt obligation with the institution according to the originally agreed terms and conditions. The probability of default is based on transition matrixes estimated by GFNorte based on the migration of the debtors through different risk rating levels. The recovery rate is the percentage of total exposure that is expected to be recovered if the debtor defaults. The classification of the debtor, based on the Merton model, associates the debtor's future behavior to credit and market factors on which his "credit health" depends, as determined by statistical techniques.

The results of this methodology, are risk measures such as the expected and unexpected loss at a one-year horizon. The expected loss is the mean of the credit portfolio's loss distribution, which is used to measure the following year's expected loss due to default or variations in debtors' credit quality. The unexpected loss is an indicator of the loss in extreme scenarios and is measured as the difference between the maximum loss given the loss distribution, at a specific confidence level which for GFNorte's as of June 2021 is 99.85%, based on Expected Shortfall (previously it was 99.95% based on VaR), and expected loss.

These results are used as a tool for better decision-making in granting loans and in the diversification of the portfolio, according to GFNorte's strategy. The individual risk identification tools and the portfolio Credit Risk methodology are periodically reviewed and updated in order to include the application of new techniques that may support or strengthen them.

2.1.3 Credit Risk of Financial Instruments

Credit Risk Management of financial instruments is managed through a series of key pillars with a robust framework of policies for origination, analysis, authorization and management.

Origination policies define the types of eligible negotiable financial instruments, as well as the methodology for assessing credit quality of different types of issuers and counterparties. Credit quality is allocated through a rating obtained with an internal methodology, evaluations of external rating agencies or a combination of both. Maximum parameters of operation are also defined based on the type of issuer or counterparty, rating and type of operation.

The Loan Committee authorizes operation lines with financial instruments for clients and counterparties in accordance with authorization policies. The authorization request is submitted by the business area and other areas involved in the operation, with all the relevant information for analysis by the Committee who, if considered appropriate, issues its authorization. Nevertheless, counterparty credit lines (mainly to financial entities) that comply with certain criteria may be approved through a parametric methodology approved by the CPR.

In the specific case of derivatives contracts, and in line with best practices, a methodology for estimating potential exposure to lines is used, which are analyzed and approved within the Credit Committee and are monitored on daily basis and reported monthly in the CPR, where guarantee analysis for derivative transaction is held both for clients and financial counterparties.

The correspondent Credit Committee holds the minimum faculty to approve derivative lines for clients (when applicable, a fast track process has been approved by the CPR). For these transactions, the use of derivatives lines with margin calls shall be privileged in order to mitigate the risk of potential exposure to these transactions.

To determine adversely correlated lines (Wrong Way Risk "WWR") a potential exposure adjustment is considered.

On an individual level, the risk concentration on financial instruments is managed on a continuous basis, establishing and monitoring maximum parameters of operation for each counterparty or issuer depending on the rating and type of operation. There are defined risk diversification policies for portfolios, for economic groups and internal groups. Additionally, the concentration of counterparty type or issuer, size of financial institutions and the region in which it operates, are monitored so that an appropriate diversification is obtained, and undesired concentrations are avoided.

Credit Risk is measured through a rating associated with the issuer, security or counterparty which has a previously assigned risk level based on two fundamentals:

1) The probability of default of the issuer, security or counterparty, which is expressed as a percentage between 0% and 100% where the better the rating or lower rate differential vs. the instrument of an equivalent government bond, the lower the probability of default and vice versa.

2) The loss given default that could be experienced with respect of the total of the operation in the event of non-fulfillment, is expressed as a percentage between 0% and 100% where the better the guarantees or credit structures, the smaller the loss given default and vice versa. To mitigate Credit Risk and to reduce the loss given default in the event of non-fulfillment, the counterparties have signed ISDA contracts and agreements to net out, in which credit lines and the use of collateral to mitigate loss in the event of non-fulfillment are implemented.

2.2 Credit Risk Exposure

As of December 31st, 2021 the total amount of the exposure subject to the Standard Method and the Internal Models (Advanced Approach Internal Model for Credit Cards and Auto Loans, and Foundation Approach Internal Model for Business Enterprises) to estimate the Capital Ratio is the following:

Gross Exposures subject to the Standard Method and Internal Models** *(Million pesos)*	**Banorte**	**Arrendadora y Factor***	**Total Portfolio**
Commercial	71,715	1,299	73,014
YoY Revenues or Sales < 14 MM UDIS	71,715	1,299	73,014
States or Municipalities	104,608	329	104,937
Decentralized Federal Government Agencies and State Companies	27,882	6,484	34,366
Projects with own source of payment	101,822	-	101,822
Financial Institutions	28,686	910	29,596
Mortgage	202,536	-	202,536
Consumer Non-Revolving	56,451	5	56,455
Total Loans subject to the Standard Method	**593,699**	**9,027**	**602,725**
Commercial	133,079	28,479	161,558
YoY Revenues or Sales >= 14 MM UDIS	133,079	28,479	161,558
Federal, State and Municipal Government Decentralized Agencies, with annual income or Sales >= 14 MM UDIS	15,399	-	15,399
Total Loans subject to the Foundation Approach Internal Model	**148,479**	**28,479**	**176,958**
Consumer Non-Revolving (Auto)	27,986	-	27,986
Credit Card	40,451	-	40,451
Total Loans subject to Advanced Approach Internal Model	**68,437**	**-**	**68,437**
Eliminations and Accounting Records			(18,864)
Not Rated			83
Total Loans			**829,338**

* Excludes Pure Leasing

** The exposure does not consider Letters of Credit and it has accounting adjustments.

For transactions subject to Credit Risk, the Institution uses external ratings issued by the rating agencies S&P, Moody's, Fitch, HR Ratings, Verum, DBRS Ratings México and A.M. Best America Latina. Only ratings issues by rating agencies are considered and are not assigned based on comparable assets.

2.2.1 Loan Portfolio

GFNorte's Credit Risk loan portfolio as of 4Q21 presents a total exposure of Ps 829.34 billion, Ps 6.14 million higher vs. the previous quarter or 0.7% higher, and Ps 18.27 billion higher or a 2.3% increase versus the previous year.

Variations per product of GFNorte's total portfolio are:

Product / Segment	**Total Loan**			**Var. vs. 3Q21**		**Var. vs. 4Q20**	
(Million pesos)	**4Q20**	**3Q21**	**4Q21**	**Ps**	**%**	**Ps**	**%**
Government	161,600	161,558	154,476	(7,082)	(4.4%)	(7,124)	(4.4%)
Commercial	195,291	202,171	206,508	4,337	2.1%	11,218	5.7%
Mortgage	189,394	199,872	202,536	2,664	1.3%	13,142	6.9%
Corporate	143,595	136,901	140,926	4,025	2.9%	(2,669)	(1.9%)
Payroll	53,093	55,984	56,422	438	0.8%	3,329	6.3%
Credit Card	39,771	38,550	40,451	1,901	4.9%	680	1.7%
Auto Loans	28,326	28,168	28,020	(148)	(0.5%)	(306)	(1.1%)
Total Loans	**811,070**	**823,204**	**829,338**	**6,135**	**0.7%**	**18,269**	**2.3%**

Subsidiary	**Loans**		**Distressed Portfolio**		**Total**	**Total Reserves**
(Million pesos)	**Performing**	**Past-due**	**Performing**	**Past-due**		
Banorte*	783,295	5,337	786	2,500	791,917	13,740
Arrendadora y Factoraje	36,825	6	12	663	37,506	488
Accounting Records**	(84)	-	-	-	(84)	2,023

Total Loans	820,035	5,343	798	3,163	829,338	16,251

* Banorte’ s total loans include eliminations for (Ps 18.70) billion.
** Includes portfolio from trust FCICK 16-1 for Ps 83.0 million.

Total reserves of Ps 16.25 billion include rating reserves of Ps 14.23 billion and accounting records (to provision 100% of past due interests, valuation, negative debts in the Credit Bureau, and those registered in recoveries) of Ps 2.02 billion.

GFNorte's performing, past-due and distressed portfolios in 4Q21 grouped by sector and subsidiary are detailed in the following two tables:

Sector *(Million pesos)*	Loans		Distressed		Total Loans	Reserves		4Q21 Charge offs	Days Past--Due**
	Performing	Past-Due	Performing	Past-Due		4Q21	Var vs. 3Q21		
Government	154,318	4	-	154	154,476	1,208	259	-	307
Services*	97,922	13	202	490	98,627	842	(47)	104	98
Manufacturing	51,806	77	225	1,091	53,199	799	(46)	63	207
Commerce	51,033	49	215	458	51,755	694	(33)	192	234
Transportation	42,352	1	43	62	42,458	288	5	11	86
Top 5 Sectors	**397,430**	**145**	**685**	**2,256**	**400,515**	**3,830**	**138**	**371**	**-**
Other Sectors	100,188	104	113	907	101,312	978	(115)	940	-
Mortgage	200,459	2,077	-	-	202,536	1,076	(62)	460	-
Consumer	121,875	3,018	-	-	124,892	8,345	153	2,344	-
Accounting Records	83	-	-	-	83	2,023	-	-	-
Total Loans	**820,035**	**5,343**	**798**	**3,163**	**829,338**	**16,251**	**114**	**4,115**	**-**

* Includes Financial, Real Estate and Other Services
** Days past due from Non-Performing Loans.
*** Includes portfolio from trust FCICK 16-1 for Ps 83.0 million.

Sector/Subsidiary *(Million pesos)*	Banorte*	AyF	Accounting Record	Total Loans
Government	147,889	6,795	(208)	154,476
Services**	91,815	6,772	40	98,627
Manufacturing	43,141	10,057	-	53,199
Commerce	46,025	5,730	-	51,755
Transportation	38,372	4,086	-	42,458
Top 5 Sectors	**367,242**	**33,440**	**(167)**	**400,515**
Remaining***	424,675	4,065	83	428,824
Total Loans	**791,917**	**37,506**	**(84)**	**829,338**

* Banorte’ s total loans include eliminations for (Ps 18.70) billion.
** Includes Financial and Real Estate services
*** Remaining includes the portfolio from trust FCICK 16-1 for Ps 83.0 million

As of 4Q21, GFNorte's performing, past due and distressed portfolios grouped by federal entity and subsidiary are detailed in the following two tables:

	Federal Entities *(Million pesos)*	Loans		Distressed		Total Loans	Total Reserves
		Performing	Past-Due	Performing	Past-Due		
1	Ciudad de México	230,000	1,001	268	752	232,020	3,182
2	Nuevo León	135,669	503	67	221	136,459	1,782
3	Estado de México	66,010	767	72	150	66,999	1,379
4	Jalisco	53,147	273	73	71	53,564	687
5	Tamaulipas	25,863	209	16	47	26,135	463
6	Sinaloa	25,256	98	12	137	25,503	359
7	Baja California Sur	24,343	85	1	9	24,439	223
8	Coahuila	22,767	193	11	31	23,002	439
9	Chihuahua	21,379	159	13	77	21,628	470
10	Baja California Norte	20,547	73	35	23	20,678	309
	Top 10	**624,980**	**3,361**	**568**	**1,519**	**630,429**	**9,292**
	Other Federal Entities	195,139	1,982	230	1,643	198,994	4,937
	Accounting Records	(84)				(84)	2,023
	Total Loans	**820,035**	**5,343**	**798**	**3,163**	**829,338**	**16,251**

* Banorte' s total loans include eliminations for (Ps 18.70) billion.
** Includes the portfolio from trust FCICK 16-1 for Ps 83.0 million.

As of 4Q21, GFNorte's performing, past due and distressed portfolios grouped by term are detailed below:

Remaining Term	Portfolio		Distressed		Total Loans	Total Reserves
(Million pesos)	**Performing**	**Past-Due**	**Performing**	**Past-Due**		
0 - 1 years	122,122	1,530	149	1,640	125,441	5,589
1 - 5 years	221,065	1,760	498	630	223,954	5,739
5 - 10 years	94,547	111	137	229	95,025	603
> 10 years	345,561	1,935	2	-	347,498	1,810
Banorte*	**783,295**	**5,337**	**786**	**2,500**	**791,917**	**13,740**
Arrendadora y Factor	36,825	6	12	663	37,506	488
Accounting Records**	(84)	-	-	-	(84)	2,023
Total Loans	**820,035**	**5,343**	**798**	**3,163**	**829,338**	**16,251**

* Banorte' s total loans include eliminations for (Ps 18.70) billion.
**Includes the portfolio from trust FCICK 16-1 for Ps 83.0 million.

The total distressed portfolio is Ps 3.96 billion. Below is the quarterly balance of loan loss provisions for this portfolio:

Loan Loss Provisions for Distressed Portfolio	4Q21		
(Million pesos)	**Banorte**	**Arrendadora y Factor**	**GFNorte**
Initial Loan Loss Provisions	**1,615**	**316**	**1,930**
Charged to results	380	(1)	379
Loans' write offs	340	-	340
Adjustments in Credit Risk	40	(1)	39
Sale of Portfolios	-	-	-
FX Effect	(2)	-	(2)
Received in lieu of payment	-	-	-
Write-offs, charge-offs and discounts	(662)	-	(662)
Final Loan Loss Provisions	**1,331**	**314**	**1,646**
Loan Recoveries	**101**	**-**	**101**

2.2.2 Exposure to Financial Instruments

As of December 31st, 2021, exposure to Credit Risk for Securities Investments of Banco Mercantil del Norte was Ps 225.24 billion, of which 94.3% is rated higher or equal to AA-(mex) on a local scale, placing them in investment grade, and the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 5% of the Tier 1 Capital as of September 2021. Additionally, exposure of investments with the same counterparty other than the Federal Government that represents a higher or equal concentration to 5% of the Net Capital as of September 2021 it is rated as AAA(mex), except Pemex that has BBB-(mex), and is comprised of (*weighted average, amounts in pesos and weighted average return to annualized maturity*): certificates of deposit and market certificates of Banobras for 1 year and 2 months totaling Ps 12.46 billion at 5.6%; and market and bond certificates of Pemex for 3 years and 4 months totaling Ps 12.04 billion at 3.4%.

For Derivatives operations, the exposure of the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 3% of the Tier 1 Capital as of September 2021.

Exposure to Credit Risk for Securities Investments of Casa de Bolsa Banorte was Ps 289.06 billion, of which 99.8% is rated higher or equal to AA-(mex) on a local scale, placing them in investment grade and the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 67% of the Equity as of September 2021. Additionally, the exposure of investments with the same counterparty other than the Federal Government that represents a higher or equal concentration to 5% of the Equity as of September 2021 has a higher or equal rating to A-(mex) and are comprised of (*weighted average term, amounts in pesos and weighted average return to annualized maturity*): certificates of deposit and market certificates of BBVA Mexico for 1 year and 9 months Ps 3.66 billion at 5.8%; market certificates of FEFA for 1 year and 7 months totaling Ps 3.17 billion at 5.8%; market certificates of Scotiabank Inverlat for 7 months totaling Ps 3.06 billion at 5.8%; market certificates of Mexico City Government for 25 years and 9 months Ps 2.44 billion at 5.9%; market certificates of Banco Compartamos for 2 years totaling Ps 1.54 billion at 6.2%; certificates of deposit of Banco Multiva for 6 months totaling Ps 1.34 billion at 6.2%; market certificates of HSBC Mexico for 1 year and 3 months totaling Ps 1.09 billion at 5.9%; certificates of deposit of Banco del Bajío for 7 months totaling Ps 1.00 billion at 5.8%; market certificates of Banco Santander Mexicano for 4 months totaling Ps 993 million at 5.8%; market certificates of Banco Inbursa for 1 year and 5 months totaling Ps 812 million at 5.8%; certificates of deposit of Banco Invex for 5 months totaling Ps 798 million at 6.0%; Deutsche Bank bonds for 1 year and 5 months totaling Ps 793 million at 7.4%; CABEI bonds for 10 months totaling Ps 726 million at 5.1%; market certificates of FONACOT for 2 years and 9 months Ps 701 million at 5.8%; market certificates of Pemex for 3 years and 3 months totaling Ps 526 million at 6.5%; market certificates of Grupo Aeroportuario del Pacífico for 3 years totaling Ps 503 million at 6.2%; market certificates of Banco Actinver for 4 years and 11 months totaling Ps 401 million at 6.5%; certificates of deposit of Banca Mifel for 5 months totaling Ps 296 million at 6.2%; and certificates of deposit and market certificates of Banobras for 4 years and 2 months totaling Ps 295 million at 5.7%.

For Derivatives operations, the exposure of the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 1% of the Equity as of September 2021.

Arrendadora y Factor Banorte had no exposure to Securities Investments or to Derivatives.

Banorte' s exposure to counterparty risk from transactions with derivatives is presented below, as well as the netting effect and risk mitigation based on the aggregate guarantees related to settled transactions (includes operations with Banxico. Excludes settled transactions through central counterparties).

Position Banorte (Million Pesos)	**4Q21**	**4Q21 Average**
Forwards	328	291
FX Swaps	76	43
FX	(5)	(3)
Options	5	162
Swaps with Interest Rates IRS	1,298	1,441
Cross Currency Swap (CCIRS)	(6,361)	(7,100)
Credit Default Swaps (CDS)	91	110
Total	**(4,567)**	**(5,055)**
Positive Fair Value *(Positive Market Value)*	8,335	8,304
Netting Effect*	12,859	13,336
Delivered Guarantees (-) /Received (+)		
Cash	(5,714)	(6,358)
Securities	-	-
Total	**(5,714)**	**(6,358)**

* Difference between the positive market value (not considering the net positions) and the portfolio market value. Transactions performed at the Clearing House are not included, as they are not subject to counter party risk.

The following table represents the current and potential levels of exposure at the end and the average of the quarter, respectively, for Banorte.

Banorte (Million Pesos)	Potential Risk		Current Risk	
Financial Counterparties	4Q21	4Q21 Average	4Q21	4Q21 Average
FWD			321	292
FX SWAP	4,478	4,348	76	43
FX			(5)	(3)
OPTIONS	5,497	6,190	339	469
INTEREST RATE SWAP	6,897	7,776	542	434
CCS	5,350	5,838	(6,372)	(7,111)
CDS	4	4	91	110
Total	**6,476**	**6,759**	**(5,007)**	**(5,765)**
Clients (Non-Financial)	4Q21	4Q21 Average	4Q21	4Q21 Average
FWD	12	7	8	(2)
OPTIONS	12	14	(334)	(307)
INTEREST RATE SWAP	5,118	5,236	756	1,007
CCS	32	36	11	12
Total	**5,168**	**5,288**	**440**	**710**

Based on conditions established in derivative agreements, tolerance levels of exposure are considered according to the rating of involved entities. The following table presents the amount of guarantees to be delivered, in case of a rating downgrade. It's worth noting that with most counterparties we've migrated to cero threshold, thus, guarantees to be delivered do not depend on credit rating but to market movements:

Banorte Net Cash Outflows (Million pesos)	4Q21	4Q21 Average
Cash Outflow with 1-notch Downgrade	-	-
Cash Outflow with 2-notch Downgrade	-	-
Cash Outflow with 3-notch Downgrade	-	-

In the following table, the derivatives' market value is detailed according to the counterparties' ratings:

Banorte Rating (Million Pesos)	MoM 4Q21	4Q21 Average
AAA/AA-	-	-
A+/A-	(3,906)	(4,374)
BBB+/BBB-	(295)	(256)
BB+/BB-	481	237
B+/B-	(715)	(683)
CCC/C	-	-
SC	(131)	20
Total	**(4,567)**	**(5,055)**

Casa de Bolsa's exposure to counterparty risk from transactions with derivatives is presented below, as well as the netting effect and risk mitigation based on the aggregate guarantees related to settled transactions (includes operations with Banxico. Excludes settled transactions through central counterparties).

Position Casa de Bolsa (Million Pesos)	4Q21	4Q21 Average
Swaps with Interest Rates IRS	121	90
Total	**121**	**90**
Positive Fair Value *(Positive Market Value)*	204	176
Netting Effect*	83	68

* Difference between the positive market value (not considering the net positions) and the portfolio market value. Transactions performed at the Clearing House are not included, as they are not subject to counter party risk.

The following table represents the current and potential levels of exposure at the end and the average of the quarter, respectively, for Casa de Bolsa.

Casa de Bolsa (Million Pesos)	Potential Risk		Current Risk	
Financial Counterparties	4Q21	4Q21 Average	4Q21	4Q21 Average
INTEREST RATE SWAP	286	257	139	143
Total	**286**	**257**	**139**	**143**
Non-Financial Counterparties	4Q21	4Q21 Average	4Q21	4Q21 Average
INTEREST RATE SWAP	227	160	(18)	(53)
Total	**227**	**160**	**(18)**	**(53)**

Based on conditions established in derivative agreements, tolerance levels of exposure are considered according to the rating of involved entities. The following table presents the amount of guarantees to be delivered, in case of a rating downgrade. It's worth noting that with most counterparties we've migrated to cero threshold, thus, guarantees to be delivered do not depend on credit rating but to market movements:

Casa de Bolsa Net Cash Outflows (Million pesos)	4Q21	4Q21 Average
Cash Outflow with 1-notch Downgrade	-	-
Cash Outflow with 2-notch Downgrade	-	-
Cash Outflow with 3-notch Downgrade	-	-

In the following table, the derivatives' market value is detailed according to the counterparties' ratings:

Casa de Bolsa Rating (Million Pesos)	MoM 4Q21	4Q21 Average
AAA/AA-	-	-
A+/A-	-	-
BBB+/BBB-	139	143
BB+/BB-	-	-
B+/B-	-	-
CCC/C	-	-
SC	(18)	(53)
Total	**121**	**90**

2.3 Credit Collaterals

Collaterals represent the second credit recovery source when its coverage, through the predominant activity of the applicant, is compromised. Collaterals may be real or personal.

The main types of real collaterals are the following:

- Civil Mortgage
- Industrial Mortgage
- Regular Pledge
- Pledge w/o possession transfers
- Pledge / Pledge Bond
- Pledge Bond
- Caution Securities
- Securities Pledge
- Management and Payments Trust
- Development Funds

For assets granted in guarantee, the Institution has policies and procedures to monitor and make periodic inspection visits to ensure the existence, legitimacy, value and quality of the guarantees accepted as an alternative credit support. Furthermore, when guarantees are securities, there are policies and procedures to monitor its market's valuation and require additional guarantees if needed.

The covered loan portfolio by type of collateral is as follows:

Collateral Type (Million Pesos)	**4Q21**		
	Banorte	**Arrendadora y Factor****	**GFNorte***
Total Loan Portfolio	**810,697**	**37,506**	**829,338**
Covered Loan Portfolio by type of collateral			
Real Financial Guarantees	16,807	-	16,807
Real Non-Financial Guarantees	470,192	6,998	477,190
Pari Passu	35,590	-	35,590
First Losses	18,159	-	18,159
Personal Guarantees	23,908	4,375	28,283
Total Loan Portfolio Covered	**564,655**	**11,373**	**576,029**

* Total Loans includes eliminations and accounting records for (Ps 18,864 billion).
** Excludes Pure Leasing

2.4 Expected Loss

As of December 31st, 2021, Banco Mercantil del Norte's total portfolio was Ps 810,614 billion. The expected loss represents 1.7% and the unexpected loss is 4.0% of the total portfolio. The average expected loss is 1.7% for the period October - December 2021.

Regarding Casa de Bolsa Banorte, the credit exposure of investments is Ps 289,263 billion and the expected loss represents 0.01% of the exposure. The average expected loss is 0.01% between October - December 2021.

The total portfolio of Arrendadora y Factor Banorte, including pure leasing is Ps 39,515 billion. The expected loss represents 1.1% and the unexpected loss is 5.2% of the total portfolio. The average expected loss is 1.2% for the period October - December 2021.

a. Internal Models

2.5.1 Advanced Approach Internal Model for Credit Card

On November 15, 2017, GFNorte received approval from the banking regulator (Comisión Nacional Bancaria y de Valores) to use Internal Models (IM) for credit card rating for reserves and regulatory capital generation by credit risk with an Advanced Approach (Document 111-3/706/2017). On yearly basis, Internal Models are recalibrated, and CNBV's certification is granted in order to use the Models for the estimation of the regulatory requirements for another 12-month period.

These internal models improve overall credit risk management by estimating risk parameters from the bank's own experience based on January 2018 data, and have been applied as of February 2018. The aforementioned parameters are:

- Probability of Default (PD). Indicates the probability that a credit card customer defaults on its contractual obligations within the next twelve months after the month being rated. For each loan, there is a score, which is mapped to a Master rating scale.
- Loss Given Default (LGD). Measures the intensity of the loss upon default expressed as a percentage of the Exposure at Default (EAD).
- Exposure at Default (EAD). The amount of the debt at the time of default, considering a time horizon of twelve months after the month being rated.

The next table shows the Credit Card portfolio subject to the Advanced Approach Internal Model, classified by degrees of regulatory risk:

Consumer Revolving Credit Card Portfolio under Advanced Approach Internal Model							*Million Pesos*
Risk Level*	**Accounting Balance**	**Exposure at Default (EAD)****	**Loss Given Default**	**PD factored by EAD**	**Unused credit lines**	**EAD factored by Exposure**	**Current EAD**
A1	18,478	23,996	74.46%	1.37%	63,186	23%	23,964
A2	4,928	6,220	76.64%	4.06%	5,363	21%	6,183
B1	2,945	3,638	78.50%	5.48%	1,732	19%	3,608
B2	2,534	3,114	77.77%	7.71%	1,986	19%	3,093
B3	1,587	1,926	78.02%	8.61%	996	18%	1,901
C1	3,667	4,483	80.21%	12.09%	1,355	18%	4,404
C2	4,669	5,625	83.85%	23.84%	890	17%	5,230
D	987	1,141	83.67%	58.23%	373	13%	348
E	655	655	88.31%	100.00%	84	0%	57
Total Portfolio	**40,451**	**50,797**	**77.42%**	**8.64%**	**75,965**	**20%**	**48,789**

* The scale of Risk Level for the Advanced Approach Internal Model has been mapped in accordance with regulatory risk levels.
** The balances under Exposure at Default include Potential Risk as well as used credit line balance.

The next table shows the difference between expected loss and observed loss resulting from the Advance Approach Internal Model for Credit Cards from 4Q20.

Backtesting				
Portfolio	**Expected Loss Internal Model***	**Observed Loss***	**Difference Ps (Observed Loss – Expected Loss)**	**% NCL Coverage**
Credit Card	4,868	4,862	(6)	100%
Total Portfolio	**4,868**	**4,862**	**(6)**	**100%**

* Expected and Observed Loss is equal to the last twelve months' average.

2.5.2 Advanced Approach Internal Model for Auto Loans

On November 15, 2019, GF Banorte received approval from the banking regulator (Comisión Nacional Bancaria y de Valores) to use Internal Models (IM) for Auto Loans rating for reserves and regulatory capital generation by credit risk with an Advanced Approach (Document 111/678/2019). On yearly basis, Internal Models are recalibrated, and CNBV's certification is granted in order to use the Models for the estimation of the regulatory requirements for another 12-month period.

These internal models improve overall credit risk management by estimating risk parameters from the bank's own experience based on January 2020 data, and have been applied as of February 2020. The aforementioned parameters are:

- Probability of Default (PD). Indicates the probability that an auto customer defaults on its contractual obligations within the next twelve months after the month being rated. For each loan, there is a score, which is mapped to a Master rating scale.
- Loss Given Default (LGD). Measures the intensity of the loss upon default expressed as a percentage of the Exposure at Default (EAD).
- Exposure at Default (EAD). The amount of the debt at the time of default, considering a time horizon of twelve months after the month being rated.

The next table shows the Auto portfolio subject to the Advanced Approach Internal Model, classified by degrees of regulatory risk:

Consumer Revolving Auto Portfolio under Advanced Approach Internal Model					
Risk Level*	**Accounting Balance**	**Exposure at Default (EAD)****	**Loss Given Default**	**PD factored by EAD**	**Current EAD**
A1	23,810	23,810	55.65%	0.82%	23,809
A2	1,031	1,031	45.19%	5.38%	1,021
B1	-	-	0.00%	0.00%	-
B2	513	513	75.14%	0.00%	506
B3	-	-	0.00%	0.00%	-
C1	687	687	45.19%	13.55%	670
C2	778	778	75.14%	13.55%	727
D	958	958	56.14%	33.34%	720
E	209	209	63.11%	100.00%	8
Total Portfolio	**27,986**	**27,986**	**55.98%**	**3.49%**	**27,461**

* The scale of Risk Level for the Advanced Approach Internal Model has been mapped in accordance with regulatory risk levels.

The next table shows the difference between expected loss and observed loss resulting from the Advance Approach Internal Model for Auto Loans from 4Q20.

Backtesting				
Portfolio	**Expected Loss Internal Model***	**Observed Loss**	**Difference Ps (Observed Loss – Expected Loss)**	**% NCL Coverage**
Auto Loans	601	638	37	106%
Total Portfolio	**601**	**638**	**37**	**106%**

* Data as of December 2020.

2.5.3 Foundation Approach Internal Model for Commercial Loans

On November 30th, 2018, GFNorte obtained authorization from the banking regulator CNBV (Comisión Nacional Bancaria y de Valores) to use the Internal Model (IM) for Commercial Loans for reserves generation and regulatory capital requirements by credit risk with a Foundation Approach, as per Document 111-3/1472/2018 in Banco Mercantil del Norte, and on March 1st, 2019 for Arrendadora y Factor Banorte as per Documents 111-1/160/2019 and 111-1/161/2019. On yearly basis, Internal Models are recalibrated, and CNBV's certification is granted in order to use the Models for the estimation of the regulatory requirements for another 12-month period.

Exposures subject to this rating are those pertaining to corporations (other than states, municipalities and financial entities), and individuals (sole proprietorships), both with annual sales higher or equal to 14 million UDIs.

The Internal Model (IM) enhances the overall credit risk management practice by estimating risk parameters through the institution's own experience with such customers. These models have been applied since February 2019 (January figures) at Banco Mercantil del Norte, and starting in March 2019 (with February figures) at Arrendadora y Factor Banorte. The parameter authorized under the Foundation Approach Internal Model for Corporations is:

- Probability of Default (PD). Shows the likelihood that a borrower defaults on its contractual obligations within twelve months after the month being rated. There is a score assigned to each borrower, which is in turn mapped against a master rating scale.

The following table shows the portfolio which is subject to the Foundation Approach Internal Model for Commercial Loans, classified by risk level:

Commercial Loans subject to the Foundation Approach Internal Model Grupo Financiero Banorte			*Million Pesos*
Risk Level	**Accounting Balance**	**Exposure at Default (EAD)***	**PD weighted by EAD**
1	57,765	57,818	0.20%
2	62,237	62,597	0.50%
3	39,408	39,417	0.93%
4	20,245	20,252	1.07%
5	4,675	4,676	2.03%
6	650	650	4.86%
7	733	733	7.19%
8	955	955	25.57%
9	44	44	18.48%
Default	1,963	1,963	100.00%
Total	**188,675**	**189,105**	**1.80%**

* EAD balances include both potential risk as well as used balance risk.

A breakdown of risk exposure and expected loss by subsidiary is shown below:

Commercial Loans Portfolio subject to the Foundation Approach Internal Model			*Million Pesos*
Subsidiary	**Accounting Balance**	**Exposure at Default (EAD)****	**Expected Loss**
Banco Mercantil del Norte	160,070	160,500	1,010
Arrendadora y Factor Banorte	28,605	28,605	380
Total Loans*	**188,675**	**189,105**	**1,390**

* The balance includes Letters of Credit of Ps 11.59 billion and excludes accounting adjustments of Ps 1 million in Banorte and Ps 126 million in Arrendadora y Factor Banorte.
** EAD balances include both potential risk as well as used balance risk.

The following table shows the difference between expected loss estimated by the Foundation Approach Internal Model for Commercial Loans, and the real loss observed in the following 12 months. Because the model was just recently authorized, the table shows estimations obtained during the parallel model runs period.

Backtesting			Million Pesos
Period	Expected Loss with Internal Model	Observed Loss	% Coverage (Expected Loss / Observed Loss)
4Q20	831	351	237%

2.6 Risk Diversification

In December 2005, the CNBV issued "General Provisions Applicable to Credit Institutions related to Risk Diversification". These guidelines state that institutions must perform an analysis of their borrowers and/or loans to determine the amount of "Common Risk"; also, institutions must have the necessary information and documentation to prove that the person or group of people represent a common risk in accordance with the assumptions established in those rules.

In compliance with risk diversification regulation on active and passive operations, **Banco Mercantil del Norte** presents the following information (million pesos):

Tier 1 Capital as of September 30, 2021	**177,381**
I. Loans with individual balance greater than 10% of Tier 1 Capital:	
Loan Operations	
Number of loans	-
Total amount of loans	-
% in relation to Tier 1	0%
Money Market Operations	
Number of loans	-
Total amount of loans	-
% in relation to Tier 1	0%
Overnight Operations	
Number of loans	-
Total amount of loans	-
% in relation to Tier 1	0%
II. Maximum amount of credit with the 3 largest debtors and common risk groups:	**48,096**

In compliance with risk diversification regulation on active and passive operations, **Arrendadora y Factor Banorte** presents the following information (million pesos):

Equity as of September 30, 2021	**9,705**
I. Loans with individual balance greater than 10% of Equity:	
Loan Operations	
Number of loans	4
Total amount of loans	7,996
% in relation to Equity	82%
Money Market Operations	
Number of loans	-
Total amount of loans	-
% in relation to Equity	0%
Overnight Operations	
Number of loans	-
Total amount of loans	-
% in relation to Equity	0%
II. Maximum amount of credit with the 3 largest debtors and common risk groups:	**6,803**

MARKET RISK (BANK AND BROKERAGE HOUSE)

GFNorte's objectives regarding Market Risk are:

- Comply with the Desired Profile Risk defined by the Group's Board of Directors.
- Maintain an adequate monitoring on Market Risk.
- Maintain the Senior Management adequately informed in time and form.
- Quantify exposure to Market Risk through the use of various methodologies.
- Define maximum risk levels the Institution is willing to maintain.
- Measure the Institution's vulnerability to extreme market conditions and consider such results when making decisions.

GFNorte's Market Risk Policies are:

- New products subject to market risk must be evaluated and approved though the new products' guidelines approved by the CPR.
- The Board of Directors is the entitled body to approve global limits and market risk's appetite metrics, as well as their amendments.
- The CPR is the entitled body to approve models, methodologies and specific limits, as well as their amendments.
- Market risk models will be valid by and independent area, which is different from the one that develop and manage them.
- Market risk inputs and models will be valid as per a properly approved policy by the CPR.

2.7 Market Risk Methodology

Market Risk Management is controlled through a series of fundamental pillars, highlighting the use of models and methodologies such as potential loss commonly known as "*expected shortfall*", Back Testing and Stress Testing, which are used to measure the risk of traded products and portfolios in the financial markets. Banorte implemented during January 2019 the calculation of expected shortfall, thus substituting the calculation of VaR. In addition, it was implemented the valuation of derivatives by OIS curves and curves adjusted for collateral following international standards.

Risk management is supported by a framework of policies and manuals through which the implementation and monitoring on market risk limits, the disclosure of the aforementioned risk metrics and its tracking regarding the established limits, are set.

Key risk ratios are disclosed in monthly reports to the Risk Policy Committee and through a daily report to top executives at the Institution, related to the Market Risk risk-taking.

2.8 Market Risk Exposure

Exposure of the Institution's financial portfolios to Market Risk is quantified using the methodology denominated Expected Shortfall which is the average of losses once VaR is surpassed.

The expected shortfall model considers a one-day horizon base, and considers a non-parametric historical simulation with a 97.5% confidence level and 500 historical observations on risk factors, and an additional stress scenario. Furthermore, it considers all the positions (money market, treasury, equities, FX and derivatives) classified for accounting purposes as trading assets, both on and off the balance sheet.

The average expected shortfall of the Bank´s portfolio for 4Q21 was Ps 96.2 million (Ps 24.3 million higher than the average expected shortfall from last quarter).

The result shows that the Bank's expected shortfall, using a 97.5% confidence level, is on average Ps 96.2 million.

Expected Shortfall Million Pesos	Average 4Q21
Total Expected Shortfall	96.2
Net Capital	212,295
Expected Shortfall/Net Capital	**0.045%**

Expected shortfall by risk factor behavior during the fourth quarter of the year:

Risk Factor Million Pesos	4Q21	Average 4Q21
Domestic Rates	17.5	19.4
Foreign Rates	50.8	48.5
Surcharges	24.4	24.9
FX	65.8	82.9
Equity	1.2	1.6
Diversification Effect	(79.4)	(81.1)
Bank's Expected Shortfall	**80.3**	**96.2**

Expected shortfall for 4Q21 was Ps 80.3 million. The contribution to the Bank´s Expected shortfall for each risk factor is:

Risk Factor Million Pesos	4Q21	Average 4Q21
Domestic Rates	5.7	6.4
Foreign Rates	10.8	10.4
Surcharges	(1.1)	(1.7)
FX	56.4	74.2
Equity	8.5	6.8
Bank's Expected Shortfall	**80.3**	**96.2**

Expected shortfall by risk factor is determined by simulating 500 historical scenarios and an additional stress scenario to each risk factor and assessing instruments by their main risk factor. It is important to note that all positions classified as trading were considered, positions classified as held to maturity and available for sale were excluded.

The average proportion by market risk factor excluding the diversification effect is:

Risk Factor	4Q21
Rates	38%
Surcharges	14%

FX	47%
Equity	1%

2.8.1 Sensitivity Analysis and Stress Testing under extreme conditions

With the purpose of complementing and strengthening risk analysis, Banorte tests under extreme conditions known as Stress Testing. This is presented to the Risk Policy Committee on monthly basis with the main objective of assessing the impact on the Institution's positions of extreme movements in risk factors.

2.8.2 Back testing

In order to validate the effectiveness and accuracy of the expected shortfall, a monthly Back testing analysis is presented to the Risk Policy Committee. Through this analysis, it is possible to compare losses and gains observed with respect to the estimated expected shortfall and if necessarily make the required adjustments to the parameter.

2.8.3 Expected Shortfall of Casa de Bolsa

The expected shortfall average in 4Q21 was Ps 149.5 million, Ps 32.4 million higher vs. 3Q21.

The result shows that potential loss for Casa de Bolsa, using a 97.5% confidence level, is on average Ps 149.5 million:

Expected Shortfall Million Pesos	Average 4Q21
Total Expected Shortfall	149.5
Net Capital	5,805
Expected Shortfall/Net Capital	**2.57%**

The expected shortfall by risk factor for Casa de Bolsa Banorte portfolio behavior during the fourth quarter of the year was:

Risk Factor *(Million Pesos)*	4Q21	Average 4Q21
Domestic Rates	55.0	57.0
Foreign Rates	0.6	0.4
Surcharges	101.1	102.3
FX	0.0	0.0
Equity	7.0	7.7
Diversification effect	(17.4)	(18.0)
Casa de Bolsa Expected Shortfall	**146.3**	**149.5**

Expected shortfall at the end of 4Q21 was Ps 146.3 million.

The expected shortfall by risk factor is determined by simulating 500 historical scenarios and an additional stress scenario, performing a grouping of instruments by their main risk factor. It is important to note that all positions classified as trading were considered, excluding the held-to-maturity position and available for sale.

Concentration by Market Risk factor is mainly in interest rates

2.8.4 Sensitivity Analysis and Stress Testing under extreme conditions

Complementing the potential losses methodology with the purpose of enhancing risk analysis, Casa de Bolsa Banorte complements its risk analysis enforcing tests under extreme conditions known as Stress Testing. This is presented to the Risk Policy Committee on a monthly basis with the main objective of assessing the impact on the Institution's positions of extreme movements in risk factors

2.8.5 Back testing

In order to validate the effectiveness and accuracy of the expected shortfall, a monthly Back testing analysis is presented to the Risk Policy Committee. Through this analysis it is possible to compare losses and gains observed with respect to the estimated expected shortfall and if necessarily make the required adjustments to the parameter.

3. BALANCE AND LIQUIDITY RISK

GFNorte's Balance and Liquidity Risk objectives are:

- Comply with the Risk Appetite defined by the Group's Board of Directors.
- Give proper monitoring of Balance and Liquidity Risk.
- Assessing through the use of different methodologies, Balance and Liquidity Risk exposure.
- Measure Institution's vulnerability to extreme market conditions and consider such results for decision making.
- Maintain Senior Management properly informed in a timely manner on Balance and Liquidity Risk exposure and on any limits' and risk profile's deviation.
- Follow-up on the institution's coverage policy and review it at least annually.
- Maintain a sufficient level of liquid assets eligible to guarantee the institution's liquidity even under stress conditions.

GFNorte's Liquidity Risk Policies are:

- Establishment of specific global limits of Balance and Liquidity Risk Management.
- Measurement and monitoring of Balance and Liquidity Risk.
- Information and disclosure of Liquidity Risk to risk-taking areas, CPR, Board of Directors, Financial Authorities and to public investors.

3.1 Liquidity Risk Methodology and Exposure

Balance and Liquidity risk is managed through a series of fundamental pillars that include the use of key indicators such as the Liquidity Coverage Ratio (LCR), re-price gaps and liquidity, as well as stress testing. The latter, based on a framework of policies and manuals, including a funding contingency plan, and a contingency plan to preserve solvency and liquidity. Similarly, is enhanced with monitoring limits and Risk Appetite metrics of Balance and Liquidity Risk. The disclosure of metrics and indicators and their compliance with established limits and desired established risk profile is performed through monthly reports to the CPR, weekly reports to the capital and liquidity management group, and quarterly reports to the Board of Directors.

3.2 Profile and Funding Strategy

The composition and evolution of the Bank's funding during the quarter is shown in the following table:

Funding Source (Million Pesos)	3Q21	4Q21	Change vs. 3Q21
Demand Deposits			
Local Currency (1)	463,248	476,272	2.8%
Foreign Currency (1)	56,551	62,393	10.3%
Demand Deposits	**519,799**	**538,665**	**3.6%**
Time Deposits – Core			
Local Currency (2)	202,854	205,180	1.1%
Foreign Currency	10,744	6,130	(42.9%)
Core Deposits	**733,397**	**749,975**	**2.3%**
Money Market			
Local Currency (3)	36,614	28,880	(21.1%)
Foreign Currency (3)	26,685	24,686	(7.5%)
Banking Sector Deposits	**796,696**	**803,541**	**0.9%**

1. Includes balance of the Global Deposits without Movement.
2. Includes eliminations among subsidiaries.
3. Money Market & Time Deposits.

3.3 Liquidity Coverage Ratio (LCR)

The LCR measures Liquidity Risk through the relationship between Liquid Assets and Net Cash Outflows in the next 30 days, under a regulatory stress scenario.

The LCR is an indicator designed to ensure that the institution has sufficient liquidity to meet its short-term obligations, under an extreme scenario using exclusively high-quality liquid assets as source of funding.

The following table presents the average evolution of LCR components in 4Q21.

	LCR Components	Bank and Sofomes	
	(Million Pesos)	**Unweighted amount (Average)**	**Weighted amount (Average)**
COMPUTABLE LIQUID ASSETS			
1	Total Computable Liquid Assets	NA	141,338
CASH DISBURSEMENTS			
2	**Unsecured retail financing**	**453,828**	**29,124**
3	Stable financing	325,178	16,259
4	Less stable financing	128,650	12,865
5	**Unsecured wholesale financing**	**266,680**	**73,178**
6	Operational Deposits	226,677	50,787
7	Non-Operational Deposits	38,304	20,693
8	Unsecured debt	1,699	1,699
9	**Secured wholesale financing**	**373,264**	**9,899**
10	**Additional Requirements:**	**293,665**	**23,512**
11	Disbursements related to derivatives and other guarantee requirements	19,012	8,220
12	Disbursements related to losses from debt financing	-	-
13	Lines of credit and liquidity	274,654	15,292
14	Other contractual financing obligations	1,535	89
15	Other contingent financing liabilities	-	-
16	**TOTAL CASH DISBURSEMENTS**	**NA**	**135,802**
CASH INFLOWS			
17	Cash Inflows for secured operations	306,898	9,497
18	Cash Inflows for unsecured operations	74,893	51,307
19	Other Cash Inflows	2,186	2,186
20	**TOTAL CASH INFLOWS**	**383,978**	**62,991**
			Adjusted amount
21	**TOTAL COMPUTABLE LIQUID ASSETS**	**NA**	**141,338**
22	**TOTAL NET CASH DISBURSEMENTS**	**NA**	**72,811**
23	**LIQUID COVERAGE RATIO**	**NA**	**201.65%**

During 4Q21, the 92-day average LCR for the Bank and Sofomes was 201.65%, and at the end of 4Q21 the LCR was 246.10%, the aforementioned levels are above the Risk Appetite and the regulatory minimum standards. These results show that Banorte can meet all of its short-term obligations in a crisis scenario[1].

3.4 Evolution of LCR Components

The evolution of the LCR components comparing 3Q21 and 4Q21 is presented in the following table:

LCR Component (Million Pesos)	3Q21	4Q21	Var. vs. 3Q21
Liquid Assets	127,863	139,060	8.8%

[1] The Liquidity Coverage Ratio information is preliminary and is subject to Banco de Mexico's affirmation.

Cash Inflows	50,806	82,476	62.3%
Cash Outflows	131,097	138,981	6.0%

The Liquid Assets that compute in the LCRs for the Bank and Sofomes between 3Q21 and 4Q21 are distributed as follows:

Type of Asset (Million Pesos)	3Q21	4Q21	Var. vs. 3Q21
Total	**127,863**	**139,060**	**8.8%**
Level I	119,145	131,128	10.1%
Level II	8,718	7,932	(9.0%)
Level II A	4,727	3,981	(15.8%)
Level II B	3,992	3,951	(1.0%)

3.5 Main Causes of LCR Results

Liquidity Coverage Ratio variations between 3Q21 and 4Q21, are consequence of the liability structure on balance sheet, including maturity of issues to market and the available structure liquidity from both the issuance of subordinated bonds carried out during November 2021 and the cyclical increase in liquidity at the end of the year.

It is worth noting that Banorte has not used the Ordinary Facilities or the Extraordinary Facilities of Banco de México during 4Q21.

3.6 Liquidity Risk in foreign currency

For Liquidity Risk quantification and monitoring, in the specific case of the foreign currency denominated portfolio, Banorte uses the criteria established by Banco de México for the assessment of the foreign currency Liquidity Coefficient.

The Liquidity Coefficient in foreign currencies should be interpreted as the ability of the institution to meet its liquidity mismatches with liquid assets, both in foreign currency.

3.7 Exposure to Derivatives and possible Margin calls

Banorte applies the regulatory methodology to determine potential cash outflows for derivatives. At the end of 4Q21, estimated outflows for derivatives were as follows:

Derivatives Cash Outflows (Million Pesos)	3Q21	4Q21	Var. vs. 3Q21
Net cash outflows at market value and for potential future exposure	6,744	6,744	0.0%
Cash outflows for a 3-notch credit rating downgrade.	-	-	0.0%

The measurement shows that potential outflows for derivatives may represent a liquidity requirement up to Ps 6.74 billion, with no changes vs. 3Q21.

3.8 Liquidity Gaps

As part of the liquidity analysis for the Bank, 30-day liquidity gaps for the Institution's assets and liabilities (obligations) are analyzed. Results for the Bank at the end of 4Q21 are presented in the following table.

Concept *(Million Pesos)*	3Q21	4Q21	Var. vs. 3Q21
Cumulative 30-day Gap	(102,027)	(56,119)	(45.0%)
Liquid Assets	105,015	114,269	8.8%

Mismatch among inflows and outflows (gaps) for the next 30 days are covered with liquid assets. In addition, a more granular breakdown of the liquidity gaps is presented, remaining as follows for 4Q21:

Concept	1 day	7 days	1 month	3 months	6 months	12 months

(Million pesos)						
Natural Gap	(85,060)	33,446	(4,505)	24,119	5,973	21,716
Accumulated Gap	(85,060)	(51,614)	(56,119)	(32,000)	(26,027)	(4,311)

3.9 Stress Testing under liquidity extreme conditions

As part of its Liquidity Risk management, Banorte performs tests under extreme liquidity circumstances with internal scenarios, to assess the Bank's liquidity adequacy under adverse conditions from the environment as well as by the bank's intrinsic conditions. A total of 9 scenarios, based on 3 sources of risk (systemic, idiosyncratic and combined) with 3 levels of severity (moderate, medium and severe) are used.

3.10 Contingency Funding Plan

In order to comply with comprehensive liquidity management practices, and to ensure its operation in adverse situations in terms of Liquidity, Banorte has implemented a contingency funding plan, which incorporates elements to identify possible liquidity problems and defines alternate funding sources available to deal with contingencies.

3.11 Balance Risk

Interest rate risk entails estimating its impact on the financial margin. Financial margin is the difference between interest income and costs associated to interest bearing liabilities (interest expense). Depending on the balance's structure, variations in interest rates may have either a positive or negative impact in the rate scenarios.

Given that financial margin follows the flow structure of assets and liabilities in the balance sheet, the model used is a re-pricing model by brackets in which all assets and liabilities are distributed in different bands depending on their re-pricing characteristics and/or tenure. Once categorized by re-pricing structure, the impact that each of these bands have on these metrics can be estimated.

3.11.1 Financial Margin Sensitivity

Financial Margin sensitivity is a static metric that takes into consideration a twelve-month period. Only the bands with duration lower than 1 year are impacted by interest rate simulated fluctuations. Relevant considerations behind margin sensitivity calculations are:

- Considers repricing outcomes for all financial assets and liabilities in the balance sheet.
- Separated trading book surveillance.
- Considers the behavior for all balance sheet models, such as mortgage prepayments and deposit survival.
- The balance sheet is considered static and constant through time. Neither organic growth nor interest rate structure or changes or strategies in product's mixture are considered.

The following table shows Financial Margin Sensitivity for Banorte Bank:

Margin Sensitivity *(Million Pesos)*	**3Q21**	**4Q21**	**Change vs. 3Q21**
Local Currency Balance	842	1,127	33.8%
Foreign Currency Balance	643	898	39.7%

At the end of 4Q21, local currency balance sensitivity for a 100bps shift in reference rates, changed from Ps 842 million in 3Q21 to Ps 1,127 million. Foreign currency balance sensitivity for a 100bps shift in reference rates changed from Ps 643 million to Ps 898 million. It is important to highlight that the Financial Markets positions immunize, via intermediation results, the impact of lower rates on the Balance. The Available for Sale portfolio had a balance of Ps 136.17 billion at the end of 4Q21, with an average of Ps 142.63 billion balance.

It is important to mention, that the Balance Book in local currency shows an exposure to base risk due to the composition and structure of assets and liabilities. Base risk arises when banks owns positions within their balance sheets at a floating rate with different re-price base rates and different currencies. In the Bank's balance for local currency, on assets side, the Commercial portfolio at a floating rate based on TIIE, while on the liabilities side, demand deposits pay interest on a percentage of CETES. Finally, there is a positive difference between the average value of TIIE and CETES that produces base risk as long as the difference is positive and greater, it will have a positive effect on the financial margin.

3.12 Subsidiaries

Balance and Liquidity Risk Management processes for the Bank and its Sofomes are centralized in GFNorte's Credit and Risk Management and Credit Managing Direction. To monitor Sofomes' liquidity, an analysis of the balance sheet structural behavior is conducted, as well as funding diversification. Furthermore, a liquidity gap analysis is performed. Specifically for the Brokerage House, regulatory liquidity requirements are monitored.

The following table shows the composition of the gap indicators for the Bank's subsidiaries and Sofomes at the end of 4Q21.

Liquidity Ratio *(Million Pesos)*	**Casa de Bolsa Banorte**	**Arrendadora y Factor**
Cumulative 30 days Gap	6,598	(4,745)
Liquid assets	6,202	67

4 OPERATIONAL RISK

GFNorte has a formal Operational Risk department reporting directly to the Chief Risk Officer.

Operational Risk is defined as the potential loss due to failures or deficiencies in internal controls, errors in operation processing and storing or in data transmitting, as well as to adverse administrative and judicial rulings, fraud or theft (this definition includes Technological and Legal Risk).

The objectives of Operational Risk Management are: a) Enable and support the organization to reach its institutional objectives through prevention and management of operational risks; b) To ensure that the existing operational risks and the required controls are properly identified, assessed, and in line with the risk strategy established by the organization; and c) To ensure that operational risks are properly quantified in order to adequately allocate capital by Operational Risk.

5.1 Policies, Objectives and Guidelines

As part of the Institutional regulations, there are documented policies, objectives, guidelines, methodologies and responsible areas in Operating Risk management.

The Operational Risk Management Directors maintains close communication and coordination with the Regulatory Comptrollership in order to facilitate effective Internal Control in which proper procedures and controls are established for mitigating Operating Risk among the processes and provide monitoring through the Internal Audit Department.

The Regulatory Comptrollership, as part of the Internal Control System, carries out the following activities to mitigate risk: a) Internal control validations; b) Institutional regulations management and control; c) Monitoring of operating processes' internal control by means of control indicators reports, that are reported by the process comptrollers in the various areas; d) Money Laundering Prevention process management; e) Control and monitoring of the regulatory provisions; and f) Analysis and assessment of the operating processes and projects with the participation of the responsible Directors of each process in order to ensure adequate internal control.

5.2 Quantitative and Qualitative Measuring Tools

5.2.1 Operational Losses Database

In order to record operating loss events, the Institution owns a system that enables, the central information supplier areas, to directly record such events online, which are classified by Type of Event in accordance with the following categories:

Internal Fraud: Losses derived from a type of action intended to defraud; unlawfully assets appropriation; or sidestep regulations, laws or company policies (excluding diversity/discrimination events) in which at least one company party is involved.

External Fraud: Losses derived from a type of action intended to defraud; unlawfully assets appropriation; or sidestep the laws, caused by a third party.

Labor Relations and Safety in the Workplace: Losses caused by acts incompatible with the legislation or labor agreements regarding hygiene or safety, the payment of personal damage claims, or cases associated with diversity/discrimination.

Customers, Products & Business Practices: Losses caused by involuntary noncompliance or negligence of a professional obligation to specific customers (including fiduciary and adjustment requirements), or due to the nature or design of a product.

Natural Disasters and Other Events: Losses caused by damage or harm to material assets as a consequence of natural disasters or other events.

Incidences in the Business and Systems Failures: Losses caused by incidences in the business and systems failures.

Process Execution, Delivery and Management: Losses caused by errors in operations processing or management, as well as relations with commercial counterparties and suppliers.

This historical Database provides the statistics of the operational events in which the institution has incurred to determine their trends, frequency, impact and distribution.

5.2.2 Legal and Fiscal Contingencies Database

For recording and monitoring legal, administrative and tax issues that may arise from adverse ruling, an internal system called "Legal Risk Issues Monitoring System" (SMARL by its acronym in Spanish) was developed. This system enables the central data supplying areas to record such events directly and on-line, which are then classified by company, sector and legal issue, among others.

As part of GFNorte's Legal Risk Management, legal and fiscal contingencies are estimated by the attorneys that process the cases, determining its risk level based on an internal methodology. This allows to constitute necessary reserves in a determined term (according to lawsuit's term) to face such Contingencies.

5.3 Risk Management Model

GFNorte has defined objectives, which are achieved through different plans, programs and projects. Compliance with such objectives may be adversely affected due to operating risks, therefore it is imperative to provide a methodology for managing them within the organization. Consequently, Operating Risk Management is now an institutional policy defined and supported by senior management.

To perform Operating Risk Management, each of the operating risks involved in the processes must be identified in order to analyze them. In this regard, the risks identified by the Regulatory Comptrollership with the support of Process Comptrollership, are processed in order to eliminate or mitigate them (seeking to reduce their severity or frequency) and if applicable, define tolerance levels. Currently, work is being done on developing a new Institution Operating Risk Management Model and the technological tools needed to implement it.

5.4. Required Capital Calculation

In accordance with the current Capitalization for Operational Risk Regulations, for Banorte, the Institution has adopted the Alternative Standardized Approach (ASA) Model, which is estimated and reported periodically to the authorities.

5.5. Information and Reporting

The information generated by the Database and the Management Model is processes periodically to report to the Risk Policies Committee and the Board of Directors regarding the main operating events that were detected, the trends, identified risks and their mitigating strategies. Reporting is also done regarding the status of the main Operating Risk mitigation initiatives implemented by the various areas of the organization.

5.6 Technological Risk

Technological Risk is defined as all potential losses from damage, interruption, alteration or failures derived from the use of or dependence on hardware, software, systems, applications, networks and any other information distribution channel in the rendering of banking services to the customers. This risk forms an inherent part of Operating Risk, which is why its management is handled collectively throughout the entire organization.

To address the Operating Risk associated with information integrity, and "Integrity Committee" has been created. Its objectives are to align security and information control efforts under a prevention focus, to define new strategies, policies, processes or procedures and to provide solutions to information security issues that affect or may affect the Institutional patrimony.

The functions established by the CNBV for Technology Risk Management are performed by the Institution under regulatory and Integrity Committee guidelines.

To address the Operating Risk caused by high impact external events, GFNorte has a Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) based on a same-time data replication system at an alternate computer site. All the above, covers the backup and recovery of the Institution's critical applications in the event or any relevant operating contingency.

5.7 Legal risk

Legal Risk is defined as the potential loss from failure to comply with the applicable legal and administrative provisions, the issuance of indisputable unfavorable court rulings and the application of penalties regarding the operations that the institution performs.

The Legal Risk must be measured as an inherent part of Operating Risk in order to understand and estimate its impact. Therefore, those legal issues which result in actual operating losses of the SMARL system are later recorded in the SCERO a database of operational events.

Based on the statistics of the current legal issues and real loss events, the Institution can identify specific legal or operating risks, which are analyzed in order to eliminate or mitigate them in an attempt to reduce or limit their future occurrence or impact.

6. SECURITIZATIONS PERFORMED BY GFNORTE

The main objective of the securitization operations carried out by the Group, is to transfer risks and benefits of certain financial assets to third parties.

GFNorte has carried out the following securitization:

- On October 11th, 2006, Fincasa Hipotecaria (Fincasa), now merged with Banorte, held the irrevocable trust for the issuance of market certificates No. 563, issuer code FCASACB, whose underlying assets are mortgages originated and transferred by Fincasa.

In accordance with criterion C-1 *Recognition and Disposal of Financial Assets,* these assets were written off from the Institution's balance sheet as a sale, given that conditions for the risk's and benefit's transfer inherent in the ownership of the financial assets were met. The Institution is not responsible for assumed or retained risks regarding the trust assets, its sole responsibility is the fulfillment of its obligations in the trust agreement and administration contract.

The Institution is responsible that each of the assigned loans meets the eligibility criteria, at the time of their respective assignment. If the trust, the common representative, the financial guarantor, identify any non-eligible loans, they may require Banorte to replace such loan or if replacement is not possible, to make payment for the "non-replaced ineligible loan" in question. If Banorte identifies any non-eligible loan, it must be notified and replace it or make the corresponding payment.

The Institution's Board of Directors has no pre-determined policies for the issuance of securitizations, authorization for any new issuance must be requested.

The Institution does not participate in securitizations of third-party positions.

There are several risk factors for securitizations that may affect trusts' assets. If these risks materialize, payment to market certificates' holders could be adversely affected. The main risks to which these financial instruments are exposed to are credit, market, liquidity and operational risk, which have been detailed in previous sections.

To monitor the quality of Credit Risk exposure of financial instruments arising from securitized assets, the Institution estimates expected loss within one-year time horizon. Likewise, in order to monitor exposure to market risk, the value at risk is calculated with a one-day time horizon and a 99% confidence level, for these instruments.

Banco Mercantil del Norte is the settlor and trustee of trusts for the securitizations carried out. At the same time, it acts as underwriter on each issue, offering bonds to investors. Additionally, the Institution also carries out the duties of administrator in each of the trusts.

As of December 31st, 2021 Grupo Financiero Banorte does not have securities of the FCASACB securitization in its own position:

Securitization *(Million pesos)*	**Issued Securities**	**Banorte**	**Seguros Banorte**	**Total GFNorte**	**Total Clients**
97_FCASACB_06U	1,351,386	0.0%	0.0%	0.0%	100.0%

Ratings assigned by each rating agency at the end of the quarter for each market certificate issued by the aforementioned trust is as follows:

Securitization	Standard & Poor's		Fitch Ratings		Moody's		HR Ratings		Verum		Best		DBRS	
	Local	Global	Local	Global	Local	Global	Local	Global	Local	Global	Local	Global	Local	Global
97_FCASACB_06U	mxCCC		CCC (mex)											

As of December 31th, 2021 the amounts of the underlying assets of the securitization were:

Securitization *(Million pesos)*	Amount		
	Performing	Past-Due	Total
97_FCASACB_06U	Ps. 70	Ps. 109	Ps. 179

No securitization position is registered in memorandum accounts and no maintained securitization position is deducted from Tier 1 Capital.

Securitization from Trust 563 considers early amortization provisions. The institution has not made revolving securitizations or re-securitizations operations during the quarter.

6.1 Applied Accounting Policies

All securitization operations carried out by the Institution were recognized as sales in accordance with criterion C-1 *Recognition and Disposal of Financial Assets*. This is because, despite retaining the contractual rights to receive cash flows from financial assets, a contractual obligation is assumed to pay such cash flows to a third party. In addition, an analysis of the transfer of these assets concluded that the entity substantially transfers all the risks and benefits inherent with ownership of the financial assets. Registration of profits from sales conforms to the provisions in paragraph 31 of criterion C-1, which states:

a) Eliminate transferred financial assets at the last book value;
b) Recognition for the consideration received in the operation;
c) Recognition of profit or loss in the income statement, for the difference between the book value of eliminated financial assets, and the sum of (i) compensation received (recognized at fair value) and (ii) the effect (gain or loss) by cumulative valuation recognized in equity.

The MBS (Mortgage-Backed Securities) Trust issued certificates in favor of the institution, as holders of rights in last place under the trust agreement. These certificates provide the right to receive a percentage of the distributions and in general to the corresponding proportions of the remnant that may be in the trust after full payment of the bonds. Valuation of the certificates is based on the method of net present value of remaining cash flows expected over the lifespan of the securitization. Remaining cash flows for the MBS the sum of cash flows to be received from the securitized loan portfolio, minus cash flow to be paid to securitized portfolios, minus the monthly administration expenses, plus the income from sales of foreclosed properties, if applicable. At the end of the period, the certificate related to securitization FCASACB 06U shows a fair market value of zero, since no remaining cash flows are expected to be received.

Remaining flows are discounted with the B1 banking curve, which takes into consideration the trusts' Credit Risks. The most important assumptions in the valuation of the certificates are the following:

a) Non-compliance rate: cash flows to be received from loan portfolios are adjusted by a determined percentage of the outstanding portfolio amount that is estimated to fall into non-compliance. That percentage is estimated using historical performance information of this portfolio. This percentage is applied to flows greater than 12 months.
b) Prepayment rate: cash flows to be received from the loan portfolio are adjusted by a determined percentage of the outstanding portfolio amount estimated to be prepaid. That percentage is estimated using historical performance information of this portfolio.
c) Portfolio term: is estimated using WAM (*Weighted Average Maturity*) of the securitized portfolio.
d) Portfolio interest rate: is estimated using WAC (*Weighted Average Coupon*) of the securitized portfolio.

e) Portfolio payment dates: loan portfolio payment dates are considered to be the same as those of the stock certificates.
f) Reserve to be rated: the current value of the remaining flows is reduced by the amount of the reserve to be rated. This reserve corresponds to the non-compliance risk for cash flows in the first 12 months.
g) General account: the current value of the remaining flows is added to the amount of cash or cash equivalents deposited in the general account, collection account and if the case, in the expense reserve account, in case of total payment of the stock certificates, these assets would be distributed to the certificate holders.
h) General terms of stock certificates: estimated to be in accordance with prices published by PiP-Latam.

Regarding the policies for recognizing obligations in balance sheet of the agreements that may require financial support from the Institution in case of asset's securitization: all amounts due under the stock certificates of the different existing securitizations, will be charged to the trust estate. If, for any reason, the liquid assets of the trust net worth are not sufficient to ensure payment of the amounts due under the stock certificates, holders will not have the right to claim payment from the Institution, the Trust, the common representative, the placement agent, the guarantor or guarantors in the case, or anyone else. The stock certificates have not been guaranteed or endorsed by any of the persons involved in the issuance thereof, therefore none of them are obligated to make payments to the certificate holders, with the exception, in the case of a trust, where payments may be charged to the trust in accordance with the trust agreement.

7 POSITION IN SHARES:

At the end of December 31st, 2021, Banco Mercantil del Norte held shares amounting to Ps 1.00 billion, with gains of Ps 513.1 million accumulated during the year.

During the fourth quarter, accumulated revenues from sales and settlements were Ps 117.9 million.

The capital requirement for Market Risk was Ps 264.0 million, and the regulatory Net Capital deductions reached Ps 118.0 million.

Institution	Type of Trading	Accounting Classification	Capitalization Treatment	Market Value 4Q21	Gains / Losses Cumm.	Profit / Loss Sales / Purchases
Banorte	Public Trading	Negotiation	Market Risk	243.2	101.5	-
Banorte	Public Trading	Available for Sale	Market Risk	4.0	(11.6)	-
Banorte	Public Trading	Negotiation	Capital Deduction	118.0	3.9	-
Banorte	w/o Public trading	Negotiation	Market Risk	635.8	419.2	-
Banorte	w/o Public trading	Available for Sale	Market and Credit Risk	-	0.0	117.9
			Total	**1,001.0**	**513.1**	**117.9**

As of December 31st, 2021 a position of Ps 553.0 million is held in Casa de Bolsa Banorte with cumulative gains of Ps 305.0 million.

During the quarter, there were gains for Ps 3.6 million from sales and settlements.

Regarding Market Risk Capital Requirement, the amount was Ps 158.6 million of the total position in shares of Banorte.

Institution	Type of Trading	Accounting Classification	Capitalization Treatment	Market Value 4Q21	Gains / Losses Cumm.	Profit / Loss Sales / Purchases
Casa de Bolsa Banorte	Public	Negotiation	Market Risk	553.0	305.0	3.6
			Total	**553.0**	**305.0**	**3.6**

36 - MEMORANDUM ACCOUNTS (unaudited)

	2021	2020
Operations on behalf of third parties		
Banks customers (current accounts)	Ps. 23	Ps. 62
Settlement of customer transactions	92	(30)
Customer securities received in custody	734,409	669,495
Customer repurchase agreements	288,025	238,032
Collateral pledged on account of clients	288,025	238,040
Derivative purchase operations	11,969	-
Managed trusts	191	204
Investment banking transactions on account of third parties, (net)	140,990	97,374
	Ps. 1,463,724	**Ps. 1,243,177**
Proprietary transactions		
Guarantees Granted	Ps. 211	Ps.-
Contingent assets and liabilities	120	167
Assets in trust or under mandate	295,482	315,988
Managed assets in custody	631,393	633,424
Credit commitments	329,856	292,701
Collateral received	386,700	282,054
Collateral received and sold or given as a pledge	550,622	421,090
Deposits of assets	3,325	3,325
Interest accrued but not charged of past due loans	220	178
Other registration accounts	343,375	295,069
	Ps. 2,541,304	**Ps. 2,243,996**

37 - COMMITMENTS

As of December 31, 2021 and 2020, the Holding had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 263,729 (Ps. 292,701 in 2020), which are recorded in memorandum accounts.

- The Holding Company takes on lease properties where its branches are located, as well as some of its administrative offices, which consider an annual increase in the amount of the rent calculated based on the National Index of Consumer Prices. The Lease terms range from one to fifteen years, for which, as of December 31, 2021, the commitments for payment of rents are as follows

Year	Amount
2022	1,676
2023	1,807
2024	1,949
2025 a 2034	35,127
Total	**$40,559**

- In addition, the Holding Company also takes in lease some equipment for operation, mainly computer equipment, electronic and utility vehicles. At December 31, 2021, the commitments for payment of rents are the following:

Year	Amount
2022	1,899
2023	1,966
2024	2,034
2025 a 2034	27,673
Total	**$33,572**

38 - CONTINGENCIES

As of December 31, 2021, there are lawsuits filed against the Holding in civil and business court cases; however, the Holding attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Holding consolidated financial position. As of December 31, 2021, the Holding has recorded a reserve for contentious matters of Ps. 1,518 (Ps. 1,287 in 2020).

39 - PREVENTIVE MECHANISM FOR SAVINGS' PROTECTION

The objective of the Institute for the Protection of Bank Savings (IPAB) is to protect the deposits of small customers and thereby contribute to maintain the financial system's stability and the proper functioning of the payments systems.

According to the Law of Bank Savings Protection (LPAB), the IPAB manages a bank savings protection system that guarantees the payment of bank deposits or loans or credits to Full Service Banking Holding Company up to an amount equivalent to 400 thousand UDIS per individual or business entity, regardless of the number or type of such obligations in the customer's favor and charged to a single bank.

On July 30, 2007, general rules were issued for addressing joint accounts or those in which there is more than one account holder, referred to in art. 14 of the LPAB, as well as the rules banks must observe for classifying information relative to transactions associated with guaranteed obligations.

The IPAB plays a major role in the implementation of the LPAB resolutions methods and the Law of Credit Holding Companys (LIC) as timely and adequate mechanisms for salvaging and liquidating Full Service Banking Holding Companys in financial trouble that may affect their solvency. The purpose is to provide maximum protection to the public while minimizing the negative impact that salvaging an Holding Company may have on others in the banking system.

During 2021 and 2020, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps 3,596 and Ps 3,630, respectively.

40 - NEW ACCOUNTING GUIDELINES

The CNBV published in the Official Gazette of the Federation (DOF) on March 13, 2020 the Resolution that modifies paragraph 3 of Criterion A-2 "Application of particular regulations" of Annex 33 to incorporate the Financial Information Standards (NIF) listed in the following paragraph and that would be applicable to Credit Holding Companys as of January 1, 2021. Subsequently, on December 4, 2020, the CNBV published in the DOF a modification to the aforementioned Resolution indicating that the entry into force will be on January 1, 2022.

The NIFs issued and which will be applicable to credit Holding Companys from January 1, 2022 are:

- NIF B-5, "Segment information".

- NIF B-12, “Offsetting of financial assets and liabilities”.
- NIF B-17, “Determination of fair value”.
- NIF C-2, “Investments in securities”.
- NIF C-3, “Accounts receivable”.
- NIF C-9, “Provisions, contingencies and commitments”.
- NIF C-10, “Derivatives Financial Instruments and hedging”.
- NIF C-13, “Related parties”.
- NIF C-14, “Transfer and derecognition of financial assets”.
- NIF C-16, “Impairment of financial instruments receivable”.
- NIF C-19, “Financial instruments to be paid”.
- NIF C-20, “Financial instruments to collect principal and interest”.
- NIF D-1, “Revenue from contracts with customers”.
- NIF D-2, “Customer contract costs”.
- NIF D-5, “Leases”.

Management does not expect that the adoption of the aforementioned standards will have a significant impact on the consolidated financial statements, except for the following MFRS:

- **NIF B-12, “Offsetting of financial assets and liabilities”.**

The offsetting of Repo operations between the active and passive part must be carried out in accordance with NIF B-12, which establishes as main requirements the right and the intention to collect or pay an offset balance. Due to the fact that debtor and creditor repurchase agreements are carried out with different counterparties, it is not possible to establish between the parties the intention to collect or pay a cleared balance, for which an increase is estimated in the "Debtors for repo ", which would generate an approximate increase in Assets of 15.29% and an estimated increase in the heading of “Collaterals sold or given as guarantee”, which would generate an approximate increase in Liabilities of 17.54%, in relation to the balances at December 31, 2021, respectively.

- **NIF C-2, “Investments in securities”.**

Establishes the determination and implementation of a business model for the administration and valuation of investments in financial instruments. As part of the implementation of the business model, securities must be reclassified from the Financial Instrument to Collect or Sell (IFCV) category to the Trading Financial Instrument (TFI) category. The securities to be reclassified correspond to investments in shares of investment companies and shares of public companies, since these do not pass the Test of Solely Payments of Principal and Interest (SPPI). As of December 31, 2021, the amount of securities to be reclassified represents approximately 0.01% of the Investments in securities item.

- **NIF C-10, “Derivative Financial Instruments and hedging”.**

It establishes recognizing the fair value of derivative financial instruments operated by the Financial Group, considering the credit risk of the counterparty and its own. As of December 31, 2021, an approximate decrease of 2.11% and 2.13% is estimated in the items of active and passive derivatives, respectively.

- **NIF C-16, “Impairment of financial instruments receivable”.**

It states that to determine the recognition of the expected loss, the historical experience of the credit loss entity, the current conditions and the reasonable and sustainable forecasts of the different quantifiable future events that could affect the amount of future cash flows should be considered. to be recovered from financial instruments receivable (FIR).

It also indicates that the expected loss should be recognized when, as the credit risk has increased, it is concluded that part of the FIR's future cash flows will not be recovered. As of December 31, 2021, an expected credit loss of approximately 0.04% of total Assets is estimated.

- **NIF D-5, “Leases”.**

A single lease recognition model is introduced for the lessee and requires the lessee to recognize in the Balance Sheet the assets and liabilities of all leases with a term of more than 12 months, unless the underlying asset is of low value. As of December 31, 2021, an approximate increase of 0.40% and 0.46% in Assets and Liabilities is estimated, due to the recognition of the " right of use asset" and the "lease liability", respectively.

- **Changes in credit portfolio rating methodologies (IFRS 9)**

As of January 1, 2022, regulatory modifications of the Commission regarding the classification and registration of the credit portfolio (Accounting Criteria B-6) will come into force for the implementation of the NIF C-16 standard (IFRS9), modifications to the standard methodologies for rating and calculating portfolio reserves, recalibration of the standard methodologies for calculating the probability of default of the commercial portfolio and modifications in the requirements to certify internal models and methodologies for calculating capital requirements for credit risk and estimation of preventive reserves.

Within these modifications, the credits will be classified into three "Stages" based on their risk: those classified as Stage 1 are considered not to have any significant increase in credit risk, Stage 2 are considered those that have a significant increase in credit risk, but without objective evidence of impairment. Stage 3 classifies those loans where there is objective evidence of impairment. Taking into account the foregoing, for loans classified in Stage 1 and 3, the expected loss will be calculated over a time horizon of 12 months, while for those loans classified in Stage 2, expected losses will be recognized throughout the life of the loan.

Among the most relevant regulatory changes in the standard portfolio rating methodologies and in the requirements to certify models and internal methodologies, the following stand out:

- Standard Methodologies
    - All portfolios
        - In loans classified as Stage 2, reserves are estimated considering the greater of the expected loss with a 12-month horizon or the expected loss considering the remaining term of the loan.
    - Commercial Portfolio
        - The methodologies for determining the Probability of Default of all types of borrowers (State and Municipal Governments, Financial Entities and Companies with Sales of less than 14 million udis) are replaced.
        - The methodology for determining the percentage of reserves in credits granted to Investment Projects with their own source of payment is modified, where in addition to the cash flow, a series of qualitative factors specific to each type of project are evaluated.
        - The Severity of the Loss of unsecured credits is modified to differentiate the factor according to the type of borrower, and in addition, the evolution of said Severity of the Loss of credits classified in Stage 3 is modified, which will gradually increase to reach 100%. within 36 months of being classified as Stage 3.
        - The formulas for estimating the Exposure to Default in committed lines of credit are adjusted.
        - In certain exhibitions, Rebuttal of Stage 2 is allowed when the event of delay of the borrower is due to an operational issue, a quantitative and qualitative analysis is carried out, and it is also approved by a collegiate body.
        - In the event of deterioration in the credit quality of the borrower, certain exposures are allowed to deteriorate to a Stage of higher risk after a quantitative and qualitative analysis, and that it is also approved by a collegiate body.

- Internal Methodologies
    - The risk parameters of Probability of Default, Severity of Loss and Exposure to Default, according to the approach of the internal model certified before the regulator, must incorporate the effects of the prospective scenarios of the macroeconomic variables that influence them.

- In loans classified as Stage 2, reserves are estimated considering the greater of the expected loss with a 12-month horizon or the expected loss considering the remaining term of the loan.

The entity applies the standard methodologies and also has internal methodologies approved by the Commission for the calculation of reserves and capital requirements under an advanced approach for the Credit Card and Auto Individual portfolios, and under a basic approach for the portfolio of companies with annual sales greater than 14 million udis. The methodologies of Credit Card reserves as Companies are based on Annex 15Bis, that is, based on NIF C-16, while the internal methodology of Auto is based on Annex 15, so that according to the regulation in The estimation of the credit reserves in Stage 2 will use the internal risk parameters, but using the standard formula for calculating the reserves of said Stage 2.

Regarding the foregoing, the holding company is prepared for the application of the new regulatory provisions regarding portfolio qualification, and according to estimates made prior to the entry into force of said regulations, it has been estimated that the increase in provisions preventive measures for credit risks will not exceed 0.2% of the credit assets that originate said estimates, approximately.

- **Effective interest rate of loan portfolio**

On December 4, 2021, a Modifying Resolution was published to the Resolution that modifies the Provisions published on March 13, 2020, which establishes that, during the year 2022, in the determination of the amortized cost referred to in criterion B- 6 “Loan Portfolio” of the Accounting Criteria, the Holding Companys may continue to use the contractual interest rate, as well as the straight-line method for the recognition of the commissions collected and transaction costs as indicated in the current criterion B-6 in force until December 31, 2021, otherwise they must determine the effective interest rate in accordance with criterion B-6 applicable as of January 1, 2022 .

For the years 2020-2019

Opinion

We have audited the consolidated financial statements of Grupo Financiero Banorte, S.A.B. de C.V. and its subsidiaries (the Holding Company), which comprise the consolidated statement of financial position as of December 31, 2020 and 2019, the consolidated statements of income, the consolidated statements of changes in stockholders' equity and the consolidated statements cash flows for the years ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Holding Company as of December 31, 2020 and 2019, have been prepared, in all material respects, in accordance with the accounting criteria established by the National Banking and Securities Commission (the Commission) through the "General Provisions applicable to Holding Companies of Financial Groups subject to the Supervision of the National Banking and Securities Commission" (the Accounting Criteria).

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISA's). Our responsibilities under those standards are further described in the *Independent Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Holding Company in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* (IESBA Code) together with the Code of Ethics issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit matters, which should be communicated in our report.

Preventive estimates for credit risks (See notes 4 and 11 to the consolidated financial statements)

The methodology for calculating preventive estimation for credit risks requires that the expected loss for the next twelve months be evaluated in accordance with the Accounting Standards issued by the National Banking and Securities Commission (the Commission). This expected loss considers 3 credit risk factors that are (i) the probability of default, (ii) the severity of the loss and (iii) the exposure to noncompliance. To carry out the above identification, these rules establish a method, which considers a number of qualitative and quantitative factors, such as: 1) in consumer credits: payment behavior, potential losses and credit risk; (2) in mortgage loans: periods of delinquency, possibility of non-payment and net potential losses of guarantees received; and (3) in commercial appropriations: assessment of the ability to repay credit, financial risk, payment history, as well as corresponding guarantees.

In addition, arising from the uncertainty surrounding credit risk and the global and national economic environment caused by the COVID-19 pandemic, the Holding Company administration decided to constitute additional reserves, these reserves are based on the projection of certain credit indicators such as risk cost, overdue portfolio index, punishments, default rates and overdue portfolio coverage.

A key audit matter has been considered due to the importance of the book value of the credit portfolio and its corresponding preventive estimates for credit risks, and because the process for determining the estimate is complex and requires consideration of the integrity and accuracy of the source information used, in addition to updating each of the credit risk factors mentioned above in the calculations of those estimates. Due to the nature of the additional reserves and because the constitution of the reservations depends on estimates and assumptions used by the administration, there may be a risk in determining them.

Our audit procedures to cover this key audit matter included:

a) Test the design and implementation, and operational effectiveness of the relevant controls regarding the valuation of the Preventive Estimate for credit risks of the Holding Company.
b) Recalculate the estimate for portfolio valuation considering the appropriate methodologies used, historical and up-to-date risk factors, the inputs used and their supporting documentation, the special accounting criteria to support bank debtors and validate the correct accounting record.
c) Our tests were developed with the involvement of our team of Regulatory Compliance specialists, who ensured that the models for determining the preventive estimates used by the Holding company were in accordance with the models stipulated by the Commission.
d) Test, in conjunction with our team of specialists, the reasonableness of the additional reserves recorded to recognize the loss of value of your future credit portfolio that is not yet covered by the STANDARD CNBV methodology, by testing the reasonableness of assumptions, verifying arithmetic calculations and their accounting record under the economic environment derived from COVID-19.
e) In addition, we validate the correct presentation and disclosure in the consolidated financial statements.

Emphasis Paragraphs

As mentioned in Note 2 to the consolidated financial statements, on March 24, 2020, the Association of Banks of Mexico, A.C. (ABM), requested the CNBV to establish temporary special accounting criteria to support those bank debtors who were unable to meet their credit commitments as a result of the pandemic. Therefore, the measures taken in general by the Holding Company envisaged not requiring the minimum payment of capital and interest for up to 6 months to customers who requested it and qualified it under the rules of the program, without affecting in Credit Bureau, nor collection expenses or interest for non-payment.

As mentioned in Note 4 to the consolidated financial statements, the Holding Company took into account changes arising from the internal transformation and environment of the banking industry, in assessing the filing policies of the various transactions it carries out related to investment and developments in technology. This is intended to improve the quality of financial information and to reflect the actual economic substance of its operations. Based on the analysis carried out, the internal developments of the banking core grouped to this day as an intangible asset were considered to be a substantial part of the technology platform and should be considered jointly as part of the fixed asset.

Other Matters

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

Information Other than the Consolidated Financial Statements and the Auditors' Report

The Administration is responsible for the other information. The other information will include the information that will be incorporated in the annual report to be submitted to the Commission and the Mexican Securities Exchange (but does not include the consolidated financial statements or our audit report). The annual report is expected to be available for reading after the date of this audit report.

Our opinion of the consolidated financial statements will not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility will be to read the other information mentioned, when available, and when doing so, consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or that it appears to contain a material misstatement. If, based on the work we have performed, we conclude that the other information contains a material misstatement, we would have to report this fact.

The information shown in the attached consolidated financial statements as unaudited is presented at the requirements of the Accounting Criteria issued by the Commission.

Responsibilities of the Administration and Corporate Governance Managers of the Holding Company in Relation to the Consolidated Financial Statements

Management is responsible for the preparation and reasonable presentation of the attached consolidated financial statements in accordance with the Accounting Criteria issued by the Commission, and for internal control that the administration deems necessary to enable the preparation of consolidated financial statements free of material error, due to fraud or error.

In the preparation of the consolidated financial statements, management is responsible for assessing the Holding Company's ability to continue as a going concern, disclosing as appropriate, business-related issues underway and using the basic business postulate underway, unless the administration intends to liquidate the Holding Company or cease operations , or there is no other realistic alternative.

The Holding Company's corporate governance officials are responsible for overseeing the Holding Company's financial reporting process.

Independent Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Holding Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Holding Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Holding Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Holding Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited

C.P.C. Héctor García Garza
Monterrey, Nuevo León, Mexico
March 5, 2021

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2020 AND 2019
(In millions of Mexican pesos)

ASSETS	2020	2019
CASH AND CASH EQUIVALENTS	**Ps. 109,306**	**Ps. 62,797**
MARGIN SECURITIES	**18,099**	**5,926**
INVESTMENTS IN SECURITIES		
Trading securities	223,390	233,832
Securities available for sale	244,823	202,685
Securities held to maturity	193,652	150,606
	661,865	**587,123**
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	**4,036**	**3,070**
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	48,233	22,295
For hedging purposes	2,043	162
	50,276	**22,457**
VALUATION ADJUSTMENTS FOR ASSET HEDGING	**54**	**69**
PERFORMING LOAN PORTFOLIO		
Commercial loans		
Business loans	325,183	293,499
Financial institution's loans	11,172	7,389
Government loans	161,563	173,988
Consumer loans	116,484	117,680
Mortgage loans		
Medium and residential	184,980	166,921
Low-income housing	4	9
Loans acquired from INFONAVIT or FOVISSSTE	2,752	3,156
TOTAL PERFORMING LOAN PORTFOLIO	**802,138**	**762,642**
PAST-DUE LOAN PORTFOLIO		
Commercial loans		
Business loans	2,530	6,511
Financial institutions' loans	-	4
Financial institutions' loans	37	4
Consumer loans	4,705	4,314
Mortgage loans		
Medium and residential	1,429	1,786
Low-income housing	1	-
Loans acquired from INFONAVIT or FOVISSSTE	229	187
TOTAL PAST-DUE LOAN PORTFOLIO	**8,931**	**12,806**
LOAN PORTFOLIO	**811,069**	**775,448**
(Minus) Allowance for loan losses	(20,004)	(17,639)
LOAN PORTFOLIO, net	**791,065**	**757,809**
ACQUIRED COLLECTION RIGHTS	**1,617**	**1,601**
TOTAL LOAN PORTFOLIO, net	**792,682**	**759,410**
ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net	**2,756**	**2,279**
PREMIUM RECEIVABLES, net	**4,353**	**4,474**
ACCOUNTS RECEIVABLE FROM REINSURANCE, net	**7,269**	**7,787**
RECEIVABLES GENERATED BY SECURITIZATIONS	**110**	**139**
OTHER ACCOUNTS RECEIVABLE, net	**42,481**	**31,202**
MERCHANDISE INVENTORY	**946**	**677**
FORECLOSED ASSETS, net	**1,553**	**1,154**
PROPERTY, FURNITURE AND EQUIPMENT, net	**32,627**	**18,763**
PERMANENT STOCK INVESTMENTS	**14,805**	**14,554**
DEFERRED TAXES, net	**-**	**626**
OTHER ASSETS, net		
Deferred charges, advance payments and intangibles	**39,439**	**52,115**
Other short-term and long-term assets	**5,247**	**5,388**
TOTAL ASSETS	**Ps. 1,787,904**	**Ps.1,580,010**

MEMORANDUM ACCOUNTS (Note 36)

These balance sheets, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to Accounting Principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the balance sheet dates above.

As of December 31, 2020, the stockholders' equity amounts to Ps. 9,964.

The accompanying consolidated balance sheets have been approved by the Board of Directors in accordance with the responsibility assigned to them.

"The attached Notes are an integral part of these consolidated financial statements."

LIABILITIES AND STOCKHOLDERS' EQUITY	2020	2019
DEPOSITS		
Demand deposits	Ps. 520,283	Ps. 416,548
Time deposits		
General public	252,271	260,828
Money market	14,248	18,122
Senior debt issued	32,325	26,907
Global account of deposits without movements	2,585	2,085
	821,712	**724,490**
INTERBANK AND OTHER LOANS		
Demand loans	-	500
Short-term loans	22,499	22,286
Long-term loans	13,522	14,275
	36,021	**37,061**
TECHNICAL RESERVES	**187,846**	**154,487**
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	**353,094**	**345,959**
COLLATERAL SOLD OR PLEDGED		
Repurchase or resale agreements (creditor balance)	**13**	**106**
Loans of securities (creditor balance)	**8**	**-**
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	44,097	20,752
For hedging purposes	4,990	4,221
	49,087	**24,973**
ACCOUNTS PAYABLE TO REINSURERS, net	**2,269**	**1,505**
OTHER ACCOUNTS PAYABLES		
Income tax	4,365	3,588
Employee profit sharing	538	508
Creditors from settlements of transactions	4,892	9,972
Creditors from collaterals received in cash	6,860	2,492
Sundry creditors and other payables	35,915	30,204
	52,570	**46,764**
SUBORDINATED DEBENTURES	**57,152**	**48,050**
DEFERRED TAXES, net	**1,618**	**-**
DEFERRED CREDITS AND ADVANCED COLLECTIONS	**1,410**	**617**
TOTAL LIABILITIES	**1,562,800**	**1,384,012**
STOCKHOLDERS' EQUITY		
PAID-IN CAPITAL		
Common stock	14,919	14,992
Additional paid-in capital	48,269	47,979
	63,188	**62,971**
OTHER CAPITAL		
Capital reserves	9,215	6,486
Retained earnings from prior years	118,773	90,084
Result from valuation of securities available for sale	3,801	1,763
Result from valuation of instruments for cash flow hedging	(887)	(2,246)
Result from valuation of reserve for unexpired risks variations in rates	(231)	(85)
Result from conversions	134	77
Defined remedies for employees benefits	(2,259)	(1,861)
Net income	30,508	36,528
	159,054	**130,746**
MINORITY INTEREST	**2,862**	**2,281**
TOTAL STOCKHOLDERS' EQUITY	**225,104**	**195,998**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**Ps. 1,787,904**	**Ps. 1,580,010**

Act. José Marcos Ramírez Miguel
CEO

Eng. Rafael Arana de la Garza
Managing Director – COO and Finance

C.P. Isaías Velázquez González Managing Director – Audit	Lic. Jorge Eduardo Vega Camargo Deputy Managing Director – Controller	C.P.C. Mayra Nelly López López Executive Director – Accounting

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In millions of Mexican pesos)

	2020	**2019**
Interest income	Ps. 133,593	Ps. 150,514
Premium revenue, net	36,849	32,537
Interest expense	(47,898)	(68,693)
Increase in technical reserves	(17,793)	(15,003)
Casualty rate, claims and other contractual obligations, net	(21,920)	(18,778)
NET INTEREST INCOME	**82,831**	**80,577**
Provisions for loan losses	(21,930)	(15,347)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES	**60,901**	**65,230**
Commission and fee income	24,003	24,063
Commission and fee expense	(10,784)	(10,052)
Brokerage revenues	4,854	5,289
Other operating income (expenses)	2,982	4,264
Non-interest expense	(43,013)	(40,678)
	(21,958)	**(17,114)**
OPERATING INCOME	**38,943**	**48,116**
Equity in earnings of unconsolidated subsidiaries and associated companies	2,003	1,716
INCOME BEFORE INCOME TAX	**40,946**	**49,832**
Current income tax	(9,247)	(10,524)
Deferred income taxes, net	(802)	(2,271)
	(10,049)	**(12,795)**
INCOME BEFORE DISCONTINUED OPERATIONS	**30,897**	**37,037**
Minority interest	(389)	(509)
NET INCOME	**Ps. 30,508**	**Ps. 36,528**

These Income Statements, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to Accounting Principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the consolidated income statement dates above.

The accompanying consolidated income statements have been approved by the Board of Directors in accordance with the responsibility assigned to them.

The attached notes are an integral part of these consolidated income statements.

Act. José Marcos Ramírez Miguel
CEO

Eng. Rafael Arana de la Garza
Managing Director - COO and Finance

C.P. Isaías Velázquez González
Managing Director – Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director – Controller

C.P.C. Mayra Nelly López López
Executive Director – Accounting

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In millions of Mexican pesos)

	PAID-IN CAPITAL		OTHER CAPITAL			
	Common Stock	Additional paid-in capital	Capital reserves	Retained earnings from prior years	Result from valuation of securities available for sale	Result from valuation of instruments for cash flow hedging
Balances, January 1, 2019	**Ps. 14,962**	**Ps. 47,904**	**Ps. 5,207**	**Ps. 76,550**	**(Ps. 2,136)**	**(Ps. 3,369)**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Share repurchase for executive shares' plan payable in equity instruments	30	80	833	-	(10)	-
Transfer of prior year's result	-	-	-	31,958	-	-
Creation of reserves as per General Stockholders' meeting on April 30, 2019	-	-	62	(62)	-	-
Dividends declared at the General Stockholders' meetings on: May 30, 2019	-	-	-	(15,954)	-	-
Effect due to clearance of subsidiary Banorte USA	-	-	-	-	-	-
Sale of share of Operadora de Fondos Banorte			384	(384)		
Total transactions approved by stockholders	**30**	**80**	**1,279**	**15,558**	**(10)**	**-**
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	3,909	-
Effect of subsidiaries, affiliates and mutual funds	-	(5)	-	(41)	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	1,123
Result from valuation of reserve for unexpired risks variations in rates	-	-	-	-	-	-
Defined remedies for employees benefits						
Interest on subordinated debentures	-	-	-	(1,983)	-	-
Total comprehensive income	**-**	**(5)**	**-**	**(2,024)**	**3,909**	**1,123**
Minority Interest	**-**	**-**	**-**	**-**	**-**	**-**
Balances, December 31, 2019	**14,992**	**47,979**	**6,486**	**90,084**	**1,763**	**(2,246)**
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Share repurchase for executive shares' plan payable in equity instruments	(73)	295	(1,441)	-	(4)	-
Transfer of prior year's result	-	-	-	36,528	-	-
Creation of reserves as per General Stockholders' meeting on April 24, 2020	-	-	6	(6)	-	-
Effect due to clearance of subsidiary Banorte USA	-	-	-	-	-	-
Sale of share of Operadora de Fondos Banorte	-	-	4,164	(4,164)		
Total transactions approved by stockholders	**(73)**	**295**	**2,729**	**32,358**	**(4)**	**-**
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	2,042	-
Effect of subsidiaries, affiliates and mutual funds	-	(5)	-	(327)	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	1,359
Result from valuation of reserve for unexpired risks variations in rates	-	-	-	-	-	-
Defined remedies for employees benefits						
Interest on subordinated debentures	-	-	-	(3,342)	-	-
Total comprehensive income	**-**	**(5)**	**-**	**(3,669)**	**2,042**	**1,359**
Minority Interest						
Balances, December 31, 2020	**Ps. 14,919**	**Ps. 48,269**	**Ps. 9,215**	**Ps. 118,773**	**Ps. 3,801**	**(Ps. 887)**

These statements of changes in stockholders' equity, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the dates above. “These consolidated statements of changes in stockholders’ equity were approved by the Board of Directors in accordance with the responsibility assigned to them.”

The attached notes are an integral part of these consolidated statements of changes in stockholders’ equity.

	OTHER CAPITAL						
	Result in the valuation of unexpired risk reserves due to changes in rates	Cumulative foreign currency translation adjustment	Defined remedies for employees benefits	Net income	Total majority interest	Total minority interest	Total stockholders’ equity
Balances, January 1, 2019	**Ps. 28**	**Ps. 1,751**	**(Ps. 576)**	**Ps. 31,958**	**Ps. 172,279**	**Ps. 2,185**	**Ps.174,464**
TRANSACTIONS APPROVED BY STOCKHOLDERS:							
Share repurchase for executive shares’ plan payable in equity instruments	-	-	-	-	933	-	933
Transfer of prior year’s result	-	-	-	(31,958)	-	-	-
Creation of reserves as per General Stockholders’ meeting on April 30, 2019	-	-	-	-	-	-	-
Dividends declared at the General Stockholders’ meetings on: May 30, 2019	-	-	-	-	(15,954)	-	(15,954)
Effect due to clearance of subsidiary Banorte USA	-	(1,632)	-	-	(1,632)	-	(1,632)
Sale of share of Operadora de Fondos Banorte	-	-	-	-	-	-	-
Total transactions approved by stockholders	**-**	**(1,632)**	**-**	**(31,958)**	**(16,653)**	**-**	**(16,653)**
COMPREHENSIVE INCOME:							
Net income	-	-	-	36,528	36,528	-	36,528
Result from valuation of securities available for sale	-	-	-	-	3,909	-	3,909
Effect of subsidiaries, affiliates and mutual funds	-	(42)	-	-	(88)	-	(88)
Result from valuation of instruments for cash flow hedging	-	-	-	-	1,123	-	1,123
Result from valuation of reserve for unexpired risks variations in rates	(113)	-	-	-	(113)	-	(113)
Defined remedies for employees benefits	-	-	(1,285)	-	(1,285)	-	(1,285)
Interest on subordinated debentures	-	-	-	-	(1,983)	-	(1,983)
Total comprehensive income	**(113)**	**(42)**	**(1,285)**	**36,528**	**38,091**	**-**	**38,091**
Minority Interest	-	-	-	-	-	96	96
Balances, December 31, 2019	**(85)**	**77**	**(1,861)**	**36,528**	**193,717**	**2,281**	**95,998**
TRANSACTIONS APPROVED BY STOCKHOLDERS:							
Share repurchase for executive shares’ plan payable in equity instruments	-	-	-	-	(1,223)	-	(1,223)
Transfer of prior year’s result	-	-	-	(36,528)	-	-	-
Creation of reserves as per General Stockholders’ meeting on April 24, 2020	-	-	-	-	-	-	-
Effect due to clearance of subsidiary Banorte USA	-	-	-	-	-	-	-
Sale of share of Operadora de Fondos Banorte	-	-	-	-	-	-	-
Total transactions approved by stockholders	**-**	**-**	**-**	**(36,528)**	**(1,223)**	**-**	**(1,223)**
COMPREHENSIVE INCOME:							
Net income	-	-	-	30,508	30,508	-	30,508
Result from valuation of securities available for sale	-	-	-	-	2,042	-	2,042
Effect of subsidiaries, affiliates and mutual funds	-	57	-	-	(275)	-	(275)
Result from valuation of instruments for cash flow hedging	-	-	-	-	1,359	-	1,359
Result from valuation of reserve for unexpired risks variations in rates	(146)	-	-	-	(146)	-	(146)
Defined remedies for employees benefits	-	-	(398)	-	(398)	-	(398)
Interest on subordinated debentures	-	-	-	-	(3,342)	-	(3,342)
Total comprehensive income	**(146)**	**57**	**(398)**	**30,508**	**29,748**	**-**	**29,748**
Minority Interest	-	-	-	-	-	581	581
Balances, December 31, 2020	**(Ps. 231)**	**Ps. 134**	**(Ps. 2,259)**	**Ps. 30,508**	**Ps. 222,242**	**Ps. 2,862**	**Ps. 225,104**

Act. José Marcos Ramírez Miguel
CEO

Eng. Rafael Arana de la Garza
Managing Director – COO and Finance

C.P. Isaías Velázquez González

Lic. Jorge Eduardo Vega Camargo

C.P.C. Mayra Nelly López López

Managing Director – Audit	Deputy Managing Director – Controller	Executive Director – Accounting

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In millions of Mexican pesos)

	2020	2019
Net income	**Ps. 30,508**	**Ps. 36,528**
Items not requiring (generating) resources:		
Depreciation and amortization	2,287	2,087
Technical reserves	17,793	15,003
Other provisions	124	1,484
Current and deferred income tax	10,049	12,795
Equity in earnings of unconsolidated subsidiaries and associated companies	(1,614)	(1,207)
	59,147	**66,690**
OPERATING ACTIVITIES:		
Changes in margin accounts	(12,172)	(4,469)
Changes in investments in securities	(74,742)	12,984
Changes in debtor balances under repurchase and resale agreements	(966)	(2,048)
Changes in asset position of derivatives	(25,924)	5,803
Change in loan portfolio	(33,257)	13,802
Changes in acquired collection rights	(15)	816
Changes in accounts receivable from insurance and annuities, net	(476)	(38)
Changes in debtor premiums, (net)	121	(639)
Changes in reinsurance and surety agencies (net) (asset)	517	1,169
Changes in receivables generated by securitizations	28	(78)
Change in foreclosed assets	(399)	(259)
Change in other operating assets	(7,669)	(15)
Change in deposits	97,222	(31,811)
Change in interbank and other loans	(1,040)	(21,697)
Change in creditor balances under repurchase and sale agreements	7,136	(23,499)
Collateral sold or pledged	(84)	103
Change in liability position of derivative financial instruments	23,345	(2,853)
Change in technical reserves (net)	15,567	(1,395)
Changes in reinsurance and surety agencies (net) (liability)	764	180
Change in subordinated debentures	9,102	14,489
Change in other operating liabilities	6,648	(4,712)
Change in hedging instruments related to operations	(1,112)	(6,748)
Income tax	(7,034)	(8,818)
Net cash flows provided by operating activities	**54,707**	**6,957**
INVESTING ACTIVITIES:		
Proceeds on disposal of property, furniture and equipment	2,884	1,406
Payments for acquisition of property, furniture and equipment	(7,435)	(4,578)
Collections by disposal of subsidiaries and associates and agreements by joint control	-	68
Payment on acquisitions of subsidiaries and associated companies	(139)	(101)
Charges for cash dividends	1,969	1,265
Net cash flows used in investing activities	**(2,721)**	**(1,940)**
FINANCING ACTIVITIES:		
Collections for issue of shares	-	108
Dividends paid	-	(15,954)
Repurchase of shares	(2,146)	-
Interest on subordinated debentures paid	(3,342)	(1,983)
Net cash flow used in financing activities	**(5,488)**	**(17,829)**
Net increase (decrease) in cash and cash equivalents	46,498	(12,812)
Effects from changes in the value of cash and cash equivalents	11	(28)
Cash and cash equivalents at the beginning of the year	62,797	75,637
Cash and cash equivalents at the end of the year	**Ps. 109,306**	**Ps. 62,797**

These Cash Flow Statements, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect cash income and outlays derived from the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the dates above. "The accompanying consolidated cash flow statements have been approved by the Board of Directors in accordance with the responsibility assigned to them". The attached notes are an integral part of these consolidated cash flow statements.

Act. José Marcos Ramírez Miguel
CEO

Eng. Rafael Arana de la Garza
Managing Director – COO and Finance

C.P. Isaías Velázquez González Managing Director – Audit	Lic. Jorge Eduardo Vega Camargo Deputy Managing Director – Controller	C.P.C. Mayra Nelly López López Executive Director – Accounting

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In millions of Mexican pesos, except exchange rates and Note 33)

1 – ACTIVITY AND REGULATORY ENVIRONMENT

Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries (the Financial Group or Holding Company) are authorized by Mexico's Ministry of Finance and Public Credit (SHCP) to operate as a Financial Group under the form and terms established by the Law Regulating Financial Groups, subject to the supervision and monitoring of the National Banking and Securities Commission (the Commission). Its main activities consist of acquiring and managing entities engaged in the financial services industry and supervising their activities, as defined in the above-mentioned law. The Financial Group is regulated, depending on its activities, by the Commission, the Mexican National Insurance and Bonding Commission (CNSF) (the Commissions), the Mexican Central Bank (Banco de México) and other applicable laws and regulations.

The main activity of its Subsidiaries is the execution of financial operations such as the provision of services of commercial banking, brokerage, leasing, financial factoring, warehousing services in general, pensions, life and damage insurance, as well as disposal, management, collection and negotiation, in any form, with credit rights.

The main regulating aspect compels the Financial Group to maintain a minimum capitalization ratio for market and loan risks, to meet certain acceptance limits for deposits, obligations and other types of funding that may be denominated in foreign currency, as well as to establish the minimum limits for paid-in capital and capital reserves. The Financial Group complies satisfactorily with all of the above as of December 31, 2020.

By legal requirements, the Financial Group has unlimited liability for the obligations assumed and losses incurred by each of its subsidiaries.

The powers of the Commission, in its capacity as regulator of the Financial Group and its subsidiaries, include reviewing the financial information and requesting modifications to such information.

The Financial Group performs its activities throughout Mexico and until March 2017, the United States of America.

The Financial Group's consolidated financial statements have been approved by the Board of Directors at its January 21, 2021 meeting in accordance with the responsibility assigned to this group.

2 – SIGNIFICANT EVENTS DURING THE YEAR

Impacts caused by the COVID-19 pandemic on financial information

In response to the environment that generated the health crisis and its foreseeable consequence in the expected deterioration of bank assets and the uncertain economic recovery outlook that took place in the middle of last year, the Financial Group decided to participate on 2 fronts; on the one hand, to support borrowers who have the need to reduce the charges generated by acquired loans, and, on the other hand, to solidify their balance sheet in the face of potential effects on loan assets. To achieve the first objective, several internal support and restructuring programs were generated through the different companies belonging to the Financial Group, which allowed the payment of principal and interest to be deferred to more than 630 thousand loans that were creditors of the benefit that mostly it was recently concluded and reports only 12% with a remaining balance; that is, 88% of the credits attached to the internal support programs, are paying regularly.

The effect on the ICAP of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple (Banorte) of the special programs is marginal, since, if the Special Accounting Criteria are not considered in the deferral of credits, the Capitalization Index it would have positioned itself at 20.10% with a Fundamental Capital of 13.85% compared to the real figures of 20.18% of ICAP and 13.90% of Fundamental Capital.

On the other hand, Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, ER granted facilities in term and rate, to clients who requested it, for an amount of Ps. 1,087, representing 3.12% of the portfolio. These programs do not put pressure on the institution's solvency structure, since it maintains solid capital levels, with an indicator of 19.12% at the end of December 2020, well above the applicable regulatory minimum of 10.50%. Without considering the effect of the Special Accounting Criteria, the ICAP would have had an impact of +88 bps, positioning itself at 20.00%.

Regarding the second objective, and in order to strengthen the balance sheet structure, the Financial Group recognized additional allowances for loan losses during 2Q20 and 4Q20, which together totaled Ps. 7,274; of which Ps. 5,000 correspond to additional reserves and $ 2,274 to anticipated charge-offs in the portfolio of the different products. Of the Ps. 5,000 of additional reserves, only 14% have been consumed during 4Q20. It is important to note that, of not having recorded additional reserves in the year, the provisioning requirement would have been 3% lower than in 2019 and consequently the risk-adjusted NIM, which stood at 4.1%, with a decrease of (89bp), it would have reflected 4.4% with recurring figures. In the same context, profit with recurring figures would have been recorded at Ps. 35,583 in contrast to Ps. 30,508 recorded at the end of 2020.

Failure to consider the effect of additional reserves on Banorte's capital indices would have contributed 50 bps to the ICAP and 52 bps to the Fundamental Capital, positioning it at 20.68% and 14.42% considering Special Accounting Criteria and 20.60% and 14.37% without said criteria, which above is compared to the actual reported figures of 20.18% for ICAP and 13.90% for Fundamental Capital.

Regarding the IIN of the Banorte Insurance and Pensions companies, it stands out that it grows 8% derived from a 22% growth in net interest income despite the impact on the technical result, which reflects an increase of Ps. 4,312 in premium income that cannot be offset by the increase in technical reserves, mainly in pensions and the 17% increase in claims, mainly due to claims associated with the pandemic.

Casa de Bolsa Banorte S.A de C.V. is not subject to the exemptions in matters of capital and liquidity published by the Commission and Banco de México. However, even in the event of having been subject to the aforementioned dispensations, it is not considered that they would have been applied. The foregoing given the solvency and liquidity levels reflected by the institution, with an ICAP of 14.08% and a regulatory liquidity indicator of 98.49%, both above the applicable regulatory minimums of 10.50% and 20.00%, respectively.

On the other hand, the liquidity strategy of the Financial Group has been oriented, through Banco Mercantil del Norte, S.A. (Banorte), in maintaining adequate levels according to the prevailing circumstances. In this sense, given the current contingency, it was decided to strengthen liquidity levels through the funding structure with clients, as well as through the issuance of Notes AT1 Perp NC10 for USD 500 million in July 2020.

Considering the foregoing, the Financial Group, through Banorte, has not used nor plans to use the Ordinary or Extraordinary Facilities of Banco de México, beyond the reduction of the Monetary Regulation Deposit, and the waivers in the calculation of outflows for derivatives (LBA) and the impairment of liquid assets, which contributed marginally 1%, 0.5% and 0.6%, respectively, to the liquidity indicator called CCL. In the same sense, the use of the liquidity facility consisting of the possibility of keeping the CCL below 100% is not contemplated and at a prudential and management level there is an objective of keeping the indicator above 100% at all times. The foregoing has been reported to the Board of Directors in its sessions of April 2020, July 2020, September 2020 and January 2021.

Finally, with regards to the capital dispensation related to 50% of the buffer to leave the minimums at 6.20% for the Fundamental Capital, 7.70% for the Basic Capital and 9.70% for the ICAP, the fact that Banorte's Fundamental Capital levels are 600bps above the regulatory minimum without waivers shows that its use has not been contemplated and in the same sense it has been reported to the Board of Directors.

Additionally, during 2020, we continued with the development of activities related to strengthening the control environment, risk assessment and management, the establishment and monitoring of controls, and the assurance of information quality and security, including effectiveness tests related to the Business Continuity Plan. Regarding this matter, regarding the global contingency represented by COVID 19, the Continuity Plan was activated under its Pandemic section.

The actions implemented throughout the year in different aspects of the operation have responded to the considerations of each moment and are in accordance with the assessment of an incremental risk derived from the pandemic. Derived from the above, and despite the fact that the contingency had an impact on the growth of the business and on the estimated results at the beginning of 2020, at the end of the year and taking into account the solidity shown by the institutional balance, the capitalization indicators, the results of the support programs, the quality of the assets and stability of the deposits and a panorama of national and international recovery that is reinforced with the progress in the vaccination processes, the Administration has no doubts about the ability to continue as a business on going.

Issuance of capital notes Tier 1 for USD 500 (Subordinated debentures)

On July 9, 2020, Banorte issued Perpetual Capital Notes, Non-preferred, Non-Accumulating (Tier 1) in the international market for a global amount of USD 500 million. The Capital Notes (Tier 1) were issued in a Series, NC10 Notes PERP for USD 500 million, prepayable in the tenth year and with a coupon rate of 8.375%. The ratings given to the series by rating agencies Moody's and S&P were Ba2 and BB-, respectively. The issuance expenses of the perpetual, non-preferred, non-accumulative capital notes amounted to $ 68, as of December 31, 2020.

Merger between Inmobiliaria Mobinter, Interdiseño, Interorbe, Interin and Banorte

On September 1, 2020, the merger of Banorte (the surviving merger) and Inmobiliaria Mobinter S.A. took effect. de C.V, Inmobiliaria Interdiseño S.A de C.V, Inmobiliaria Interorbe, S.A. de C.V and Inmobiliaria Interin S.A de C.V (merged that are extinguished) the percentage of participation of the Financial Group in the stockholders' equity of the merging company is 98.2617%.

Merger between Sólida Administradora de Portafolios and Arrendadora and Factor Banorte

On July 1, 2020, the merger between Sólida Administradora de Portafolios, S.A. de C.V., SOFOM, E.R. (Sólida, subsisting merger) and Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, E.R., (AyF, merged that is extinguished) took effect.. Additionally, Sólida changed its name to become Arrendadora and Factor Banorte; The Parent's participation percentage in the stockholders' equity of the merging company is 99.9058%.

Alliance signing with Rappi

On June 22, 2020, the Financial Group signed a strategic alliance agreement with Rappi through which both companies, subject to obtaining the applicable regulatory authorizations from the financial and economic competition authorities, will be shareholders (50%-50%) of, and will participate in the same proportions in the board of directors of, a newly created company that will offer digital financial services, initially, mainly aimed at Rappi's clients. Through this agreement, the Financial Group agreed to make available to the new company, up to Ps. 4,000 in a period of 18 months.

Pensiones Banorte acquires the pension portfolio of Pensiones SURA

During the month of May 2020, Pensiones Banorte acquired the entire annuity portfolio of Pensiones SURA S.A. de C.V. The operation includes the transfer of more than 15 thousand policies for a value of Ps. 14,000.

3 – BASIS OF PRESENTATION

Presentation of consolidated financial statements

The accompanying consolidated financial statements as of December 31, 2020 and 2019 have been prepared by Management assuming that the Financial Group will continue to operate as a going concern due to the uncertainty and duration of the pandemic in accordance with the accounting criteria established by the Commission.

Monetary unit of the consolidated financial statements

The consolidated financial statements and notes for the years ended December 31, 2020 and 2019 include balances and transactions in Mexican pesos of purchasing power of such dates.

As of December 31, 2020 and 2019, the recording currency and functional currency of the Holding Company is the Mexican peso.

Recognition of the effects of inflation in financial consolidated information

Inflation recognition is done pursuant to MFRS B-10, "Inflation Effects," which considers two types of economic environments: a) inflationary, when the accumulated inflation of the three previous years is 26% or over, in which case the inflation effects must be acknowledged; b) non-inflationary, when in the same period inflation is less than 26%; in this case the effects of inflation should not be recorded in the consolidated financial statements.

The cumulative Mexican inflation over the three years prior to 2020 and 2019 was 15.03% and 15.71%, respectively. Therefore, the Mexican economy is considered as non-inflationary. However, assets, liabilities and stockholders' equity as of December 31, 2020 and 2019 include the restatement effects recorded up through December 31, 2007. The cumulative Mexican inflation over the three years including the year ended December 31, 2019 was 11.31%.

The Mexican inflation rates for the years ended December 31, 2020 and 2019 were 3.23% and 2.77%, respectively.

Consolidation of financial statements

The accompanying consolidated financial statements include those of Grupo Financiero Banorte, S.A.B. de C.V. and its subsidiaries mentioned below. All significant intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2020 and 2019, the Grupo Financiero Banorte S.A.B. de C.V.'s consolidated subsidiaries and its equity ownership is as follows:

Entity	2020	2019
Banco Mercantil del Norte, S.A. and Subsidiaries (Banorte)	98.26%	98.26%
Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, ER and Subsidiaries (AyF)	99.91%	99.98%
Almacenadora Banorte, S.A. de C.V. and Subsidiary	99.99%	99.99%
Banorte Ahorro y Previsión, S.A. de C.V. and Subsidiaries	99.99%	99.99%
Casa de Bolsa Banorte, S.A. de C.V. and Subsidiary	99.99%	99.99%
Operadora de Fondos Banorte, S.A. de C.V.	99.99%	88.84%
Ixe Servicios, S.A. de C.V.	99.99%	99.99%

Equity investments in mutual funds and investments in associated companies are valued under the equity method according to the accounting principles established by the Commission.

* The permanent investment in AyF includes the participation in the Trusts created in conjunction with GEO, URBI and HOMEX, constituted for the construction of real estate developments (the Trusts). As of December 31, 2020, AyF consolidated the financial statements of said trusts.

Conversion of financial statements of foreign subsidiary

In order to consolidate the financial statements of Banorte Financial Services, INC., they are first adjusted to the recording and functional currency (U.S. dollar) to conform to the accounting criteria established by the Commission. The financial statements are then converted to the reporting currency (Mexican pesos) according to the following methodology:

Foreign operations whose recording and functional currency are one and the same convert their financial statements using the following exchange rates for the year-end rate for assets and liabilities (19.9087 for 2020), historical rate for non-monetary assets and liabilities as well as stockholders' equity, and the weighted average rate of the period for income, costs and expenses (21.4936 for 2020). The conversion effects are presented in the Institution's stockholders' equity.

Comprehensive income

This is the change in stockholders' equity during the year, for items other than distributions and activity in contributed common stock, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity and do not affect the consolidated income statements, in accordance with the accounting practices established by the Commission. In 2020 and 2019, comprehensive income includes the net income of the year, the result from valuation of securities available for sale, the effect of subsidiaries, affiliates and mutual funds, the effect of subsidiaries, remeasrement gain (loss) for employee benefits, modification of provisions on consumer loans rating, affiliates and mutual funds, the cumulative conversion effect, interest on subordinated debentures, commission special accounting criteria and the result from the valuation of cash flow hedging instruments.

4 – SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Holding Company are in conformity with practices prescribed by the Commission through issued accounting standards and other applicable laws, which require Management to make certain estimates and use certain assumptions to determine the valuation of certain items included in the consolidated financial statements and make the required disclosures therein. Even though they may differ in their final effect, management considers the estimates and assumptions to have been adequate under the current circumstances.

Pursuant to accounting criteria A-1, "Basic Framework of the Accounting Criteria Applicable to Banking Institutions", prescribed by the Commission, the Institutions' accounting will adhere to Mexican Financial Reporting Standards, (MFRS or individually referred to as Normas de Informacion Financiera (NIFs)) defined by the Mexican Board of Financial Reporting Standards (previously the Mexican Board for Research and Development of Financial Reporting Standards (CINIF)), except when the Commission deems it necessary to apply a specific accounting standard or Circular, considering the fact that financial institutions perform specialized operations.

Explanation for translation into English

The accompanying consolidated financial statements have been translated from Spanish into English for the convenience of users. These consolidated financial statements are presented on the basis of accounting practices prescribed by the Commission. Certain accounting practices applied by the Holding Company may not conform to Mexican Financial Reporting Standards ("MFRS") or other accounting principles generally accepted outside of Mexico.

Changes in accounting policies

A. NIF D-3, Employee Benefits

On December 31, 2015, the Commission published a resolution amending the Provisions regarding the application of NIF D-3 Employee Benefits. The purpose of this provision is to publish the transitory articles that identify the options that institutions have to recognize the accounting effects as result of the entry into force of the new NIF.

Based on the above, the Holding Company took the option established in the third transitional article to progressively recognize in the stockholders' equity the changes by reformulation referred to in NIF D-3, issued by the CINIF, which became effective on January 1, of 2016, which was duly informed to the Commission in accordance with the deadlines established in the Provisions.

The recognition of the balances indicated in the NIF D-3, began in 2016 by recording 20% of the balances in that year and 20% additional in each of the subsequent years, reaching 100% in a maximum period of 5 years.

The total amounts to be recognized were determined using the corporate bonds' discount rate for market valuation of the Defined Benefit Obligation under the new Mexican NIF D-3, in the following terms:

I. The balance of changes to the plan not yet recognized is progressively recorded, recording 20% during the year 2020, which affected the items “Earnings from prior years” and correspondingly "Provision for employee benefits" and in liabilities "Sundry creditors and other payables", as follows:

Discount rate	**Total balance to be applied**	**Anual application 20%**	**Gradual recognition as of 4Q20**
Corporate Bonds	Ps. 183	Ps. Ps. 36.6	Ps. 183

II. In the case of the accumulated balance of gains or losses of the plan to be recognized (broker approach), it is progressively recorded, recording 20% during the year 2019, which affected the items “Provision for employee benefits” and correspondingly " Other creditors & accounts payable” and in liabilities " Remeasurements of defined benefits for employees within “Earned Capital", as follows:

Discount rate	**Total balance to be applied**	**Anual application 20%**	**Gradual recognition as of December 4Q20**
Corporate Bonds	Ps. 2,728.7	Ps. 485.5	Ps. 2,727.7

The application of 20% per year is recognized on a monthly and proportional basis.

The amounts that would have been recognized and presented in the balance sheet as of December 31, 2020, had the aforementioned option not been applied in the affected items are

Concept	**Amount**
Other assets and short and long term	Ps. 35,915
Total of assets	**1,562,801**
Retained earnings from prior years	118,773
Reimbursement for benefits to employees	(2,259)
Total stockholders' equity	**225,104**
Total liabilities and stockholders' equity	**Ps. 1,787,904**

(1) In this item, the "Provision for employee benefits" account is netted to show "Net Asset for defined benefits" arising from the prepayments made by the Holding Company.

Special accounting treatment of the support programs granted by the Institution derived from the COVID-19 Contingency

Given the negative impact generated in various activities of the economy derived from the epidemic by the SARS-CoV2 virus (COVID-19) in Mexico, the Holding Company has determined to support its clients by implementing various support programs that will be applicable to all customers who subscribe to the program from March 25 to July 31, 2020, as follows:

Credit card:

• The support consists of not requiring the minimum payment of the card for 4 months, without affecting the credit bureau, nor generating collection expenses or interest for non-compliance (arrears); the foregoing, as soon as the client receives confirmation, via email, of having been enrolled in the program.

• The usual payment request resumes from the month immediately after the end of the support period, that is, August 2020.

• The balance maintained in the account during the support period generates ordinary interest that is calculated monthly, is reported to the client and is not capitalized.

• Payments can be made to the card at any time.

• The credit card enrolled in the support program remains available for purchases and cash withdrawals in accordance with applicable credit policies and current terms and conditions.

Payroll credit:

• Postpone the payment of capital, interest, insurance and commissions equivalent to 4 months, according to the periodicity of payment.

• The deferral applies from the moment the client receives confirmation, by email, that they have been enrolled in the program.

• At the end of the support period, the payment of the credit will be resumed for the same amount that the client was paying before the deferral.

• The client will not pay additional interest during the program or the extension of the term.

• Advance payments can be made at any time without penalty to settle your credit on the original date.

Personal credit:

• It consists of postponing the payment of capital, interest, insurance and commissions equivalent to 4 months, according to the periodicity of payment.

• The deferral applies from the moment the client receives confirmation, by email, that they have been enrolled in the program.

• At the end of the support period, the payment of the credit will be resumed for the same amount that the client was paying before the deferral.

• The client will not pay additional interest during the program or the extension of the term.

• Advance payments can be made at any time without penalty to settle your credit on the original date.

Auto credit:

• The support consists of deferring the payment of principal and interest on the loan for the next 4 months after receiving confirmation, via email, of having been enrolled in the aforementioned program.

• The payment of the 4 monthly payments is made at the end of the originally agreed term.

• The regular payment resumes as of the month immediately after the deferral period has ended.

• The delayed interest of the 4 months indicated does not generate additional interest or commission.

• You can make advance payments at any time without penalty to settle your credit on the original date.

Mortgage credit:

• The support consists of deferring the payment of the credit for the next 4 months after receiving confirmation, via email, of having been enrolled in the aforementioned program.

• The payment of the 4 monthly payments is made at the end of the originally agreed term.

• The regular payment resumes as of the month immediately after the deferral period has ended.

• The delayed interest of the 4 months indicated does not generate additional interest or commission.

• Prepayments can be made at any time without penalty.

SME credit:

a) In simple credits:

• The support consists of not requiring the monthly payment (principal and interest) for up to 4 months.

• Deferred monthly payments are completed at the end of the term.

• The credits that are to be concluded will be extended for up to 4 months.

b) In Current Account credits:

• The support consists of not requiring the monthly payment (interest) for up to 4 months and at the same time the term of the credit will be extended for up to 4 months.

• Interest is paid at the end of the term.

• Making the total or partial payment of the principal at the end of the original term of the loan or during its life, does not exempt the client from paying the deferred interest.

• The credits that are about to be concluded will have an extension of term according to the remaining months and the payment of the capital is carried out to the new expiration date.

• During the extension of the term, the corresponding interest payment must be covered according to the obligations of the credit contract.

By virtue of the foregoing, on March 27, 2020 by letter P285 / 2020, on April 15, 2020 by letter P293 / 2020 and by statement of June 26, 2020, the National Banking and Securities Commission (the " Commission "), issued Special Accounting Criteria, applicable to the Institution for the period of February 28, 2020 and until July 31, 2020, by which it authorized that those credits in force as of February 28, 2020, and the credits granted In March 2020, according to paragraph 12 of criterion B-6 "loan portfolio" (criterion B-6) to which the payment of principal and interest was deferred according to the program, they are not considered as restructured credits in terms of paragraphs 79 and 80, likewise, if the requirements established in paragraphs 82 and 84 of Criterion B-6 are not applicable to them, as appropriate, and for them to remain as a portfolio in force during the term agreed upon in said Program. Therefore, these loans are considered as a current portfolio for the determination of the preventive estimate.

Additionally, the loans for which their payments will be deferred will not be considered as restructured in accordance with the provisions of paragraph 40 of Criterion B-6, nor should they be reported as overdue loans before the credit information companies.

The amounts that would have been recorded and presented both in the consolidated balance sheet and in the consolidated income statement by type of portfolio, if the special accounting criterion had not been applied, as well as the detail of the concepts and amounts by type of portfolio, for the which the accounting effects have been made due to the application of the special accounting criteria as of December 31, 2020, are shown below:

Concept	**Balances with COVID assitance**	**Effects on portfolio and estimates**	**Balances without COVID assistance**
PERFORMING LOAN PORTFOLIO			
Commercial loans	Ps. 497,918	(Ps. 564)	Ps. 497,354
Consumer loans	116,484	(773)	115,711
Mortgage loans	187,736	(1,118)	186,618
TOTAL PERFORMING LOAN PORTFOLIO	**802,138**	**(2,455)**	**799,683**
PAST-DUE LOAN PORTFOLIO			
Commercial loans	2,567	564	3,131
Consumer loans	4,705	773	5,478
Mortgage loans	1,659	1,118	2,777
TOTAL PAST-DUE LOAN PORTFOLIO	**8,931**	**2,455**	**11,386**
LOAN PORTFOLIO	**811,069**	**-**	**811,069**
(Less) Allowance for loan losses	(20,004)	(731)	(20,735)
LOAN PORTFOLIO	**791,065**	**(731)**	**790,334**
TOTAL ASSETS	**1,787,904**	**(731)**	**1,787,173**
Allowance for loan losses	21,930	731	22,661
NET INCOME	**30,508**	**(731)**	**29,777**
TOTAL STOCKHOLDERS' EQUITY	**225,104**	**(731)**	**224,373**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**Ps. 1,787,904**	**(Ps. 731)**	**Ps. 1,787,173**

As of December 31, 2020, the balance of credits subject to program support is Ps. 125,647.

Presentation of the Technology Platform of the Banking Core from intangible assets to fixed assets

In recent years, the Holding Company has made significant investments in its technological platform in the different technological components (tangible and intangible) to support its operations and banking products, these investments as a whole make up a technological platform, which becomes relevant as a strategic asset for current and future business.

The Holding Company took into consideration the changes derived from the internal transformation and the environment of the banking industry, to evaluate the presentation policies of the different transactions that it carries out related to investment and developments in technology. The foregoing, in order to improve the quality of financial information and to reflect the real economic substance of its operations.

Based on the analysis carried out, it is considered that the internal developments of the banking core grouped until today as intangible assets, are a substantial part of the technological platform and should be considered together as part of the fixed assets, since their essence is to operate and provide support to the banking business in conjunction with associated hardware.

As of December 31, 2020, the balance of capitalizable projects corresponding to Core Banking technology projects is Ps. 11,666.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value, except for precious metal coins, which are stated at fair value at the end of the period. Funds available in foreign currency are valued at the FIX exchange rate published by Banco de México at the consolidated balance sheet.

Margin securities

Margin securities on cash in transactions with derivative financial instruments in recognized markets are recorded at nominal value.

The cash is intended to ensure the compliance with the obligations corresponding to derivatives held in recognized markets and correspond to the initial margin, to partial or total settlements, additional contributions or withdrawals, returns generated by the account itself, as well as commissions that correspond to charge in the validity of the corresponding contracts.

Partial or total settlements deposited and withdrawn by the clearing house due to fluctuations in the prices of derivatives must be recognized within the margin account, affecting as a counterpart a specific account that may be of a debtor or creditor nature, and that It will reflect the effects of the derivative valuation prior to its liquidation. The counterpart of a debtor or creditor nature will represent an advance received, or, a financing granted by the clearing house prior to the liquidation of the derivative.

The amount of margin accounts granted and received in cash in derivative transactions not carried out in recognized markets or exchanges will be presented under other accounts receivable, while the account payable generated by the receipt of cash collateral It will be presented in other accounts payable.

Collaterals granted in such operations, other than restricted cash must remain in the same area from which they originate. The payable account, which represents the obligation of the assignee to return to the transferor the collateral other than cash that has been sold must be presented in the balance sheet, on collaterals sold or given as collateral. The amount of the collateral other than cash on which the right to sell or give as guarantee has been granted shall be presented in memorandum accounts in a specific item.

As of December 31, 2020 and 2019, the Holding Company maintained standardized derivative and future operations, so cash collateral (cash margin calls) were recognized to ensure compliance with the obligations corresponding to the operations held in markets recognized for the purpose to mitigate the default risk.

Trading securities

Trading securities are securities owned by the Financial Group, acquired with the intention of selling them for a profit derived from the price differences in short-term purchase and sale operations made by the Financial Group as a market participant.

At the time of the acquisition, they are initially recorded at fair value, which may include either a discount or premium.

These securities (including both capital and accrued interest) are stated at fair value, which is determined by the price vendor contracted by the Financial Group.

The trading securities valuation result is recorded in the results of the period.

Securities available for sale

Securities available for sale are debt or equity securities that are neither classified as trading nor held to maturity, therefore they represent a residual category, which means that, they are purchased with an intention different from trading or held to maturity.

They are valued in the same way as trading securities, but with unrealized gains and losses recognized in other comprehensive income in the consolidated statement of stockholders' equity.

If, in a subsequent period, the fair value of debt classified as available for sale were to be increased and such reversal of the impairment effect may be objectively related to an event occurring after the impairment were to be recognized in the results of the year, the loss due to impairment shall be reversed in the results of the year.

The loss due to impairment recognized in the consolidated income statement of securities classified as available for sale shall not be reversed.

Securities held to maturity

Securities held to maturity consist of debt instruments whose payments are fixed or can be determined with a set maturity, which are acquired with the intent and capability to hold them to maturity.

They are initially recorded at fair value and valued at amortized cost, which means that the amortization of the premium or discount (included in the fair value at which they were initially recorded), is part of the earned interest.

Transfers between categories

Reclassification of securities from held to maturity to available for sale is allowed, provided there is no intention or ability of holding them to maturity. In the case of reclassifications to securities held to maturity or from trading securities to available for sale securities, which can be done in extraordinary circumstances (lack of market liquidity, absence of an active market for such securities, among others), the Commission will evaluate such circumstances and, if it determines they are valid, it will issue its express authorization for their reclassification.

General valuation standards

Upon the sale of trading securities, the valuation result previously recorded in the year's results is reclassified as part of the gain or loss on the sale. Similarly, upon the sale of securities available for sale, the cumulative valuation result recorded in other comprehensive income in stockholders' equity is reclassified as part of the gain or loss on the sale.

Accrued interest on debt instruments is determined using the effective interest method and is recorded in the corresponding category of investments in securities and in the year's results.

Dividends on equity instruments are recorded in the corresponding category of investments in securities and in the year's results when the right to receive such dividends is established.

The foreign exchange gain or loss on investments in securities denominated in foreign currency is recorded in the year's results.

If securities held to maturity are reclassified as available for sale, the corresponding valuation result on the reclassification date is recorded in other comprehensive income within stockholders' equity.

In the case of debt instruments that have been authorized for reclassification from available for sale securities to held to maturity securities, the valuation result on the transfer date continues to be reported in stockholders' equity, and it is amortized based on such instrument's remaining life.

Regarding authorized reclassifications from trading securities to any other category, the valuation result on the reclassification date is already acknowledged in the year's results.

An impairment loss on a security is recorded against the year's results if there is objective evidence of such impairment as a result of one or more events, occurring after the initial recording of the security, that have had an impact on the estimated future cash flows that can be reliably determined. The effect of recording the impairment of securities is shown in Note 6.

A previously recorded impairment loss is reversed against the year's results if, in a later period, the amount of the loss decreases and such decrease is objectively associated with an event occurring after the impairment was recorded.

The Financial Group periodically verifies if its securities available for sale and held to maturity show any impairment loss, by means of an evaluation on the quarterly balance sheet date or whenever there are indications of an impairment loss.

Securities are deemed as impaired and therefore incurring an impairment loss if and only if there is objective evidence of the impairment loss as a result of a set of events that occurred after their initial value was recorded. Such events should have had an impact on the estimated future cash flows, which can be determined in a reliable manner.

These events may include: issuer's significant financial difficulties; likelihood of the issuer's filing for bankruptcy or financial reorganization; noncompliance with contractual clauses such as failure to pay interest or the principal; loss of an active market for the securities due to financial difficulties; lower credit rating and sustained decline in the issuance price, in combination with additional information.

In addition to the aforementioned events, objective evidence of impairment loss for a net asset instrument includes information about significant changes with adverse effects that occurred in the technological, market, economic or legal situation in which the issuer operates, and which indicates a possible loss of the cost of investing in the net asset instrument.

The events considered by the model are divided into:

e) Information that the Financial Group has about the securities (breach of contract covenants, financial, economic or legal problems).
f) Information that the Financial Group has about the issuer (issuer's probability of bankruptcy, financial reorganization and financial difficulties).
g) Information that the market has about the securities (rating assigned by Commission-approved agencies).
h) Information that the market has about the issuer (rating assigned by Commission-approved agencies).

The evaluation model that the Financial Group applies to determine impairment loss incorporates the aforementioned events according to their importance and rates them as per the severity percentage used to estimate the return on investment. Similarly, it incorporates the existence of guarantees, which contributes to lower impairment losses.

The investments on which impairment losses have been recognized are analyzed on a quarterly basis to identify the possible recovery of their value and, if applicable, reverse the recorded loss in the consolidated income statements for the year such recovery is achieved.

Customer repurchase agreements (repos)

This is a transaction through which the purchaser acquires ownership of credit securities for a sum of money and is obliged to transfer the property of another amount of securities of the same kind to the seller of the securities within the agreed term and in exchange for the same price plus a premium. The purchaser keeps the premium unless agreed otherwise.
Repurchase transactions are recorded according to their economic substance, which is financing with collateral, through which the Financial Group, acting as the purchaser, provides cash as financing in exchange for financial assets as guarantee in case of non-compliance.

On the repurchase agreement transaction contract date, the Financial Group, acting as the seller, records the cash inflow, or else a settlement debtor account as well as a payable account at its fair value, initially at the agreed price, which represents the obligation to reimburse the cash to the purchaser. The account payable is subsequently valued over the term of the repurchase agreement at amortized cost by recognizing the interest from the repurchase agreement in the year's results using the effective interest method.

As to the collateral granted, the Financial Group reclassifies the financial asset in the consolidated balance sheet as restricted and values it according to the criteria mentioned earlier in this note until the maturity of the repurchase agreement.

The Financial Group, acting as the purchaser, on the repurchase transaction contract date records cash and cash equivalents or a creditor settlement account, with an account receivable at its fair value, initially at the agreed price, which represents the right to recover the cash that was delivered. The receivable is subsequently valued over the life of the repurchase agreement at amortized cost by recognizing the repurchase agreement interest in the year's results using the effective interest method.

As to the collateral received, the Financial Group records it in off balance sheet memorandum accounts until the repurchase agreement's maturity, following the guidelines of Circular B-9, "Asset Custody and Management", issued by the Commission.

Derivatives financial instruments

The Financial Group is authorized to perform two types of transactions involving derivatives financial instruments:

Transactions to hedge the Financial Group's open risk position: Such transactions involve purchasing or selling derivatives financial instruments to mitigate the risk resulting from one or a group of given transactions.

Transactions for trading purposes: The Financial Group enters into such transactions as a market participant for reasons other than to hedge its exposed position.

Transactions with derivatives financial instruments are presented in assets or liabilities, as applicable, under the heading "Derivatives financial instruments", separating derivatives for trading purposes from those for hedging purposes.

When entering into transactions involving derivatives financial instruments, the Financial Group's internal policies and norms require an assessment and if necessary determination of different risk exposures for each counterparty in the financial system that have been authorized by Banco de México to enter into these types of transactions. Regarding corporate customers, a preauthorized credit line by the National Credit Committee must be granted or liquid guarantees must be given through a securitized collateral contract before entering into these types of transactions. Medium and small sized companies and individuals must provide liquid guarantees established in securitized collateral contracts with this type of transactions.

The recognition or cancellation of assets and/or liabilities resulting from transactions involving derivatives financial instruments occurs when these transactions are entered into, regardless of the respective settlement or delivery date of the goods.

Forward and futures contracts

Forward and futures contracts with trading purposes establish an obligation to buy or sell a financial asset or an underlying at a future date in the quantity, quality and prices pre-established in the contract. Future contracts are recorded initially by the Financial Group in the consolidated balance sheets as an asset and a liability at fair value, which represents the price agreed in the contract in order to acknowledge the right and obligation of receiving and/or delivering the underlying, as well as the right and obligation of receiving and/or delivering the cash equivalent to the underlying, object of the contract.

The derivatives are presented in a specific item of the assets or liability depending on whether their fair value (as a consequence of the rights and/or obligations it establishes) corresponds to the debtor balance or creditor balance Such debtor or creditor balances in the consolidated balance sheets are offset when the Financial Group has the contractual right to offset the stated amount, the intention of liquidating the net amount or to realize the asset and cancel the liability simultaneously.

In the case of transactions for trading purposes, their balance represents the difference between the fair value of the contract and the established "forward" price.

Option contracts

Through paying a premium, options contracts grant the right but not the obligation to buy or sell a financial asset or underlying instrument at a given price within an established term.

Options are divided into: options to buy (calls) and options to sell (puts). Both can be used as trading or hedging instruments.

Options can be executed on a specific date or within a certain period of time. The price is agreed in the option and may be exercised at the discretion of the buyer. The instrument used to establish the price is the reference or underlying value.

The premium is the price the holder pays to the issuer for the option rights.

The holder of a call option has the right, but not the obligation, to purchase from the issuer a certain financial asset or underlying instrument at a fixed price (transaction price) within a certain term.

The holder of a put option has the right, but not the obligation, to sell a certain financial asset or underlying instrument at a fixed price (transaction price) within a certain term.

The Financial Group records the option premium as an asset or liability at the transaction date. The fluctuations resulting from market valuation of the option’s premium are recorded by affecting the consolidated income statement in the account "Trading results” and the corresponding consolidated balance sheet account.

Swaps

These are two-party contracts through which a bilateral obligation is established to exchange a series of cash flows for a certain period of time on pre-set dates at a nominal or reference value.

They are recorded at fair value which corresponds to the net amount between the asset and liability portion for the rights and obligations agreed upon; they are subsequently valued at fair value using the present value of the future flows to receive or grant according to the projections for future implicit applicable rates, discounting the market rate on the valuation date with yield curves given by the price provider. The result of such valuation is recorded in the year’s results.

Management’s risk policy regarding hedging contracts is to protect the Financial Group's consolidated balance sheets and to anticipate interest and exchange rate fluctuations, thereby protecting the stockholders’ equity.

For hedging derivatives, the Financial Group applies the fair value and cash flow hedging methods and the accumulated compensation method to measure effectiveness. Such methods are approved by current accounting standards. In case ineffective hedges are detected, they are recorded in the year’s results.

The Financial Group documents hedging transactions from the moment that derivatives instruments are designated as hedging transactions. A file for each transaction is created in order to have documented proof as per Circular B-5, paragraph 72 “Derivatives financial instruments and hedging transactions” (B5) issued by the Commission, which establishes conditions for the use of hedging accounting.

Accordingly, the Financial Group documents its cash flow's hedging transactions based on the following guidelines:

c. The effective portion of the hedging instrument's gain or loss is recorded as a component of other comprehensive income in stockholders' equity using an asset or liability account called derivatives financial instruments'' with an offsetting account in liquid assets or liabilities. The portion determined as ineffective is measured through retrospective testing, and when it results in over-hedging, it is immediately recognized in the period's results under "Trading results".

d. The effective hedging component recognized in stockholders' equity associated with the hedged item is adjusted to equal the lowest (in absolute terms) of:

   i. The accumulated gain or loss of the hedging instrument from its inception.
   ii. The accumulated change in fair value (present value) of the hedged expected future cash flows from the beginning of the transaction.

Valuation techniques

Since the derivatives used by the Financial Group are considered as conventional ('"Plain Vanilla'') standard valuation models contained in the derivative transaction systems and the Financial Group's risk management are used.

All of the valuation methods that the Financial Group uses result in fair value of the transactions and are periodically adjusted. Furthermore, they are audited by internal and external auditors as well as by the financial authorities.

Valuation of the positions is done on a daily basis and a price provider generates the input used by the transaction and risk management systems. The price provider generates these valuations based on daily market conditions.

The valuation methods are based on the market's accepted and commonly used principles. At present, derivatives are valued by the cash flow present value method, except in the case of options. This method consists of estimating future derivative flows, using the difference between the derivative's fixed level and the forward market curves on the valuation date, and then discounting such flows and updating them to the present value. Options are valuated under the Black_Scholes model, which in addition to the present value calculation, involves the volatility and probability of occurrence for calculating the premium. Once the option's market value is obtained, it is compared to the original premium accrued on the valuation date.

Cancellation of hedging accounting

A cash flow hedging relation is cancelled when:

5. The hedging instrument expires or is sold, terminated or enforced;
6. The hedging fails to meet the requirements of documentation, evaluation and effectiveness measuring;
7. The projected transaction is not expected to occur;
8. The hedging designation is revoked.

For cases 1 and 2, the profit or loss recorded in net income stays in that account until the projected transactions occurs. For case 3, the profit or loss recorded in net income should be immediately restated in results; and for case 4, if the hedging is on a projected transaction, the loss or profit stated in net income should stay in that account until the projected transactions is realized. Otherwise, it should be immediately restated in results.

A fair value hedging relation is canceled when:

4. The hedging instrument expires or is sold, terminated or enforced;
5. The hedging fails to meet the requirements of documentation, evaluation and effectiveness measuring;
6. The hedging designation is revoked.

Any adjustment to the result from the valuation adjustment of the hedged item attributable to the covered risk, should be amortized in the period's results. The amortization begins as soon as the adjustment turns up, and under no circumstance after the hedged item is no longer adjusted due to changes in the fair value attributable to the risk covered. The adjustment should be amortized in full on the due date of the hedged item.

Operation strategies

Trading

The Financial Group participates in the derivatives market with trading purposes, and the risk exposures generated are computed within its overall VaR limit.

The trading strategy is submitted on a weekly basis to the Financial Group's Treasury Committee, which analyzes the current risks and takes any necessary decisions.

The trading strategy is carried out according to market levels and expectations, maximizing the circumstances to obtain a benefit by trading, margin and volatility. Each trading strategy is submitted to the Treasury Committee on a weekly basis for its consideration. The Risk Policies Committee analyzes the risks and then decides accordingly.

Hedging

The hedging strategy is determined annually and when market conditions require it. Hedging strategies are submitted to the Risk Policies Committee.

Hedging transactions comply with the applicable norm set forth in Circular B-5, "Derivatives and hedging transactions", issued by the Commission. This implies, among other things, that the hedge's effectiveness must be evaluated both prior to its arrangement (prospective) as well as thereafter (retrospective). These tests are performed on a monthly basis.

The hedging strategy is determined annually and each time the market conditions require. Hedges are used to reduce foreign exchange risks, through both, exchange rate forwards and currency swaps, as well as interest rates by means of interest rate swaps. This is performed with the purpose of setting the rates paid on debt issued by the Financial Group, thereby ensuring the debt servicing, as well as to make investments that generate greater value for the customers. The main strategy is to ensure that the Financial Group's future income and expenses are covered, maximizing its profitability.

Hedging derivatives can be restated completely or partially due to hedging inefficiencies, maturity or sale of primary position.

Contingencies

To enter the derivatives market, the Financial Group is bound by agreement to deliver its financial information in a timely manner and to abide by the applicable laws, regulations and provisions, as well as to provide written notice to the affected parties in case that an event arises that could be considered as early termination, which could lead to a credit contingency. These include the following: bankruptcy filing, payment suspension, restructuring, intervention, liquidation, dissolution or other similar judicial or extra-judicial proceedings that affect the Financial Group; if the statements stipulated in the contract are incorrect; the Financial Group's failure to fulfill its obligations and/or payments; breach of contract; the Financial Group's consolidates or merges with another entity thereby transferring a substantial portion of its assets; failure to provide the guarantees that were agreed in the event of noncompliance with obligations or if such guarantees expired or diminished in value; the Financial Group's falls into insolvency, lower credit quality or illegality due to changes in the tax or legal legislation; the existence of a ruling, proceeding or embargo against the Financial Group that could substantially affect its ability to fulfill its obligations in a timely manner; or general noncompliance with obligations. Each ground for early termination is subject to the counter-party's consideration in order to determine its importance and significance regarding the Financial Group's ability to comply.

At present, no such contingency situations have arisen.

Embedded derivatives

Embedded derivatives are those contract components that do not intend to explicitly originate a derivative financial instrument but rather that the implicit risks generated or hedged by those components differ in their economic and risk features from those of the contract, and therefore display a behavior and features similar to those of a common derivative.

Identified embedded derivatives are separated from the host contract for valuation purposes and are treated as a derivative when they meet the features outlined in Circular B-5 paragraph 22, unless the implicit derivative is denominated in a currency commonly used for the purchase and sale of non-financial items in the economic environment where the transaction takes place. The main embedded derivatives recognized by the Financial Group prior to January 2011 are from service and leasing contracts established in US dollars.

Loan portfolio

The loan portfolio represents the balance of amounts effectively granted to borrowers plus uncollected accrued interest minus interest collected in advance. The allowance for loan losses from credit risks is presented as a reduction of the loan portfolio.

The unpaid loan balance is classified as past-due portfolio as follows:

- Loans with bullet payment of principal and interest at maturity: 30 calendar days after being overdue.
- Loans involving a single principal payment at maturity, but with periodic interest payments: 90 calendar days after interest payment overdue, 30 calendar days after principal payment overdue.
- Loans for which the payment of principal and interest is agreed based on partial periodic payments, 90 calendar days after the first payment is due.
- In the case of revolving loans, whenever payment is outstanding for two billing periods or when they are 60 or more days overdue.
- Overdrawn customer checking accounts are considered as part of the past-due portfolio when such situations arise.

Interest is recognized and accrued as income when earned. The accrual of interest income is suspended when loans are transferred to the past-due portfolio.

The fees charged the initial granting, restructuring and renewal of loans will be recorded as a deferred credit, which will be amortized as interest income, using the straight line method over the loan’s contractual term, except those originating from revolving loans, which are amortized over a 12-month period.

Annual credit card fees, whether the first annual charge or subsequent of a renewal, are recorded as a deferred credit and amortized over a 12-month period against the year’s results in the commission and fee income line item.

The costs and expenses associated with the initial granting, restructuring and renewal of a loan are stated as a deferred charge, which is amortized against the year's earnings as interest expense for the duration of the loan, except those originating from revolving loans and credit cards as they are amortized over a 12-month period.

Restructured past-due loans are not considered in the performing portfolio until evidence of sustained payment is obtained; this occurs when credit institutions receive three timely consecutive payments, or a payment is received for periods exceeding 60 days.

The restructured credits are renewed with single payment of principal at maturity, regardless of whether the payment of interests is periodic or at maturity, it is considered that there is sustained payment of credit when, The accredited has covered at least 20%t of the original amount of the loan at the time of the restructuring or renewal, Or, has covered the amount of accrued interest in accordance with the scheme of payments by restructuring or renewal for a period of 90 days.

Accrued interest during the period in which the loan was included in the past-due portfolio is recognized as income when collected.

The recognition of interest income is renewed when the portfolio is no longer considered past-due, which occurs when the outstanding balances, including the principal, interest and any other item, are paid in full.

Restructured loans are those whose terms have been modified due to the borrowers' financial difficulties, and it was decided to grant them a concession. Such modifications may include reductions in the interest rate, debt discount or term extensions.

The Financial Group regularly evaluates whether a past-due loan should remain in the balance sheet or be written off. Such write-offs are done by canceling the outstanding loan balance against the allowance for loan losses. The Financial Group may opt to eliminate from its assets those past-due loans that are 100% provisioned according to the following parameters:

- Commercial loans – Must be classified in past-due loans, with an E risk rating, 100% reserved, unsecured by any fund.
- Consumer loans – 180 days or more overdue.
- Mortgage loans – 270 days or more overdue.

Allowance for loan losses

Internal methodology for credit portfolio, consumer credit rating and other revolving credits

On November 15, 2017, the Holding Company received approval from the banking regulator to use Internal Models (IM) for credit card rating for reserves and regulatory capital generation by credit risk with an advanced focus (Document 111-3/706/2017).

These internal models improve overall credit risk management by estimating risk parameters from the bank's own experience based on January 2018 data, and have been applied as of February 2018.

The internal methodology describes that the determination of the rating and estimation of the reservation of the credit card consumption portfolio and other revolving credits are considered as the following credit risk parameters:

Ri =PIi * SP * EIi

Where:
Ri = Loan reserves to record for Eli credit
PIi = Probability of default for Eli credit
SPi = Severity of the los for Eli credit
EIi = Expose to default for i – estimated credit

For the determination of the reserve is necessary to use the probability of default, the severity of the loss and the exposure to breach, agree to the following:

1. Probability of default of the Internal Model

The probability of default (PI) measures how likely it is that an accredited leave to comply with their contractual obligations and is assigned with the information in the following table according to their risk level previously determined by the internal model of Credit Card.

Risk level	PI
A-01	0.00646233
A-02	0.00668129
A-03	0.00770357
A-04	0.00899237
B-01	0.01008105
B-02	0.01538093
B-03	0.01962636
B-04	0.02590753
C-01	0.03379690
C-02	0.04619679
C-03	0.06073381
C-04	0.08180872
D-01	0.11804428
D-02	0.17143767
D-03	0.30358352
D-04	0.71565748
E	1

2. Severity of the loss

Severity of Loss. Measures the intensity of the loss upon default expressed as a percentage of the Exposure at Default (EAD), once considered collateral values and the costs associated regarding the settlement (judicial, administrative collection, and deed in lieu, among others).

Clasification	Overdue payments	SP
Payed	0 – 3	87.16%
Unpayed	4	87.16%
	5	90.30%
	6 and more	100%

3. Probability of Default

Probability of Default (PD) shows the likelihood that a borrower defaults on its contractual obligations within twelve months after the month being rated. Default is defined when loans present 90 or more days past-due.

The credit conversion factor (FCC) assignment to estimate the EI is performing according to the following table:

Delay	Factor
01	1.8475
02	2.0624
03	1.2974
04	1.1693
05	1.2167
06	1.0985
11	1.2583
12	1.1074
13	1.0398
14	1.0790

Delay	Factor
15	1.0247
21	1.1145
22	1.0907
23	1.0385
24	1.0161
25	1.0241
31	1.0129
32	1.0086
33	1.0053
5	0.6549

Delay segment in defined in the internal model.

The value of the Factor assigned to each segment proceeds to rate the exposure to non-compliance.

When the account balance is greater than zero: EI = Factor_Arbol * Accountant balance

When the account balance is less than or equal than zero and the limit credit is empty: EI = 0.6549 * Credit limit.

Application of new portfolio rating criteria

The loan portfolio is classified according to the rules issued by the SHCP and the methodology established by the Commission. Internal methodology authorized by such Commission may also be used.

Such provisions also establish general methodologies for the rating and calculating the allowance for each type of loan, while also allowing credit institutions to classify and calculate allowances based on internal methodologies, when previously approved by the Commission.

The commercial loan portfolio rating procedure requires credit institutions apply the established methodology (general or internal) based on quarterly information for the periods ending in March, June, September and December of each year, while also recording the allowances determined at the close of each month in their financial statements. Furthermore, during the months following each quarterly close, financial institutions must apply the respective rating to any loan used at the close of the immediately preceding quarter, based on the outstanding balance in effect on the last day of the aforementioned months. The allowances for loan risks that have exceeded the amount required to rate the loan will be cancelled against the period's results on the date of the following quarterly rating. Additionally, recoveries on the previously written-off loan portfolios are recorded in the period's results.

General description of rules established by the Commission

The rules for rating the consumer, mortgage and commercial loans (excluding loans to financial intermediaries and loans intended for investment projects having their own source of payment) indicate that their allowance for loan loss should be determined based on the estimated expected loss of the loans over the next twelve-month period.

Such methodologies stipulate the estimate of such loss evaluates the probability default, the severity of the loss and the exposure to non-compliance. The result of multiplying these three factors is the estimated expected loss that is the same as the amount of the reserves needed in order to face the loan risk.

Depending on the type of loan, the probability default, severity of the loss and exposure to non-compliance are determined by considering the following:

Probability of breach of contract

- Non-revolving consumer loan – takes into account the current delay, the payments made on the past due balances, how many times the original value is paid, the type of loan, the remaining terms, among others.

- Revolving consumer loan – considers the current situation and historical behavior regarding the number of outstanding payments, how old the accounts are, the payments on the balance, as well as what percentage of the authorized line of credit has been used.
- Mortgage loan – considers the current delay, maximum number of delays over the last four periods, willingness to pay and the value of the property with respect to the loan balance.
- Commercial loans – consider the type of debtor, payment experience, INFONAVIT payment history, rating agencies' evaluation, financial risk, social-economical risk, financial soundness, country and industry risk, market positioning, transparency, standards and corporate governance.

Severity of the loss

- Revolving and non-revolving
- Consumer loan – depends on the number of outstanding payments.
- Mortgage loan – considers the amount of the property sub-account, unemployment insurance and the state where the loan was granted.
- Commercial loans – consider actual financial and non-financial guarantees as well as personal guarantees.

Exposure to non-compliance

- Non-revolving consumer loan – loan balance at the rating date.
- Revolving consumer loan – considers the current use of the credit line to estimate how much its use would increase in the event of non-compliance.
- Mortgage loans – loan balance at the rating date.
- Commercial – for revocable loans, the loan balance at the rating date is considered. For irrevocable loans, the current use of the credit line to estimate how much its use would increase in the event of non-compliance is considered.

The Commission's rules for rating commercial loan debtors for loans intended for investment projects having their own source of payment, indicate that the rating must be done by analyzing the risk of projects in the construction and operation stage evaluating the project's cost overrun and cash flows.

General Description of Internal Methodologies

<u>Internal models ratings for reserves and regulatory capital constitution</u>

Applicable Portfolio

The Holding Company owns a Rating Internal Model for Revolving Consumer portfolio for the constitution of reserves and capital under an Advanced Approach, estimating the three parameters required for its calculation: Probability of Default (PD), Severity of Loss (SL) and Exposure at Default (EAD). Additionally, owns a Rating Internal Model for Corporations portfolio, for the constitution of reserves and capital under a Basic Approach, estimating only the Probability of Default (PD) parameter.

The exposures considered in the Commercial Loans portfolio are those pertaining to corporations (other than states, municipalities and financial entities), and individuals (sole proprietorships), both with annual sales higher or equal to 14 million UDIs.

The methodology used by the Holding Company in the estimation of the parameters and the calculation of reserves and capital, follows the guidelines established by the banking regulator CNBV (Comisión Nacional Bancaria y de Valores), in relation to the general provisions applicable to Credit Institutions stipulated in the Single Bank Circular (Circular Única de Bancos CUB).

On November 15, 2017, the Holding Company received approval from the banking regulator CNBV to use Internal Models (IM) for credit card rating for reserves and regulatory capital generation by credit risk with an advanced focus (Document 111-3/706/2017).

Likewise, on November 30, 2018, the Holding Company obtained authorization from the banking regulator CNBV (Comisión Nacional Bancaria y de Valores) to use the Internal Model (IM) for Commercial Loans for reserves generation and regulatory capital requirements by credit risk with a Basic Approach, as per Document 111-3/1472/2018 in Banco Mercantil del Norte, and on March 1, 2019 for Arrendadora y Factor Banorte, Sólida Administradora de Portafolios, as per Documents 111-1/160/2019 y 111-1/161/2019 respectively.

Internal Models used by the Institution, like the Standard Models, have an expected loss approach for the next twelve months.

Internal Models grant a comprehensive credit risk management, considering the portfolio's own risk in such a way that the resulting models show greater predictability, derived from the use of specific attributes for each of the segments.

One of the purposes of internal estimations is to calculate Reserves and Capital Requirements for Credit Card and Commercial Loans Portfolios, which must be rated in accordance with the General Provisions Applicable to Credit Institutions described in the Single Bank Circular.

<u>Internal Rating Process</u>

Commercial Loans

For the Commercial Loans portfolio, the estimation of the Probability of Default (PD) is performed using the Internal Model with Basic Approach, considering internal and external variables.

Once PD is determined, Severity of Loss (SL) and the Exposure at Default (EAD) are considered under the Standard Method, and once the above factors have been obtained, the Expected Loss (EL) is computed as follows:

EL = PD * SL * EAD

Credit Cards Portfolio

In the Credit Card portfolio, the Rating System scale allows the Institution to have a better credit risk management when considering the portfolio's own risk, in order to continuously monitor customers and to prevent or mitigate adverse events.

Its main purpose is to segregate population into homogeneous subsets (buckets), so that the resulting models show greater predictability, derived from the use of specific attributes for each of the segments.

Auto Loans

Since January 2020, the Financial Group has been authorized to use an internal methodology under an advanced approach for the Auto portfolio. This methodology is used to estimate reserves and capital requirements for credit risk, in accordance with what is established in the regulation.

The probability of default, the severity of the loss and the exposure to default of this methodology is determined considering the following:

Probability of Default

It takes into account overdue payments, seniority in the institution and the age of the loan, as well as external behavior variables: maximum delinquency and use in other financial institutions observed in different time windows.

Loss Severity

There are differentiated models for each segment based on the ratio of the book balance / amount of the guarantee that, through different time windows, brings the costs associated with the recovery (recoveries, deductions and discounts) to present value, and are expressed as a percentage of the exposure at default.

Exposure to Default

As it is a non-revolving credit, the amount of the accounting balance is taken at the time of qualification.

<u>Internal Models' Variable Estimation</u>

Probability of Default

Probability of Default (PD) shows the likelihood that a borrower defaults on its contractual obligations within twelve months after the month being rated. Default is defined when loans present 90 or more days past-due.

For its estimation, information from internal and external variables is used with which a score is obtained, which is mapped to a master rating measuring risk level.

Severity of Loss

Severity of Loss. Measures the intensity of the loss upon default expressed as a percentage of the Exposure at Default (EAD), once considered collateral values and the costs associated regarding the settlement (judicial, administrative collection, and deed in lieu, among others).

The estimation of the Severity of Loss (SL) implies calculating present value of flows at default date, granting a comparable measure for loans with different recovery periods.

Exposure at Default

Exposure at Default (EAD) is the amount of the debt at the time of default of a loan. It is estimated on a conversion factor basis, which considers the relationship between balance and the unused credit line.

Its estimate is based on the conversion factor, which considers the relationship between the current balance and the remain amount of the credit lines.

In the particular case of the Commercial Loan portfolio, Severity of Loss (SL) and Exposure at Default (EAD) are used in accordance with those established on the CUB for Standard Models.

Probability of Default

- There are differentiated models according to the current delay, which take into account aspects such as use, internal transactionality, the client's confidence with the institution, age of the account and external behavior variables such as maximum delinquency and use in other financial institutions observed in different time windows.

Acquired collection rights

This balance is represented by the acquisition cost of the various loan asset packages acquired by the Financial Group, which are subsequently valued by applying one of the three following methods:

Cost recovery method – Payments received are applied against the acquisition cost of the loan portfolio until the balance equals zero. Recoveries in excess of the acquisition cost are recognized in current earnings.

Interest method – The result of multiplying the acquired portfolio's outstanding balance by the estimated yield is recorded in current earnings. Differences between the Financial Group's collection estimates and actual collections are reflected prospectively in the estimated yield.

Cash basis method – The amount resulting from multiplying the estimated yield times the amount actually collected is recorded in the consolidated income statements provided it is not greater than the amount obtained by the interest method. The difference between the recorded amount and the amount collected reduces the outstanding portfolio balance, once the entire initial investment has been amortized. Any subsequent recovery will be recorded in the consolidated income statements.

For the portfolios valued using the interest method, the Financial Group evaluates them twice a year to verify if the cash flow estimate of its collection rights is consistent with actual recoveries and therefore considered to be effective. The Financial Group uses the cost recovery method on those collection rights in which the expected cash flow estimate is not highly effective. The expected cash flow estimate is considered as "highly effective" if the result of dividing the sum of the flows collected by the sum of the expected cash flows is between 0.8 and 1.25 when such effectiveness is evaluated.

Loan asset impairment – The Financial Group carries out an expected cash flow assessment periodically while collection rights are still effective, and if based on the events and information gathered, it determines that said cash flows will drop, it develops an estimate of non-recoverability or doubtful accounts vs. the period's results in the amount in which said expected cash flows are lower than the book value of the account receivable.

Premium receivables

This balance represents the premiums pending collection on the balance date. Pursuant to the provisions of the General Law of Institutions and Mutual Insurance Companies (the Law) and the Mexican National Insurance Commission CNSF, premiums over 45 days old should be cancelled against the year's earnings including, if applicable, the technical reserves, acquisition cost and relative reinsurance granted, and should not be considered in the coverage of technical reserves.

Based on the internal policy approved by the CEO, the administration authorized excluding the cancellation process for certain policies with a premium over 45 days old and that has not been collected totally or partially. These accounts are indeed collectible and negotiations with the insured are currently underway, excluding debts under federal public administration's and entities' charge. The non-accrued net premium, fees and reinsurance should be subtracted from such amount to determine its net effect on earnings. This amount was not computed for the coverage of technical reserves.

Reinsurance

According to the rules of the CNSF, a portion of the insurance contracted by the Financial Group is ceded in reinsurance to other insurance or reinsurance companies. Therefore they are part of both the premiums and the casualty rate cost.

Securitization involving transfer of ownership

Through securitization transactions involving the transfer of ownership in mortgage and government loans, the Financial Group transfers those financial assets to a trust so that it may publicly issue securities through an intermediary. The securities represent the right to the yield on the securitized portfolio and, as compensation; the Financial Group receives cash and a record, which grants it the right over the trust's residual cash flows after settling the certificates to their holders. This record is recorded at its fair value under "Receivables generated by securitizations".

The Financial Group provides administration services for the transferred financial assets and records the revenue thereof in the period's earnings when accrued. These revenues are recorded under “Other Operating Income (expenses)”.

The valuation of the benefits to be received from securitization operations is recorded in the consolidated income statement under “Other revenues”, as applicable.

Other accounts receivable and payable

The Financial Group performs a study to quantify the different future events that could affect the amount in accounts receivable over 90 days and thus determine the percentage of non-recoverability in order to calculate its allowance for doubtful accounts, as per the provisions. The remaining balance of accounts receivable is reserved at 90 calendar days from the initial recognition.

The balances of asset and liability settlement accounts represent transactions involving the sale and purchase of currency and securities, recorded when entered into and are settled within 48 hours.

The investment projects’ balances represent financing to investment projects’ trusts (especially in the development of social housing). The Financial Group acknowledges a yield from the trust financing disposal, which is related to the construction project’s progress compliance and/or sale as stated in each trust’s agreement. Failure to meet the construction project’s progress and/or sale as stipulated in the agreement, the Financial Group stops recording the funding yield.

To assess investment projects, each project’s expected value is determined according to the expected flow of the sale of investment project’s potential inventory or that of a portfolio of investment projects of the Financial Group based on the current business plan.

The impairment of fiduciary rights will be determined based on the projection of cash flows to be recovered discounted at present value using a corresponding interest rate, in accordance with the policy mentioned in note 3.

Merchandise inventory

This is comprised mainly of finished goods and is restated to the lower of replacement cost or market. Cost of sales, included in “Other Operating Income (expenses)” in the consolidated income statements is restated using the replacement cost at the time of the sale.

Impairment of the value of long-lived assets and their disposal

The Financial Group has established guidelines to identify and, if applicable, record losses derived from the impairment or decrease in value of long-lived tangible or intangible assets, including goodwill.

Foreclosed assets, net

Foreclosed property or property received as payments in kind are recorded at the lower of their cost or fair value minus the strictly necessary costs and expenses disbursed in the foreclosure. Cost is determined as the forced-sale value established by the judge upon foreclosure or, in the case of payments in kind, the price agreed between the parties involved.

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is higher than the foreclosed property, the difference is recorded in the period's results under "Other operating income (expenses)”.

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is lower than the foreclosed property, its value is adjusted to the asset’s net value.

The carrying value is only modified when there is evidence that the fair value is lower than the recorded carrying value. Reductions in the carrying value of the loan are recorded in the current earnings as they occur.

The provisions applicable to the new valuation methodology for the allowance for loan losses mentioned above define the valuation methodology for reserves related to either foreclosed property or those assets received as payment in kind, establishing that additional quarterly provisions must be created to recognize the potential decrease in value over time of property awarded under legal proceedings, out-of-court or received as payment in kind and the investments in securities received as foreclosed goods or payment in kind, based on the following guidelines:

I. In the case of collection rights and movable property, the provisions referenced in the preceding paragraph must be treated as follows:

Movable property reserves	
Time elapsed as of award date or receipt as payment in kind (months)	**Reserve percentage**
Up to 6	-%
More than 6 and up to 12	10%
More than 12 and up to 18	20%
More than 18 and up to 24	45%
More than 24 and up to 30	60%
More than 30	100%

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the value of collection rights or foreclosed property, received as payment in kind or awarded in a court proceeding.

II. Investments in securities must be valued in accordance with the provisions of the Commission's accounting Circular B-2, using annual audited financial statements and monthly financial information of the issuer.

Following the valuation of foreclosed assets or those received as payment in kind, the reserves resulting from applying the percentages established in the table of Section I above to the estimated value, must be created.

III. In the case of real estate property, provisions must be created as follows:

Real estate property reserves	
Time elapsed as of award date or receipt as payment in kind (months)	**Reserve percentage**
Up to 12	-%
More than 12 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the awarded value of the property based on the accounting criteria. Furthermore, when problems are identified regarding the realization of the value of the foreclosed property, the Financial Group records additional reserves based on management's best estimates. On December 31, 2020, there ware no reserves other than those created by the percentage applied based on the accounting criteria that could indicate realization problems with the values of the foreclosed properties.

If appraisals subsequent to the foreclosure or payment in kind result in the recording of a decrease in the value of the collection rights, securities, movable or real estate property, the reserve percentages contained in the preceding table can be applied to the adjusted value.

Property, furniture and equipment

Property, furniture and equipment are recorded at acquisition cost. The balances of acquisitions made up to December 31, 2007 are restated using factors derived from the value of the UDI of that date.

Depreciation is calculated using the straight-line method based on the useful lives of the assets as estimated by independent appraisers.

Permanent stock investments

The Financial Group recognizes its investments in associated companies where it has significant influence but not control using the equity method, based on the book values shown in the most recent financial statements of such entities.

Income taxes

Income tax (ISR) is recorded in the year it is incurred. Deferred income taxes are calculated by applying the corresponding tax rate to the applicable temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carryforwards and certain tax credits. The deferred income tax assets are recorded only when there is a high probability of recovery.

The net effect of the aforementioned items is presented in the consolidated balance sheet under the "Deferred Income taxes, net" line.

Intangible assets

Intangible assets are recognized in the consolidated balance sheets provided they are identifiable and generate future economic benefits that are controlled by the Financial Group. The amortizable amount of the intangible asset is assigned on a systematic basis during its estimated useful life. Intangible assets with indefinite lives are not amortized and their value is subject to the annual impairment tests.

The intangible assets related to the technological platform of the banking core are identified and presented under the heading of "Property, furniture and equipment, net".

Goodwill

The Financial Group records goodwill when the total fair value of the acquisition cost and the Minority Interest is greater than the fair value of the net assets of the acquired business, pursuant to NIF B-7, “Business acquisitions.” As goodwill is considered an intangible asset with an indefinite life, it is subject to impairment tests at least annually according to NIF C-15, “Impairment in the value of long-lasting assets and their disposal.” No indicators of impairment of goodwill have been identified as of December 31, 2020 and 2019.

Deposits

Liabilities derived from deposits, including promissory notes settled at maturity, are recorded at their funding or placement cost plus accrued interest, determined according to the number of days elapsed at each monthly close, which are charged against results when accrued as an interest expense.

Interbank and other loans

These loans are recorded based on the contractual value, recognizing the interest in the year’s earnings as accrued. The Financial Group records in this item the direct loans obtained from domestic and foreign banks, loans obtained through bids with Banco de Mexico and development funds’ financing. Furthermore, this includes discounted loan portfolios from funds provided by banks specializing in financing economic, productive or development activities.

Technical reserves

According to the Commission, all technical reserves must be audited by independent actuaries on a yearly basis. On February 9, 2021 and February 13, 2020, the actuaries have confirmed that in their opinion, the amounts of the reserves recorded by the Financial Group as of December 31, 2020 and 2019 are reasonably acceptable based on its liabilities, and are within the parameters that the actuarial practice indicates and comply with the criteria considered by the authorities in the matter.

Technical reserves are constituted pursuant to the terms set forth by the Law, as well as to the provisions issued by the CNSF. To value the technical reserves, the Insurance Company used the valuation methods of the provisions set forth in Chapter 5, “Technical Reserves” in the CUSF published in the Official Gazette on December 19, 2014.

1) Unexpired risk reserve:

In terms of the provisions of section I of article 217 of the LISF, the unexpired risk reserve is intended to cover the expected value of future liabilities arising from the payment of claims, benefits, guaranteed securities, dividends, acquisition and administrative costs, as well as any future liability arising from insurance contracts.

The unexpired risk reserve will include the amount of premiums issued in advance, understanding that a premium issued in advance is when it is ssued on a date prior to the effective date of the policy to which said premium corresponds.

The reserve for insurance operations is determined in accordance with actuarial formulas, considering the characteristics of policies in force, reviewed and approved by the Commission.

The unexpired risk reserve is valued in accordance with the following:

I. The amount of the unexpired risk reserve shall be equal to the sum of the best estimate and a risk margin, which shall be calculated separately.

II. The best estimate will be equal to the expected value of the future flows of liabilities, understood as the weighted average probability of these flows, considering the time value of t money based on the risk-free market interest rate curves for each currency or monetary unit provided by the price provider with which they maintain a contract.

III. The calculation of the best estimate shall be based on timely, reliable, homogeneous and sufficient information as well as realistic assumptions and shall be made using actuarial methods and statistical techniques based on the application of the actuarial practice standards referred to in Chapter 5.17 of the CUSF. For these purposes, when an Insurance Institution or Mutual Society does not have reliable, homogeneous and sufficient information of its own, it must use the corresponding market information.

IV. The projection of future flows used in the calculation of the best estimate will consider the total of gross revenues and expenses (without deducting Reinsurance Recoveries), which are necessary to meet the obligations of the insurance and reinsurance contracts throughout their period of validity, as well as other liabilities that the Insurance Institution or *Sociedad Mutualista* assumes in relation to them.

V. The future income flows will be determined as the best estimate of the expected value of the future income that the Insurance Institution or *Sociedad Mutualista* will have for premiums that, according to the payment method established in the contracts that are in force at the time of valuation, will mature in the future time of validity of such contracts, as well as recoveries and adjustments of less than the estimates of claims. Future premiums for these effects will not be considered as premiums due and unpaid at the time of valuation, or the fractional payments that are accounted for under the concept of debtor for the premium.

VI. Future outflows will be determined as the best estimate of the expected value of future payments and expenses to be incurred by the Insurance Institution or *Sociedad Mutualista* as a result of claims and adjustments of having more derivatives vs. the risks covered, dividend payments, redemptions, administrative and acquisition costs for contracts in force at the time of valuation. Future outflows must also consider all other payments to the insured and beneficiaries, as well as the expenses that the Insurance Institution or *Sociedad Mutualista* will incur in order to meet the obligations of the insurance and reinsurance contracts, as well as the effect of the exchange rate and inflation, including that relating to expenses and claims.

VII. In the constitution and valuation of the unexpired risk reserve, the amount of the guaranteed assets, as well as the possible options for the insured or beneficiary included in the insurance contracts, should be considered. Any hypothesis used by the Insurance Institution or *Sociedad Mutualista* with respect to the likelihood that the insured or beneficiaries will exercise the contractual options, including those related to resolution, termination and redemption, must be realistic and based on timely, reliable, homogeneous and sufficient information. The assumptions must consider, explicitly or implicitly, the consequences that future changes in financial and other conditions may have on the exercise of such options;

VIII. The risk margin will be calculated in accordance with the provisions of Chapter 5.4 of the CUSF.

IX. In the valuation and constitution of unexpired risk reserves, the liabilities should be segmented into homogeneous risk groups.

X. The short-term and long-term liabilities should be segmented in the valuation and constitution of the unexpired risk reserve so that the Institutions maintain an adequate balance in the investments of resources in the short and long term, and these hold are coherent with the nature of the liabilities to which they are related, and

XI. Processes and procedures should be established to ensure that the best estimate, as well as the assumptions underlying its calculation, is periodically compared with its previous experience. When such a comparison reveals a systematic deviation between the experience and the best estimate, the Insurance Institution or *Sociedad Mutualista* shall make the necessary adjustments to the actuarial methods or assumptions used. For these purposes, it will be understood that there is a systematic deviation when, in a given class or type of insurance, it is observed that the best estimate of the obligations differs by a reasonable amount from the actual value that the liabilities have attained, in a number of times Such that, by statistical criteria, it is determined that such number of times exceeds the maximum number of times that such estimate could have been deferred. The methodology for the estimation of Reinsurance Recovery should be included as part of the actuarial method.

2) Contractual obligations:

a) Claims and expirations - Claims for life, accidents, health and damage are recorded as soon as they are reported. Life insurance claims are based on the insured sums. Accident, illness and damage claims are adjusted based on the estimate of the amount of the obligations, and, at the same time, the pay back is recorded in the ceded reinsurance. Expirations are payments for expired endowments set forth in the insurance contract.

b) Unreported claims – This reserve is intended for recognizing the amount of actual claims not yet reported to the Financial Group. The estimate is based on prior years' casualty rate, adjusting the actuarial calculations on a quarterly basis, pursuant to the methodology approved by the cap.5.4 CNSF.

c) Dividends on policies - This reserve is determined based on actuarial studies, considering the casualty rate. The dividends are established in the insurance contract.

d) Insurance funds under management - These are the dividends on policies earned by the insured and withheld by the Financial Group to manage, as established in the insurance contract.

e) Security premiums - They are the amounts of segmented collections on the policies.

3) Catastrophic reserve:

The reserve for catastrophic risks is intended to cover the Financial Group's obligations assumed under insurance policies for earthquakes or other catastrophic risks. This reserve is increased as per the bases and percentages established by the CNSF. CNSF authorization is required to release this reserve.

4) Special Technical Reserve

In the operation of insurance that, due to its nature, special characteristics or lack of experience, experimental rates are used, the Insurance Institutions and Mutual Societies must constitute, by indication or prior authorization of the Commission, a technical reserve special for use of experimental rates.

Provisions

Provisions are recognized when the Financial Group has a current obligation resulting from a past event and is likely to result in the use of economic resources and can be reasonably estimated.

Employee retirement obligations

According to Mexican Federal Labor Law, the Financial Group has obligations derived from severance payments and seniority premiums payable to employees that cease to render their services under certain circumstances.

Defined benefit plan

The Financial Group records a liability for seniority premiums, pensions and post-retirement medical services as incurred based on calculations by independent actuaries using the projected unit credit method, using nominal interest rates. Accordingly, this recognizes the liability whose present value will cover the obligation from benefits projected to the estimated retirement date of the Holding Company overall employees, as well as the obligation related to retired personnel.

Derived from the entry into force of the New MFRS D-3, "Employee Benefits" (MFRS D-3), the Financial Group adopted the transitory third article published by the Commission to gradually recognize in the stockholders' equity the changes by reformulation referred to in MFRS D-3. In this way, the Institution gradually recognizes in a period of 5 years, as of 2016, the initial balance of actuarial gains or losses in other comprehensive income, as well as, the initial balance of the improvements to the plan in retained earnings from prior years.

At the end of 2020, actuarial earning / losses were generated in all benefits; these amounts are integrated into the other comprehensive income account and will be recycled to results during the future working life of the workers according to the benefit.

The Financial Group applies the provision of NIF D-3 related to the recognition of the liability for severance payments for reasons other than restructuring, which is recorded using the projected unit credit method based on calculations by independent actuaries.

Defined contribution plan

As of January 2001, the Holding Company provided defined contribution pension plan in place. The participating employees are those hired as of this date as well as those hired prior to such date that enrolled voluntarily. The pension plan is invested in a fund, which is included in "Other assets".

Employees who were hired prior to January 1, 2001 and who decided to enroll voluntarily in the defined contribution pension plan received a contribution from the Financial Group for prior services equivalent to the actuarial benefit accrued in their previous defined benefit plan that was cancelled. The initial contribution was made from the plan assets that had been established for the original defined benefit plan and participants were immediately assigned 50% of such amount with the remaining 50% to be assigned over 10 years.

The initial payment to the defined contribution plan for past services was financed with funds established originally for the defined benefit plan as a result of the early termination of its obligations and recognized in accordance with the provision guidelines.

The labor obligations derived from the defined contribution pension plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan's participants.

Provisions for PTU are recorded in the results of the year in which they are incurred as administrative expenses. The Financial Group determines employee statutory profit sharing based on the criteria established in the guidelines set forth by the Mexican Constitution.

Foreign currency conversion

Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate at the close of each period. The exchange rate used to establish Mexican peso equivalence is the FIX exchange rate published by Banco de México. Foreign exchange fluctuations are recorded in the results of operations.

Interest from outstanding subordinated debentures

Accrued interest from outstanding subordinated debentures is recognized as it is accrued and translated according to the exchange rate in effect at each monthly close.

Transfer of financial assets

The Financial Group can act as the assignor o assignee, as applicable, in this type of transactions. Moreover the Financial Group evaluates whether or not to retain the risks and benefits associated with the asset property to determine whether or not there was a transfer of property in a transaction. In transactions involving the transfer of ownership in financial assets, the assignor yields control and substantially transfers all the risks and benefits over such assets. Therefore, the assignor derecognizes such assets and records the consideration received from the transaction. Conversely, the assignee recognizes such financial assets and the transfer consideration in its accounting records.

Share-based payments

The Financial Group grants stock options to key officers through different payment schemes based on stocks. The Financial Group has established trusts to manage the plans and contributes the necessary funds so that shares can be purchased directly from the market at the initiation of each plan.

The Financial Group records its stock option plans according to the guidelines of NIF D-8, "Share-based payments." The compensation expense is recorded at fair value as of the date the stock options are granted. Pursuant to NIF D-8 and given that the Financial Group grants its own stock options, the Financial Group records the expense as if the plan were payable in cash. This expense is then restated at a fair value in each reporting period as per the provisions known on such date.

The fair value of each share is estimated as of the date granted using the Black-Scholes option pricing model or the forwards valuation model, depending on the plans' features.

Memorandum accounts

Memorandum accounts are used to record assets or commitments that are not part of the Financial Group's general balance sheet, as no rights are acquired on the assets and such commitments are not acknowledged as liabilities until they materialize, respectively. The accumulated amounts in the memorandum accounts have only been subject to audit tests when their information is derived from an accounting record. The memorandum accounts not audited are indicated in each case:

- Contingent assets and liabilities (unaudited):

  It records the amount of economic penalties imposed by the administrative or judicial authorities until such payments are made, as a motion for revocation has been filed. It also records the exposure to risk line item for its participation in the Expanded Use Electronic Payments System.

- Loan commitments (unaudited):

  The balance represents the amount of the letters of credit granted by the Financial Group that are considered as irrevocable commercial loans not disposed by the borrowers. It includes the lines of credit granted to clients that were not disposed.

- Assets in trust or mandate (unaudited):

  For the assets in trust, the value of the goods is recorded and any information related to their individual administration is recorded independently. For assets under mandate, the declared value of the assets, subject to the mandates executed by the Financial Group is recorded.

- Assets in custody or under management (unaudited):

  This account records the movement of others' assets and securities that are received in custody or are to be managed by the Financial Group.

- Collateral received:

  The balance represents all the collateral received in securities repurchase agreement operations when the Financial Group is the buyer.

- Collateral received and sold or given as a pledge:

  The balance represents all the collateral received in securities repurchase agreements when the Financial Group is acting as the buyer and which in turn are sold by the Financial Group acting as the seller.

Main subsidiaries' income recognition

Banco Mercantil del Norte

- Income from cash equivalents, securities' investments, repurchasing operations, hedging transactions and loan interest is recorded as income when accrued.

- The fees charged for the initial granting, restructuring and renewal of loans will be recorded as a deferred credit, which will be amortized as interest income.

- Securities purchase-sales results are recorded when performed.

- The revenues from loan asset recovery are recorded when accrued, collected or both agree to the Valuation Method.

- Permanent stock investments in affiliates are originally recorded at their acquisition cost and are valued using the equity method based on the last available financial statements.

Casa de Bolsa Banorte

- Recognition of income from services, financial advisory and securities intermediation fees and commissions generated by customer securities' operations are recorded as they are performed.

- Income from financial advisory is recorded when accrued as per the contract.

- Securities intermediation results are recorded when performed.

- Income and expenses - are recorded as generated or accrued as per the relative contracts.

- Share dividends - share dividends are recorded at zero value in investments; therefore they only affect the results when the shares are sold.
- Permanent stock investments in affiliates – they are originally recorded at their acquisition cost and are valued using the equity method based on the last available financial statements.

Arrendadora y Factor Banorte

- Credit from financial leasing operations, net – financial leasing operations are recorded as direct financing, wherein the account receivable is the total amount of the settled rents, and potential profit is the difference between such amount and the cost of the leased properties. Net financed capital is recorded on the consolidated balance sheet, deducting the total of rents from the potential profit.

- Loans from operating leasing operations – represent company assets given to a third party for the latter's temporary use and enjoyment for a given term equal to or over six months. The operating leasing contract rents are recorded as revenues when accrued.

- Loans from factoring operations, net – funded or non-funded factoring is recorded as follows:

  - Ceded portfolio – the amount is recorded in loan portfolios, minus the difference between loans and the financed amount.

  - Profit from acquired documents (interest) - calculated in advance, per month completed and upon maturity, recorded in factoring, and both are applied to results when accrued.

- Recognition of income – interest from leasing and financial factoring is recognized as income when accrued; however the accumulation of interest is suspended whenever the uncollected interest and/or total loan is transferred to past-due loans. Accrued, normal and past-due interest during the period the loan is considered past-due is recognized as income when collected.

- Profits to be realized from financial leasing are recognized as income when accrued. The final value of the good in financial leasing is recognized as income when purchased.

- The fees for credit opening in leasing and factoring operations are recognized as income as accrued.

Banorte Ahorro y Previsión (Seguros y Pensiones)

Income from premiums – Recognized as follows:

- The premium revenue for group and collective life insurance is recorded in income as the segmented payment receipt is issued, deducting the premiums ceded in reinsurance.

- Premium revenue for accidents, health and damage is recorded in terms of the policies contracted in the year, even though their term is for over one year, deducting the premiums ceded in reinsurance.

- The rights on premiums are recognized in the income at the time of issuance except for the policies that the Insurer agrees with the insured, where the right policy is fractioned in each of the receipts in this scheme, the right policy is recognized in income as it accrues. Revenue from surcharges on policyholders is recognized in income at the time of accrual and the unearned portion is recorded as deferred credits.

- Premium income is recorded at the time premiums are settled

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- The revenues from loan asset recovery are recorded: a) as collected, simultaneously recording the associated collection costs; b) the amount product of multiplying the outstanding balance times the estimated yield rate, thereby affecting the account receivable by the difference between the revenue and the collected amount; and c) the amount product of multiplying the estimated yield rate times the amount actually collected – the difference between the result and the collected amount affects the account receivable.

- Loan interest is recognized as accrued.

- Moreover the Financial Group recognizes an income from the trust's return on equity based on fulfilling the construction project's progress and/or sale, and suspends recording such income when the progress is not as expected in the plan included in the trust's contract. Impairment of investment projects is determined based on time for those projects not in development.

5 - CASH AND CASH EQUIVALENTS

As of December 31, 2020 and 2019, cash and cash equivalents are as follows:

	2020	**2019**
Cash	Ps. 26,710	Ps. 23,842
Banks	82,525	38,884
Other deposits and available funds	71	71
	Ps. 109,306	**Ps. 62,797**

"Banks" is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de México of Ps. 19.9087 and Ps. 18.8642 as of December 31, 2020 and 2019, respectively, and is made up as follows:

	Mexican pesos		**USD**		**Total**	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Call money	Ps. 8,124	Ps. 3,412	Ps. -	Ps. -	Ps. 8,124	Ps. 3,412
Deposits with foreign credit institutions	-	-	21,465	661	21,465	661
Domestic banks	6,924	3,008	-	-	6,924	3,008
Banco de México	45,071	31,251	941	552	46,012	31,803
	Ps. 60,119	**Ps. 37,671**	**Ps. 22,406**	**Ps. 1,213**	**Ps. 82,525**	**Ps. 38,884**

In June 2014, Banco de Mexico issued Circular 9/2014, which establishes banking institutions' obligation to constitute a new monetary regulation deposit, and modifies the interest rate such deposits pay. As of December 31, 2020 and 2019, the Financial Group had made monetary regulation deposits of Ps. 25,920 and Ps. 33,122, respectively.

As of December 31, 2020 and 2019, the total sum of restricted cash and cash equivalents is de Ps. 34,044 and Ps. 33,122, respectively. This includes monetary regulation deposits, futures placed in the domestic and foreign market, call money and contracted transactions pending liquidation in 24 and 48 hours. As of December 31, 2020 and 2019, the balance with Banco de México are Ps. 19,978 and Ps. 29,709, respectively, related to the deposit auctions.

As of December 31, 2020 and 2019, “Other deposits and available funds” includes:

	2020	**2019**
Minted metals in gold and silver	Ps. 39	Ps. 45
Cashable checks received, pending payment at a 3-day term	13	25
Remittances	19	1
	Ps. 71	**Ps. 71**

The exchange rates used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 924.28 and Ps. 587.01, per unit, respectively, in 2020; and Ps. 702.80 and Ps. 392.85, per unit, respectively, in 2019.

6 - INVESTMENTS IN SECURITIES

a. Trading securities

As of December 31, 2020 and 2019, trading securities are as follows:

	2020				2019
	Aquisition cost	Interest income	Valuation increase (decrease)	Book value	Book value
Government securities	**Ps. 187,912**	**Ps. 743**	**Ps. 122**	**Ps. 188,777**	**s. 176,279**
Not restricted	**23,304**	**129**	**117**	**23,550**	**14,255**
D Bonds	-	-	-	-	(199)
M Bonds	(303)	-	3	(300)	(110)
BPA	-	-	-	-	(187)
CEBUR – Government	12	-	2	14	103
CEBUR – Municipality	-	-	-	-	-
CETES	19,181	123	12	19,316	10,299
Eurobonds	-	-	-	-	-
UDIBONOS	4,414	6	100	4,520	4,349
Restricted	**164,608**	**614**	**5**	**165,227**	**162,024**
D Bonds	27,275	32	(14)	27,293	10,668
M Bonds	6,443	34	79	6,556	1,336
BPA	126,766	545	(60)	127,251	145,840
CEBUR – Government	-	-	-	-	3,124
CEBUR – Municipality	-	-	-	-	124
CETES	1,343	-	1	1,344	759
UDIBONOS	2,781	3	(1)	2,783	173
Bank securities	**23,928**	**36**	**5**	**23,969**	**49,023**
Not restricted	**3,124**	**-**	**-**	**3,124**	**4,083**
Bank Acceptances	4	-	-	4	4
CEBUR – development bank	3	-	-	3	3
CEBUR – bank	40	-	-	40	42
CEDES	370	-	-	370	388
Other bank securities	156	-	-	156	81
Promissory Notes	2,551	-	-	2,551	3,565
Restricted	**20,804**	**36**	**5**	**20,845**	**44,940**
Bank Acceptances	1,634	4	-	1,638	2,761
CEBUR – development bank	4,631	12	(2)	4,641	17,289
CEBUR – bank	13,699	18	1	13,718	24,538
Other bank securities	840	2	6	848	352
Private securities	**9,492**	**22**	**1,130**	**10,644**	**8,530**
Not restricted	**9,367**	**22**	**1,130**	**10,519**	**7,946**
Shares	743	-	584	1,327	782
Investment funds	6,234	-	355	6,589	3,887
CEBUR – corporate	1,357	3	69	1,429	1,439
Eurobonds	1,033	19	122	1,174	1,838
Restricted	**125**	**-**	**-**	**125**	**584**
Shares	125	-	-	125	147
CEBUR – corporate	-	-	-	-	437
	Ps. 221,332	**Ps. 801**	**Ps. 1,257**	**Ps. 223,390**	**s. 233,832**

During 2020 and 2019, the Holding Company recognized under “Brokerage revenues” a loss of (Ps.106) and Ps. 344, respectively, for the fair value valuation of these instruments.

As of December 31, 2020 and 2019, there are Ps. 186,197 and Ps. 207,548, respectively, in restricted trading securities associated mainly with repurchase operations.

b. Securities available for sale

As of December 31, 2020 and 2019, securities available for sale are as follows:

	2020				2019
	Aquisition cost	Interest income	Valuation increase (decrease)	Book value	Book value
Government securities	**Ps. 180,335**	**Ps. 1,725**	**Ps. 5,215**	**Ps. 187,275**	**Ps. 174,026**
Not restricted	**30,871**	**319**	**1,737**	**32,927**	**36,527**
BREMs	7,778	6	-	7,784	7,786
CEBUR – Government	2,061	6	10	2,077	484
CEBUR – Municipality	178	4	50	232	202
CETES	635	-	-	635	613
Eurobonds	20,219	303	1,677	22,199	27,442
Restricted	**149,464**	**1,406**	**3,478**	**154,348**	**137,499**
D Bonds	3,025	-	1	3,026	-
M Bonds	3,461	60	18	3,539	537
BPA	105,466	909	39	106,414	100,814
CEBUR – Government	3,031	9	(52)	2,988	4,298
CEBUR – Municipality	2,540	4	24	2,568	2,434
CETES	2,442	-	2	2,444	48
Eurobonds	29,492	424	3,445	33,361	29,368
UDIBONOS	7	-	1	8	-
Bank securities	**37,711**	**91**	**263**	**38,065**	**6,901**
Not restricted	**26,998**	**71**	**255**	**27,324**	**6,901**
CEBUR – development bank	1,836	20	90	1,946	1,758
CEBUR – bank	2,272	5	113	2,390	1,420
CEDES	20,799	42	6	20,847	2,057
Promissory Notes	531	-	36	567	479
Promissory Notes	300	-	-	300	-
Other bank securities	1,260	4	10	1,274	1,187
Restricted	**10,713**	**20**	**8**	**10,741**	-
CEBUR – development bank	10,713	20	8	10,741	-
Private securities	**19,312**	**370**	**(199)**	**19,483**	**21,758**
Not restricted	**16,899**	**323**	**(175)**	**17,047**	**20,183**
Shares	31	-	50	81	67
Investment funds	902	-	30	932	4,305
CEBUR – BORHIS	77	-	(77)	-	20
CEBUR – corporate	6,711	29	(285)	6,455	6,659
Eurobonds	9,178	294	107	9,579	9,132
Restricted	**2,413**	**47**	**(24)**	**2,436**	**1,575**
Eurobonds	1,744	46	(24)	1,766	1,575
CEBUR – corporate	669	1	-	670	-
	Ps. 237,358	**Ps. 2,186**	**Ps. 5,279**	**Ps. 244,823**	**Ps. 202,685**

As of December 31, 2020 and 2019, there are Ps. 167,525 and Ps. 139,075, respectively, in restricted securities available for sale, mainly associated with securities repurchasing transactions.

As of December 31, 2020 and 2019, the balance of BREMSR amounted to 77,783,110 securities, acquired in May 2016, these BREMSRs were initially classified as securities available due to the legal impossibility to classify them as trading securities since they did not have a secondary market, ie they are not subject to trading operations. They could not be classified as securities held to maturity because this category was restricted in accordance with paragraph 13 of criterion B-2. In addition, it is contemplated to hedge these securities through cash flow hedging operations on TIIE28 interest rate, which is feasible only in the category of securities available for-sale in accordance with paragraph 60 of the Criterion B-5.

c. Securities held to maturity

As of December 31, 2020 and 2019, securities held to maturity are as follows:

	2020			**2019**
	Aquisition cost	**Interst income**	**Book value**	**Book value**
Government securities	**Ps. 186,203**	**Ps. 608**	**Ps. 186,811**	**Ps. 143,173**
Not restricted	**170,789**	**505**	**171,294**	**127,216**
M Bonds	243	2	245	245
CEBUR – Government	1,615	23	1,638	1,681
CEBUR – Municipality	2,111	43	2,154	2,163
CEBUR – Udizados	223	2	225	229
CETES – Specials	591	-	591	568
UDIBONOS	152,017	331	152,348	122,330
Eurobonds - Government	13,989	104	14,093	-
Restricted	**15,414**	**103**	**15,517**	**15,957**
M Bonds	12,554	93	12,647	12,654
CEBUR – Municipality	2,557	10	2,567	2,582
UBIBONOS	303	-	303	721
Bank securities	**1,284**	**940**	**2,224**	**2,109**
Not restricted	**1,284**	**940**	**2,224**	**2,109**
CEBUR – Bank	804	17	821	795
CEDES	300	734	1,034	969
Promissory Notes	180	189	369	345
Private securities	**3,802**	**815**	**4,617**	**5,324**
Not restricted	**2,259**	**812**	**3,071**	**3,409**
CEBUR – corporate	990	812	1,802	2,095
CEBUR – BORHIS	-	-	-	2
Other private securities	1,269	-	1,269	1,312
Restricted	**1,543**	**3**	**1,546**	**1,915**
CEBUR – Corporate	1,543	3	1,546	1,915
	Ps. 191,289	**Ps. 2,363**	**Ps. 193,652**	**Ps. 150,606**

As of December 31, 2020 and 2019, there are Ps. 17,063 and Ps. 17,872, respectively, in restricted trading securities associated mainly with repurchasing operations.

As of December 31, 2020, the maturities of the securities (expressed at their acquisition cost), are as follows:

	More than one and up to 5 years	**More and 5 and up to 10 years**	**More than 10 years**	**Total**
M Bonds	Ps. -	Ps. 12,892	Ps. -	**Ps. 12,892**
CEBUR – Bank	-	820	-	**820**
CEBUR – BORHIS	-	-	2	**2**
CEBUR – Corporate	771	78	2,499	**3,348**
CEBUR – Government	11,299	1,214	3,218	**15,731**
CEBUR – Municipality	-	-	4,721	**4,271**
CEBUR – Udizados	75	107	43	**225**
CEDES	1,034	-	-	**1,034**

CETES – Specials	176	416	-	**592**
Promissory Notes	369	-	-	**369**
Other private securities	-	-	152,650	**152,650**
UDIBONO	-	-	1,268	**1,268**
	Ps. 13,724	**Ps. 15,527**	**Ps. 164,401**	**Ps. 193,652**

Some of the investments in securities are given as collateral in derivative transactions without any restriction; therefore, the receiver has the right to trade them and offer them as collateral.

d. Collateral

The fair value of the collateral given in derivative transactions as of December 31, 2020 and 2019 is as follows:

		2020		
		Fair value in millions		
Type of collateral:	**Instrument category**	**Pesos**	**USD**	**EUR**
Cash	-	Ps. 2,516	Ps. 923	Ps. 38
		Ps. 2,516	**Ps. 923**	**Ps. 38**

		2019		
		Fair value in millions		
Type of collateral:	**Instrument category**	**Pesos**	**USD**	**EUR**
Cash	-	Ps. 102	Ps. 546	Ps. 38
		Ps. 102	**Ps. 546**	**Ps. 38**

As of December 31, 2020 and 2019, the Holding Company had no instruments received as collateral.

As of December 2020 and 2019, interest income is as follows:

Concept	**2019**	**2019**
Trading securities	Ps. 20,330	Ps. 25,018
Securities available for sale	11,395	13,532
Securities held to maturity	1,387	921
	Ps. 33,112	**Ps. 39,471**

f. Impaired negotiable instruments

The objective evidence that a negotiable instrument is impaired includes observable information on, among others, the following events:

f) considerable financial difficulties of the instrument's issuer;
g) the issuer may be declared bankrupt or in some other financial reorganization;
h) breach of contractual clauses, such as failure to pay interest or the principal;
i) unavailability of an active market for the instrument in question due to financial difficulties; or
j) a measurable reduction in future estimated cash flows of a group of instruments from the initial recording of such assets, although the reduction cannot be identified with individual instruments of the group, including:

    iii. adverse changes in the payment status of the issuers in the group, or

iv. local or national economic conditions that are correlated with the groups defaults.

During 2020 and 2019, there was no recorded impairment of securities available for sale.

During 2020 and 2019, no interest income was recorded related to the impairment securities.

7 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

As of December 31, 2020 and 2019, creditor balances under repurchase and resale agreements are as follows:

Acting as seller of securities

	2020				**2019**			
Instrument	**Repurchase agreement from debtors**	**Received, sold collateral in repurchase**	**Debit difference**	**Credit difference**	**Repurchase agreement from debtors**	**Received, sold collateral in repurchase**	**Debit difference**	**Credit difference**
CEBUR – Government	Ps. 3,867	Ps. 3,867	Ps. -	Ps. -	Ps. 3,690	Ps. 3,784	Ps. -	Ps. 95
CETES	196	196	-	-				
BONDES	31,913	30,837	1,089	13	-	-	-	-
CEBUR – Developement Bank	1,590	1,590	-	-	2,571	2,571	-	-
UMS (Fix) Bondes - Goverment	1,916	-	1,916	-	1,871	-	1,871	-
IPAB Bonds	19,402	19,286	116	-	2,760	2,760	-	-
Quarterly Bonos IPAB	60,138	59,613	525	-	43,211	43,075	145	8
Semi-annual IPAB Bonds	34,872	34,487	385	-	24,921	24,921	-	-
CEBUR	-	-	-	-	15,936	14,889	1,050	3
20 years Bonds	10,120	10,115	5	-	4,500	4,500	-	-
Government securities	**164,014**	**159,991**	**4,036**	**13**	**99,460**	**96,500**	**3,066**	**106**
CEDES	7,206	7,206	-	-	10,613	10,613	-	-
Bank Bonds	245	245	-	-	213	209	4	-
CEBUR - Bank	9,274	9,274	-	-	8,676	8,676	-	-
Bank securities	**16,725**	**16,725**	-	**-**	**19,502**	**19,498**	**4**	**-**
CEBUR Short-Term	5,274	5,274	-	-	4,336	4,336	-	-
Private securities	**5,274**	**5,274**	**-**	**-**	**4,336**	**4,336**	**-**	**-**
	Ps.186,013	**Ps.181,990**	**Ps.4,036**	**Ps. 13**	**Ps. 123,298**	**Ps. 120,334**	**Ps. 3,070**	**Ps. 106**

With the Holding Company acting as the vendor, accrued premiums were charged to the results of operations as of December 31, 2020 and 2019 for Ps. 2,792 and Ps. 3,519, respectively, which are presented in the “Interest Expenses heading.”

During 2020, the period of repurchase transactions carried out by the Holding Company in its capacity as vendor ranged in term from 1 to 365 days.

As of December 31, 2020 the amount of the delivered and received securities as collateral in repurchase transactions that represent a transfer of ownership, amount to Ps. 421,090 and Ps. 282,054, respectively, and as of December 31, 2018, the collaterals delivered was Ps. 304,448 and the collaterals received was Ps. 213,885.

Acting as securities purchaser

Instrument	**2020**	**2019**
CETES	Ps. 2,988	Ps. 157
CEBUR	3,300	7,422
CEBUR – Development Bank	1,638	2,760

UMS (FIX) Bonds Government	19,343	19,310
D Bonds	32,921	7,626
IBAP (BPAG28) Bonds	147,874	34,438
IPAB (BPAG91) Bonds	52,524	177,367
Semi-Annual IPAB (BPAT182) Bonds	29,334	33,123
Government Bonds – Fix Rate	23,267	14,133
UDIBONOS	2,624	97
Goverment securities	**315,813**	**296,433**
CEDES – Fixed Exchange Rate	15,387	17,293
CEBUR – Bank	13,731	24,542
Multilateral Financial Organizations Securities	848	357
Bank securities	**29,966**	**42,192**
Sort- term CEBUR	7,315	7,334
Private securities	**7,315**	**7,334**
	Ps. 353,094	**Ps. 345,959**

With the Holding Company acting as the purchaser, accrued premiums charged to the results of operations as of December 31, 2020 and 2019 were Ps. 21,755 and Ps. 31,841, respectively, which are presented in the "Interest Income" Heading.

During 2020, repurchase transactions carried out by the Financial Group in its capacity as purchaser ranged in term from 1 to 12 years.

8 - DERIVATIVE FINANCIAL INSTRUMENTS

Transactions carried out by the Financial Group involving derivatives correspond mainly to futures, swaps and options contracts. These transactions are done to hedge various risks and for trading purposes.

As of December 31, 2020, the Financial Group has evaluated the effectiveness of derivatives' transactions for hedging purposes and has concluded that they are highly effective.

As of December 31, 2020 and 2019, positions in derivatives financial instruments are as follows:

Asset position	2020	2019
Forwards		
Foreign currency forwards	Ps. 746	Ps. 96
Options		
Interest rate options	219	262
Foreign currency options	499	390
Swaps		
Interest rate swaps	41,601	17,186
Foreign currency swaps	5,015	4,190
Credit swaps	153	171
Total trading	**48,233**	**22,295**
Swaps		
Exchange rate swaps	546	162
Interest rate swaps	1,497	-
Total hedging	**2,043**	**162**
Total position	**Ps. 50,276**	**Ps. 22,457**

Liability position	2020	2019
Forwards		
Foreign currency forwards	Ps. 106	Ps. 176

Options		
Interest rate options	161	200
Foreign currency options	430	729
Swaps		
Interest rate swaps	36,410	12,715
Foreign currency swaps	6,990	6,932
Total trading	**44,097**	**20,752**
Swaps		
Interest rate swaps	-	273
Foreign currency swaps	4,990	3,948
Total hedging	**4,990**	**4,221**
Total position	**Ps. 49,087**	**Ps. 24,973**

The following are notional bonds in different currencies, depending on the type of product, by December 31, 2020:

Trading instruments:

Instrument	MXN	USD	EUR	CHF
Foreign currency forwards	Ps. 8,234	Ps. 361	Ps.-	Ps.-
Interest rate options	52,855	1,155	-	-
Foreign currency swaps (receiving leg)	52,422	976	-	-
Foreign currency swaps (paying leg)	12,809	2,407	254	-
Interest rate swaps (receiving leg)	448,692	8,611	-	-
Interest rate swaps (paying leg)	448,692	8,611	-	-
Credit swaps	-	54	-	-

Hedging instruments

Instrument	MXN	USD	EUR	GBP
Foreign currency swaps (receiving leg)	Ps. 4,490	Ps. 10	Ps. -	Ps. -
Foreign currency swaps (paying leg)	13,954	483	157	128
Interest rate swaps (receiving leg)	23,506	6,000	-	-
Interest rate swaps (paying leg)	23,506	6,000	-	-

The hedging instruments operated and their main underlying instruments are as follows

Forwards	Options	Swaps	CCS
Fx-USD	Fx-USD	TIIE 28	TIIE 28
Fx-EUR	TIIE 28	TIIE 91	TIIE 91
Fx-CAD	TIIE 91	CETES 91	LIBOR
Fx-CHF	LIBOR	LIBOR	Euribor

The risk management policies and internal control procedures for managing risks inherent to derivatives are described in Note 34.

Transactions carried out for hedging purposes have maturities from 2020 to 2031 and are intended to mitigate the financial risk derived from long-term loans offered by the Financial Group at fixed nominal rates, as well as the exchange rate risk generated by market instruments in the Financial Group's portfolio.

As of December 31, 2020 and 2019, the collateral was comprised mainly of cash. Their fair value is shown in Note 6 d).

During 2020 and 2019, the net earnings from the valuation and realization of derivative financial instruments were Ps. 1,994 and Ps. 1,503, respectively.

The net amount of estimated gains or losses originated by transactions or events recorded in "Comprehensive income" to date in the consolidated financial statements and that are expected to be reclassified to earnings within the next 12 months total (Ps. 209).

As of December 31, 2020 and 2019, the main positions hedged by the Holding Company and the derivatives designated to cover such positions are:

Cash flow hedging:

- Forecast funding using TIIE rate Caps and Swaps.
- Recorded assets in foreign currency using Cross Currency Swaps.
- Recorded liabilities in foreign currency using Cross Currency Swaps.

As of December 31, 2020, there are 105 hedge files related to hedging transactions. Their effectiveness ranges 100%, well within the range established by the accounting standards in effect (80% to 125%). Furthermore, there is no over hedging on any of the derivatives; therefore as of December 31, 2020, there are no ineffective portions that are recorded at the market value that the Financial Group has to record in earnings.

The following are the Financial Group's hedged cash flows as of December 31, 2020, expected to occur and affect earnings:

Concept	**Up to 3 months**	**More than 3 months and up to 1 year**	**More than 1 and up to 5 years**	**More than 5 years**
Forecast funding	Ps. 62	Ps. 191	Ps. 1,003	Ps. 131
Monetary regulation deposits	359	1,161	5,007	3,513
UDI Emission	10	10	76	86
	-	4	1	7
Assets denominated in USD	54	157	609	-
Assets denominated in Euros	56	170	511	-
Assets denominated in GBP	178	572	2,475	171
	Ps. 719	**Ps. 2,265**	**Ps. 9,682**	**Ps. 3,908**

The fair value of the instruments designated as cash flows hedging, recognized in overall earnings in stockholders' equity as of December 31, 2020 and 2019 totaled Ps. 448 and (Ps. 1,275), respectively. Furthermore, (Ps. 266) and (Ps. 71), respectively, were reclassified from stockholders' equity to results.

Trading derivatives and hedging derivatives: the loan risk is minimized through means of contractual compensation agreements, in which asset and liability derivatives with the same counterparty are settled for their net balance. Similarly, there may be other types of collateral such as credit lines, depending on the counterparty's solvency and the nature of the transaction.

The following table shows the cash flows hedging valuation balance:

Balance	**Valuation of cash flows hedging instruments**	**Net change in period**	**Reclassified to income**
Balance, December 31, 2018	(Ps. 5,001)	Ps. 223	Ps. 107
Balance, December 31, 2019	(Ps. 1,275)	Ps. 3,726	(Ps. 71)
Balance, December 31, 2020	Ps. 448	Ps. 1,723	(Ps. 266)

9 - LOAN PORTFOLIO

As of December 31, 2020 and 2019, the loan portfolio by loan type is as follows:

	Performing loan portfolio		Past-due loan portfolio		Total	
	2020	2019	2020	2019	2020	2019
Commercial loans						
Denominated in domestic currency						
Commercial	Ps. 262,164	Ps. 231,862	Ps. 2,339	Ps. 4,927	Ps. 264,503	Ps. 236,789
Rediscounted portfolio	9,001	6,760	-	-	9,001	6,760
Denominated in USD						
Commercial	52,611	53,912	191	1,584	52,802	55,496
Rediscounted portfolio	1,407	965	-	-	1,407	965
Total commercial loans	**325,183**	**293,499**	**2,530**	**6,511**	**327,713**	**300,010**
Loans to financial institutions	11,172	7,389	-	4	11,172	7,393
Consumer loans						
Credit card	36,651	39,700	3,120	2,287	39,771	41,987
Other consumer loans	79,833	77,980	1,585	2,027	81,418	80,007
Mortgage loans						
Denominated in domestic currency	187,655	169,983	1,647	1,960	189,302	171,943
Denominated in UDIS	81	103	12	13	93	116
Government loans	161,563	173,988	37	4	161,600	173,992
	476,955	**469,143**	**6,401**	**6,295**	**483,356**	**475,438**
Total loan portfolio	**Ps. 802,138**	**Ps. 762,642**	**Ps. 8,931**	**Ps. 12,806**	**Ps. 811,069**	**Ps. 775,448**

Restructured loans

The restructured loans on December 31, 2020 and 2019 that modified their terms and rates are shown below:

	2020		2019	
	Vigente	Vencida	Vigente	Vencida
Commercial loans				
Business loans	Ps. 21,756	Ps. 2,956	Ps. 24,539	Ps. 4,565
Consumer loans	4,663	1,021	481	97
Mortgage loans	1,219	520	178	278
	Ps. 27,638	**Ps. 4,497**	**Ps. 25,198**	**Ps. 4,940**

As of December 31, 2020, past-due loans showed the following periods of delinquency:

	From 1 to 180 days	From 181 to 365 days	From 366 days to 2 years	More than 2 years	Total
Commercial loans	Ps. 1,938	Ps. 485	Ps. 105	Ps. 39	Ps. 2,567
Consumer loans	4,604	100	-	1	4,705
Mortgage loans	1,076	583	-	-	1,659
	Ps. 7,618	**Ps. 1,168**	**Ps. 105**	**Ps. 40**	**Ps. 8,931**

As of December 31, 2019, past-due loans showed the following periods of delinquency:

	From 1 to 180 days	From 181 to 365 days	From 366 days to 2 years	More than 2 years	Total
Commercial loans	Ps. 1,586	Ps. 1,440	Ps. 1,306	Ps. 2,183	Ps. 6,515
Consumer loans	4,099	204	2	9	4,314
Mortgage loans	1,127	850	-	-	1,977
	Ps. 6,812	**Ps. 2,494**	**Ps. 1,308**	**Ps. 2,192**	**Ps. 12,806**

Past due loan movements for the years ended on December 31, 2020 and 2019 are shown below:

	2020	2019
Balance at the beginning of the year	Ps. 12,806	Ps. 13,263
Liquidations	(2,253)	(2,987)
Write-offs*	(19,643)	(15,581)
Renewals	(578)	(635)
Discounts	(1,742)	(1,680)
Foreclosures	(79)	(305)
Consumer loans	(6,309)	(7,233)
Mortgage loans	26,557	28,029
Fluctuation from foreign exchange rate	340	(65)
Sales loans	(168)	-
Year-end balance	**Ps. 8,931**	**Ps. 12,806**

* Corresponds to 100% hedged loans.

As of December 31, 2020, the balance of deferred loan origination fees was Ps. 2,363 and the amount recorded in results was Ps. 1,440. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 3,533, and the amount recorded in results was Ps. 1,156.

As of December 31, 2019, the balance of deferred loan origination fees was Ps. 3,187 and the amount recorded in results was Ps. 1,406. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 2,489, and the amount recorded in results was Ps. 1,160.

The collected fees and costs are presented net in the line item of “Deferred credits and advance collections” within the consolidated balance sheets as well as in Interest Income and Interest Expenses, respectively, in the consolidated income statements.

The average terms of the portfolio's main balances are: a) commercial, 2.03 years; b) financial institutions, 3.49 years; c) mortgage, 18.81 years; d) government loans, 10.02 years; and e) consumer, 3.51 years.

During the years ended December 31, 2020 and 2019, the balance of written off loans that had been fully reserved as past due was Ps. 19,643 and Ps. 15,997, respectively.

On December 31, 2020 and 2019, revenues from recoveries of previously written-off loan portfolios were Ps. 2,137 and Ps. 2,006, respectively.

The loans granted per economic sectors as of December 31, 2020 and 2019 are shown below:

	2020		2019	
	Amount	Concentration percentage	Amount	Concentration percentage
Private (companies and individuals)	Ps. 327,713	40.41%	Ps. 300,010	38.69%
Financial institutions	11,172	1.38%	7,393	0.95%
Credit card and consumer	121,189	14.94%	121,994	15.73%

Mortgage	189,395	23.35%	172,059	22.19%
Government loans	161,600	19.92%	173,992	22.44%
	Ps. 811,069	**100.00%**	**Ps. 775,448**	**100.00%**

Policies and procedures for granting Loans

The granting, control and recovery of loans are regulated by the Financial Group's Credit Manual, which has been authorized by the Board of Directors. Accordingly, administrative portfolio control is performed in the following areas:

I. Business Areas (includes Corporate, Commercial, Business, Governmental and Consumer Banking), primarily through the branch network.
II. Operations Areas
III. General Comprehensive Risk Management
IV. Recovery Management

Similarly, the Financial Group has manuals establishing the policies and procedures to be utilized for credit risk management purposes.

The structure of the credit management process is based on the following stages:

h) Product design
i) Promotion
j) Evaluation
k) Formalization
l) Operation
m) Administration
n) Recovery

Procedures have also been implemented to ensure that past-due loans are timely transferred and recorded in the accounting, and those loans with recovery problems are properly and promptly identified.

Pursuant to the Commission Circular B6, “Loan Portfolio”, the distressed portfolio is defined as the commercial loans which, based on the current information and facts as well as on the loan revision process, are very unlikely to be fully recovered (both principal and interest) pursuant to the original terms and conditions. The performing and past due portfolios are susceptible to be identified as a distressed portfolio. D and E risk degrees of the commercial loans’ ratings are shown below as distressed loans:

	2020	**2019**
Distressed commercial loans	**Ps. 3,172**	**Ps. 7,381**
Performing	857	1,084
Past-due	2,315	6,297
Commercial loans	**534,748**	**508,890**
Performing	534,495	505,677
Past-due	253	213
Total rated commercial loans	**537,920**	**513,271**
Total portfolio	**Ps. 847,102**	**Ps. 805,617**
Distressed commercial loans/total portfolio	**0.37%**	**0.92%**

The Holding’s Treasury Department is the central unit responsible for balancing resource requirements and eliminating the interest rate risk derived from fixed rate transactions through the use of hedging and arbitrage strategies.

10 - LOANS RESTRUCTURED IN UDIS

As of December 31, 2020 and 2019, the Holding Company has no mortgage loans restructured in UDIS.

Early termination of mortgage loan borrower support programs

On June 30, 2010, the Federal Government through the SHCP and Banking Institutions signed an agreement for the early termination of the mortgage loan debtors support programs (*Final Point* and *UDIS trusts*) (the Agreement); consequently as of January 1, 2011, the Financial Group absorbed its part of the early discount granted to mortgage loan debtors participating in the program.

The Agreement established a series of obligations for the Federal Government payable in 5 annual amortizations with a due date of June 1, 2015, which is when the last payment of Ps. 29 was received. Such payment included the monthly financial cost from the day immediately following the cut-off date and up to closing of the month immediately preceding the due date.

As of December 31, 2020, the remaining balance of SPECIAL CETES not repurchased by the Federal Government is Ps. 594 with maturities between 2022 and 2027.

11 - ALLOWANCE FOR LOAN LOSSES

The Financial Group's portfolio classification, which serves as the basis for recording the allowance for loan losses, is detailed below:

	2020						
		Required allowances for losses					
Risk category	**Loan portfolio**	**Companies**	**Government**	**Financial institutions' loans**	**Consumer portfolio**	**Mortgage portfolio**	**Total**
Risk A1	Ps.701,736	Ps.1,009	Ps.486	Ps.70	Ps.649	Ps.259	**Ps.2,473**
Risk A2	46,696	181	163	7	339	33	**723**
Risk B1	31,411	77	54	2	837	17	**987**
Risk B2	10,866	52	23	3	282	19	**379**
Risk B3	20,261	113	337	3	485	12	**950**
Risk C1	11,982	124	101	-	675	53	**953**
Risk C2	10,461	116	135	-	944	140	**1,335**
Risk D	10,413	959	16	-	2,572	397	**3,944**
Risk E	4,683	318	-	-	2,722	88	**3,128**
Unclassified	(1,407)	-	-	-	-	-	**-**
	Ps.847,102	**Ps.2,949**	**Ps.1,315**	**Ps.85**	**Ps.9,505**	**Ps.1,018**	**Ps.14,872**
Less: Recorded allowance	**-**	**-**	**-**	**-**	**-**		**20,004**
Reserve supplement*							**Ps. 5,132**

	2019						
		Required allowances for losses					
Risk category	**Loan portfolio**	**Companies**	**Government**	**Financial institutions' loans**	**Consumer portfolio**	**Mortgage portfolio**	**Total**
Risk A1	Ps. 659,853	Ps. 909	Ps. 557	Ps. 67	Ps. 631	Ps. 220	**Ps. 2,384**
Risk A2	37,291	159	77	15	304	30	**585**
Risk B1	31,638	60	86	-	859	17	**1,022**
Risk B2	13,292	64	4	-	382	28	**478**
Risk B3	25,899	112	372	9	851	15	**1,359**
Risk C1	8,598	96	92	-	269	78	**535**
Risk C2	9,676	95	101	-	870	163	**1,229**
Risk D	14,564	2,113	-	2	2,195	491	**4,801**
Risk E	6,516	1,072	-	-	3,260	87	**4,419**
Unclassified	(1,711)	-	-	-	-	-	-

	Ps. 805,616	**Ps. 4,680**	**Ps. 1,289**	**Ps. 93**	**Ps. 9,621**	**Ps. 1,129**	**Ps.16,812**
Less: Recorded allowance	-	-	-	-	-		**17,639**
Reserve supplement*							**Ps. 827**

*The recorded reserves supplement conforms to the Provisions to cover 100% of the past-due interest and for the effects of inquiries in the credit bureau. Additionally, within the reserve supplement there is Ps. 4,300 to face the possible deterioration of the loan portfolio due to the COVID-19 contingency. The complementary reserves created obey the general provisions applicable to credit institutions, and contemplate the additional allowances anticipating portfolio impairment effects due to COVID-19 described above in "Provisions for Credit".

As of December 31, 2020 and 2019, the provisions to cover 100% of the rating base for loan portfolios includes Ps. 20,776 and Ps. 14,573, respectively, for Granted Guarantors and Loan Acquisitions, which were recorded in memorandum accounts. Ps. 15,257 and Ps. 15,320 were also added for loans to related parties.

As of December 31, 2020 and 2019, the estimated allowance for loan losses is determined based on portfolio balances at those dates.

As of December 31, 2020 and 2019, the allowance for loan losses represents 224% and 138%, respectively, of the past-due portfolio.

The estimated allowance includes the classification of loans granted in foreign currency, which are evaluated at the exchange rate in effect as of December 31, 2020 and 2019.

According to the current regulation, as of December 31, 2019, the Institution rated under the regulatory methodologies based on expected losses the commercial portfolios (except credits destined to investment projects with own payment source), Mortgage portfolio and non-revolving consumer portfolio. In the case of the revolving consumption portfolio, beginning January 2019, the Institution uses an internal methodology authorized by the Commission.

Below are shown for each type of portfolio, the exposure to default, probability of breach of contract, and severity of the loss as of December 31, 2020.

Type of portfolio	Exposure to Default	Weighted Probability of Non-compliance	Weighted Severity of Loss
Commercial*	Ps. 421,157	4.3%	21.2%
Mortgage	189,394	2.9%	18.7%
Non-revolving consumer	81,424	8.6%	68.2%
Revolving Consumer loan	55,510	9.8%	87.0%

* Loans to financial intermediaries and loan intended for investment projects having their own source of payment are not included.

Movements in allowance for loan losses

An analysis of the movements in allowance for loan losses is detailed below:

	2020	**2019**
Balance at the beginning of the year	Ps. 17,639	Ps. 18,844
Increase charged to results	24,067	17,392
Discounts and write-offs	(21,914)	(18,547)
Rebates granted to housing debtors	(7)	(7)
Others	219	(43)
Year-end balance	**Ps. 20,004**	**Ps. 17,639**

As of December 31, 2020, the net amount of preventive loan loss reserves charged to the consolidated income statement totals Ps. 21,930, and is presented net of Ps. 2,088 paid to which is recorded in “Other income or (expenses,)”, and due to the variation of the USD (Ps. 49) exchange rate; such amounts are offset against results and comprised of Ps. 24,067 credited directly to the provision.

As of December 31, 2019, the net amount of preventive loan loss reserves charged to the consolidated income statement totals Ps. 15,347, and is presented net of Ps. 2,088 paid to which is recorded in “Other income or (expenses,)”, and due to the variation of the USD (Ps. 43) exchange rate; such amounts are offset against results and comprised of Ps. 17,392 credited directly to the provision.

12 - ACQUIRED COLLECTION RIGHTS

The acquired collection rights are comprised as follows:

Valuation Method	2020	2019
Cash basis method	Ps. 647	Ps. 1,010
Cost recovery method	970	590
Interest method	-	1
	Ps. 1,617	**Ps. 1,601**

As of December 31, 2020, derived from applying the valuation methods (described in Note 4), the Financial Group recognized income from credit asset portfolios of Ps. 626, coupled with the corresponding amortization of (Ps. 378), the effects of which were recognized under the “Other income (expense)” heading in the consolidated income statement. For the year ended December 31, 2019, the Holding Company recognized income of Ps. 598, together with the respective amortization of (Ps. 396).

The Holding Company performs an analysis based on events or information to estimate the amount of expected cash flows to determine the estimated rate of return used in applying the valuation method for the amortization of the accounts receivable. If based on current events information, the analysis demonstrates that the expected future cash flows will decrease to the degree that they will not cover the book value, it will constitute an estimate for non-recoverability or difficult collection against the year’s results for the amount that such expected cash flows are lower than the book value of the accounts receivable.

Assets different from cash that the Financial Group has received as part of portfolio collection or recovery have been mainly in real estate property.

The main feature considered for segmenting acquired portfolios has been the type of loan.

13 – PREMIUM RECEIVABLES, NET

This item is made up as follows:

	2020	2019
Maritime and transportation	Ps. 14	Ps. 28
Automobile	1,306	1,300
Various	966	506
Accidents and health	831	1,596
Life	856	568
Pensions	366	414
	4,339	**4,412**
Federal public administration agencies’ indebtedness	14	62
	Ps. 4,353	**Ps. 4,474**

14 – ACCOUNTS RECEIVABLE FROM REINSURANCE

This item is made up as follows:

	2020	2019
Insurance and annuities	Ps. 2,594	Ps. 2,690
Reinsurers' participation for pending claims	4,120	4,481
Reinsurers' participation for current risk	422	446
Other participations	177	194
Preemptive credit risk assessment of Foreign Reinsurers Foreing	(2)	(2)
Estimate for punishments	(42)	(22)
	Ps. 7,269	**Ps. 7,787**

15 - OTHER ACCOUNTS RECEIVABLE, NET

This item is made up as follows:

	2020	2019
Loans to officers and employees	Ps. 3,123	Ps. 2,899
Debtors from liquidation settlements	10,552	10,162
Debtors from cash collateral	21,823	11,212
Real estate property portfolios	1,460	1,743
Sundry debtors in Mexican pesos	4,268	4,833
Sundry debtors in foreign currency	832	330
Others	708	486
	42,766	**31,665**
Allowance for doubtful accounts	(285)	(463)
	Ps. 42,481	**Ps. 31,202**

Loans to officers and employees mature within 3 to 30 years, and accrue an interest rate from TIIE +0.6% to TIIE +1 %.

16 - FORECLOSED ASSETS, NET

As of December 31, 2020 and 2019, the foreclosed assets balance is as follows:

	2020	2019
Moveable property	Ps. 529	Ps. 288
Real estate property	3,535	3,333
Goods pledged for sale	108	236
	4,172	**3,857**
Allowance for losses on foreclosed assets	(240)	(234)
Allowance for losses on foreclosed real estate assets	(2,322)	(2,332)
Allowance for losses on assets pledged for sale	(57)	(137)
	(2,619)	**(2,703)**
	Ps. 1,553	**Ps. 1,154**

As of December 31, 2020, aging of the reserves for foreclosed assets is made up as follows:

Concept / Months	18 to 24	More than 24	Total
Moveable property	Ps. 6	Ps. 234	**Ps. 240**

Concept / Months	12 to 24	24 to 30	30 to 36	36 to 42	42 to 48	More than 48	Total

Real estate property	Ps. 41	Ps. 15	Ps. 16	Ps. 21	Ps. 21	Ps. 2,208	**Ps. 2,322**
Goods pledged for sale	2	-	1	3	-	51	**57**
	Ps. 43	**Ps. 15**	**Ps. 17**	**Ps. 24**	**Ps. 21**	**Ps. 2,259**	**Ps. 2,379**

As of December 31, 2019, aging of the reserves for foreclosed assets is made up as follows:

Concept / Months	**18 to 24**	**More than 24**	**Total**
Moveable property	Ps. -	Ps. 234	**Ps. 234**

Concept / Months	**12 to 24**	**24 to 30**	**30 to 36**	**36 to 42**	**42 to 48**	**More than 48**	**Total**
Real estate property	Ps. 25	Ps. 20	Ps. 10	Ps. 22	Ps. 20	Ps. 2,235	**Ps. 2,332**
Goods pledged for sale	-	-	-	-	-	137	**137**
	Ps. 25	**Ps. 20**	**Ps. 10**	**Ps. 22**	**Ps. 20**	**Ps. 2,372**	**Ps. 2,469**

17 - PROPERTY, FURNITURE AND EQUIPMENT, NET

This item is made up as follows:

	2020	**2019**
Furniture and equipment	Ps. 37,493	Ps. 16,897
Property intended for offices	9,704	9,666
Installation costs	9,178	7,908
	56,375	**34,471**
Less - Accumulated depreciation and amortization	(23,748)	(15,708)
	Ps. 32,627	**Ps. 18,763**

Depreciation recorded in the results of 2020 and 2019 was Ps. 2,287 and Ps. 2,087, respectively.

The average estimated useful lives of the Holding Company's assets subject to depreciation are listed below:

	Useful Life
Furniture and equipment	From 4 to 10 years
Property intended for offices	From 4 to 99 years
Installation costs	10 years

18 - PERMANENT STOCK INVESTMENTS

Investments in associated companies and venturers are valued according to the equity method, as detailed below:

	Share %	**2020**	**2019**
Afore XXI-Banorte, S.A. de C.V.	50%	Ps. 14,102	Ps. 14,060
Capital I CI-3, S.A.P.I. de C.V.	50%	10	25
Maxcom Telecomunicaciones, S.A.B. de C.V.	3.69%	31	30
F-741723 - Valle de San Pedro	20%	27	-
Controladora PROSA, S.A. de C.V.	19.73%	117	118
PAYCLIP INC	2.62%	208	101
Sociedades de Inversión Ixe Fondos	Various	111	116
Fondo Chiapas, S.A. de C.V.	11.11%	13	15
Fideicomiso de Coinversión F/2504 (CKD)	Various	32	32
Fideicomiso 73789-Banco Monex	4.88%	13	5
Fideicomiso 11769-Carretera Lerma	4.88%	23	23

Fideicomiso 12040-La Gloria	4.88%	5	5
Fideicomiso Actinver 3650	4.88%	1	3
Fideicomiso F/3937	4.88%	5	17
Fideicomiso F/4280	4.88%	4	2
Others	Varios	103	2
		Ps. 14,805	**Ps. 14,554**

The Holding Company exercises significant influence over its affiliates valued under the equity method through its representation in the board of directors or equivalent management body, as well as through significant intercompany transactions.

The relevant activities of the Afore are directed by both the Financial Group and the Mexican Institute of Social Security [*Instituto Mexicano del Seguro Social*], with equal rights and responsibilities. Therefore the Financial Group has no control over such entity and does not consolidate it.

19 - DEFERRED TAXES, NET

The tax reported by the Financial Group is calculated based on the current taxable result of the year and enacted tax regulations. However, due to temporary differences between how income and expenses are recognized for accounting and tax purposes, as well as the differences between the accounting and tax balance sheet accounts, the Financial Group has recognized a recoverable net deferred tax asset of Ps. 626 and Ps. 4,318 as of December 31, 2020 and 2019, respectively, as detailed below:

	2020		**2019**	
	Temporary Differences	**Deferred Effect ISR**	**Temporary Differences**	**Deferred Effect ISR**
Temporary Differences - Assets				
Allowance for loan losses	Ps. 1,151	Ps. 345	Ps. 1,482	Ps. 444
Tax loss carryforwards	2,694	808	4,326	1,298
Surplus allowances for credit risks over the net tax limit	19,464	5,839	17,083	5,125
Excess of tax over book value of foreclosed and fixed assets	2,085	639	3,064	915
PTU	529	159	498	150
Fees collected in advance	3,543	1,063	2,684	805
Accounting provisions	5,564	1,669	4,465	1,339
Other assets	1,089	327	1,934	581
Total assets	**Ps. 36,119**	**Ps. 10,849**	**Ps. 35,536**	**Ps. 10,657**
Temporary Differences - Liabilities				
Excess of tax over book value of foreclosed and fixed assets and expected payments	Ps. 525	Ps. 158	Ps. 473	Ps. 142
Adquisition of Portafolios	1,899	570	1,133	340
Capitalizable projects' expenses	20,243	6,073	18,271	5,481
Provisions	16,835	5,050	10,876	3,262
Financial instruments valuation	576	173	556	167
Intangible assets	1,159	348	1,231	369
Deferred from the IXE purchase method	185	54	536	161
Other	136	41	365	109
Total Liabilities	**Ps. 41,558**	**Ps. 12,467**	**Ps. 33,441**	**Ps. 10,031**
Deferred tax, net		**(Ps. 1,618)**		**Ps. 626**

As explained in Note 29, the applicable income tax rate is 30% for 2020, 2019 and later years.

At December 31, 2020, the tax loss carry forwards prescription is as follows:

Due date	Amount
2024	Ps. 613
2026	197
2027	154
2028	1,338
2029	374
2030	18
	Ps. 2,694

Banorte Financial Services's deferred tax assets and liabilities are determined using the liability method. According to this method, the net asset or liability of deferred taxes is determined based on the tax effects of temporary differences between the book and tax base of assets and liabilities. Due to the consolidation of Banorte Financial Services, as of December 31, 2020 and 2019, a net amount of Ps. 31 and Ps. 26, respectively, was added to deferred taxes determined at a rate of 21% as per the tax law of the USA.

20 - OTHER ASSETS, NET

This item is made up as follows:

	2020	2019
Net asset forecast from labor obligations and savings fund	Ps. 5,246	Ps. 73
Payments to amortize	21,091	36,471
Accumulated payment amortization	(8,371)	(5,741)
Goodwill	26,720	26,700
	Ps. 44,686	**Ps. 57,503**

As of December 31, 2020 and 2019, goodwill is as follows:

	2020	2019
Originated by the merger with Grupo Financiero Interacciones, S.A.B. de C.V.	Ps. 14,070	Ps. 14,070
Originated by the merger with Ixe Grupo Financiero, S.A.B. de C.V.	11,258	11,258
Originated by the merger with Banorte-Ixe Tarjetas, S.A. de C.V., SOFOM, ER	1,005	1,005
Originated by the merger with Uniteller Financial Services	387	367
	Ps. 26,720	**Ps. 26,700**

As mentioned in Note 4, goodwill is not amortized since 2007 and since then is subject to annual impairment tests. No impairment to goodwill value was detected as of December 31, 2020 and 2019.

21 - DEPOSITS

Liquidity coefficient

The "Investment regime for transactions in foreign currency and conditions to be fulfilled during the term of transactions in such currency", designed for credit institutions by Banco de México, establishes the mechanism for determining the liquidity coefficient of liabilities denominated in foreign currency.

In accordance with such regime, during 2020 and 2019, the Financial Group generated a liquidity requirement of USD 990,864 thousand and USD 1,122,418 thousand, respectively, and held investments in liquid assets of USD

2,378,899 thousand and USD 1,565,562 thousand, representing a surplus of USD 1,396,437 thousand and USD 444,987 thousand, respectively.

Deposits

The liabilities derived from core deposits are made up as follows:

	2020	2019
Demand deposits		
Non-interest bearing checking accounts:		
Cash deposits	Ps. 236,786	Ps. 213,978
Checking accounts in US dollars for individual residents on the Mexican border	3,097	2,779
Demand deposits accounts	98,841	59,007
Interest bearing checking accounts:		
Other bank checking deposit	172,495	124,928
Checking accounts in US dollars for individual residents on the Mexican border	1,898	1,898
Demand deposits accounts	7,166	13,958
	520,283	**416,548**
Time deposits		
General public:		
Fixed-term deposits	32,037	29,721
Retail time deposits	219,385	227,673
Promissory note with interest payable at maturity PRLV primary market for individuals	75	347
Promissory note with interest payable at maturity PRLV primary market for institutions	271	4,103
Foreign residents deposits	6	6
Provision for interest	497	1,064
	252,271	**262,914**
Money market:		
Over the counter promissory notes	14,187	15,984
Provision for interest	61	52
	14,248	**16,036**
	266,519	**278,950**
Senior debt	**32,325**	**26,907**
Global account of deposits without movement	**2,585**	**2,085**
	Ps. 821,712	**Ps. 724,490**

The funding rates, which the Financial Group uses as reference are: a) for Mexican pesos, Interbank Interest Rate (TIIE), Average Cost of Funds (CCP) and; b) for foreign currency, the London Interbank Offered Rate (LIBOR).

These liabilities incur interest depending on the type of instrument and average balance held in the investments. The average interest rates and their currency of reference are shown below:

Immediately due and payable deposits:

	2020				2019			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Mexican pesos and UDIS	1.25%	1.38%	1.22%	1.16%	1.08%	1.15%	1.22%	1.14%
Foreign currency	0.09%	0.04%	0.03%	0.03%	0.08%	0.08%	0.09%	0.10%

Time deposits:

	2020				2019			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
General public								
Mexican pesos and UDIS	5.59%	4.71%	3.63%	3.25%	6.66%	6.80%	6.71%	6.02%

Foreign currency	0.31%	0.30%	0.26%	0.25%	0.32%	0.38%	0.35%	0.26%
Money market	7.20%	6.00%	4.74%	4.22%	8.19%	8.31%	8.25%	7.78%

As of December 31, 2020 and 2019, the terms set for these deposits are as follows:

	2020			
	From 1 to 179 days	**From 6 to 12 months**	**More than 1 year**	**Total**
General public				
Fixed-term deposits	Ps. 19,589	Ps. 1,686	Ps. 10,762	Ps. 32,037
Demand deposits	213,402	5,279	254	219,385
Promissory note with interest payable at maturity PRLV primary market for individuals	71	-	4	75
Promissory note with interest payable at maturity PRLV primary market for entities	252	10	9	271
Foreign residents deposits	6	-	-	6
Provision for interest	246	246	5	497
	233,566	**7,671**	**11,034**	**252,271**
Money market:				
Promissory notes	-	-	14,187	14,187
Provision for interest	-	-	61	61
	-	**-**	**14,248**	**14,248**
Senior debt issued	**32,325**	**-**	**-**	**32,325**
Global account of deposits without movements	**2,585**	**-**	**-**	**2,585**
	Ps. 268,476	**Ps. 7,671**	**Ps. 25,282**	**Ps. 301,429**

	2019			
	From 1 to 179 days	**From 6 to 12 months**	**More than 1 year**	**Total**
General public				
Fixed-term deposits	Ps. 27,443	Ps. 1,436	Ps. 842	Ps. 29,721
Demand deposits	219,022	8,185	466	227,673
Promissory note with interest payable at maturity PRLV primary market for individuals	346	1	-	347
Promissory note with interest payable at maturity PRLV primary market for entities	4,103	-	-	4,103
Foreign residents deposits	6	-	-	6
Provision for interest	890	160	14	1,064
	251,810	**9,782**	**1,322**	**262,914**
Money market:				
Promissory notes	-	-	15,984	15,984
Provision for interest	-	-	52	52
			16,036	**16,036**
Senior debt issued	**26,907**	**-**	**-**	**26,907**
Global account of deposits without movements	**2,085**	**-**	**-**	**2,085**
	Ps. 280,802	**Ps. 9,782**	**Ps. 17,358**	**Ps. 307,942**

22 - INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2020 and 2019 are as follows:

	Local currency		USD value		Total	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Demand deposits:						
Call money	Ps. -	Ps. 500	Ps. -	Ps. -	Ps. -	Ps. 500
	-	**500**	**-**	**-**	**-**	**500**
Short-term:						
Bank of Mexico	-	102	-	-	-	102
Commercial banking	6,254	7,540	7,984	5,470	14,238	13,010
Development banking	3,506	4,037	12	11	3,518	4,048
Public trusts	4,502	4,930	241	196	4,743	5,126
	14,262	**16,609**	**8,237**	**5,677**	**22,499**	**22,286**
Long-term:						
Commercial banking	6,051	8,730	1,067	691	7,118	9,421
Development banking	-	-	44	48	44	48
Public trusts	5,337	4,097	1,023	709	6,360	4,806
	11,388	**12,827**	**2,134**	**1,448**	**13,522**	**14,275**
	Ps. 25,650	**Ps. 29,936**	**Ps. 10,371**	**Ps. 7,125**	**Ps. 36,021**	**Ps. 37,061**

These liabilities incur interest depending on the type of instrument and average balance of the loans. The average interest rates are shown below:

	2020				2019			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Call money								
Mexican pesos and UDIS	7.55%	7.25%	5.63%	4.53%	9.82%	14.95%	9.57%	9.83%
Other bank loans								
Mexican pesos and UDIS	8.37%	10.22%	7.94%	6.58%	10.87%	11.03%	10.51%	8.59%
Foreign currency	2.60%	0.11%	0.11%	0.25%	3.28%	3.28%	3.07%	2.86%

The loans contracted by Arrendadora and Factor Banorte accrue an average interest rate of 5.43% and 7.67% in Mexican pesos and 2.18% and 3.18% in USD as of December 31, 2020 and 2019, respectively.

23 - TECHNICAL RESERVES

This item is made up as follows:

	2020	2019
Current risk:		
Life	Ps. 163,932	Ps. 132,682
Accidents and health	1,907	1,888
Damages	2,718	3,251
	168,557	137,821
Contractual obligations:		
Claims and expirations	7,567	7,035
Unreported claims	5,575	4,151
Dividends on policies	56	53
Insurance funds under management	81	82
Security premiums	240	240
	13,519	11,561
Contingency:		
Catastrophic risk	1,431	1,497
Contingencies	3,044	2,492
Special	1,295	1,116

	5,770	5,105
	Ps. 187,846	**Ps. 154,487**

24 - SUNDRY CREDITORS AND OTHER PAYABLES

This item is made up as follows:

	2020	2019
Cashier and certified checks and other negotiable instruments	Ps. 3,654	Ps. 3,554
Provision for employee retirement obligations and saving fund	3,202	2,303
Provisions for other obligations	10,245	11,093
Others	18,814	13,254
	Ps. 35,915	**Ps. 30,204**

25 - EMPLOYEE RETIREMENT OBLIGATIONS

The Holding Company recognizes the liabilities for pension plans and seniority premiums using the "Projected Unit Credit Method", which considers the benefits accrued at the date of the consolidated balance sheets and the benefits generated during the year.

The amount of current and projected benefits as of December 31, 2020 and 2019, related to the Defined Benefit Pension Plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

	2020			
	Pension plan	**Seniority premiums**	**Medical services**	**Total**
Projected benefit obligation (PBO)	(Ps. 1,899)	(Ps. 3,661)	(Ps. 464)	(Ps. 6,024)
Fund market value	556	2,620	175	3,351
Funded status	(1,343)	(1,041)	(289)	(2,673)
Unrecognized prior service cost	-	-	-	-
Unrecognized actuarial losses	-	-	-	-
Net projected asset	**(Ps. 1,343)**	**(Ps. 1,041)**	**(Ps. 289)**	**(Ps. 2,673)**

	2019			
	Pension plan	**Seniority premiums**	**Medical services**	**Total**
Projected benefit obligation (PBO)	(Ps. 1,629)	(Ps. 325)	(Ps. 3,463)	(Ps. 5,417)
Fund market value	612	199	2,568	3,379
Funded status	(1,017)	(126)	(895)	(2,038)
Unrecognized prior service cost	-	-	37	37
Unrecognized actuarial losses	84	1	160	245
Net projected asset	**(Ps. 933)**	**(Ps. 125)**	**(Ps. 698)**	**(Ps. 1,756)**

Moreover, as of December 31, 2020, a separate fund amounting to Ps. $3,351 ($3,379 in 2019) has been set aside to meet the above-mentioned obligations, in accordance with NIF D-3 and is recorded under "Other assets".

The net periodic pension cost is as follows:

	2020	2019
Service cost	Ps. 85	Ps. 59
Interest cost	456	468

Expected return on plan assets	(269)	(347)
Amortizations of unrecognized items:		
Profits (actuarial losses)	130	83
Cost of the advance reduction/liquidation of obligations	13	(5)
Net periodic pension cost	**Ps. 415**	**Ps. 258**

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2020 and 2019, are shown below:

Concept	2020 Nominal	2019 Nominal
Discount rate	8.50%	8.75%
Rate of wage increase	4.50%	4.50%
Long-term inflation rate	3.50%	3.50%
Expected long-term rate of return on plan assets	3.50%	3.50%

The liability for severance indemnities due to causes other than organization restructuring, which was also determined by independent actuaries, is comprised as follows:

Concept	2020	2019
Defined and projected benefit obligations	(Ps. 349)	(Ps. 356)
Net projected liability	**(Ps. 349)**	**(Ps. 356)**

The net periodic pension cost is as follows:

Concept	2020	2019
Service cost	Ps. 67	Ps. 94
Interest cost	17	8
Net periodic pension cost	**Ps. 84**	**Ps. 102**

Pursuant to the law, the Financial Group makes payments equivalent to 2% of its workers' salary to the contribution plan defined for the retirement saving fund established by law. The expense for this concept was $167 in 2020 and $163 in 2019.

The balance of the employee retirement obligations presented in this Note refers to the Holding Company's Defined Benefit Pension Plan for those employees who remain enrolled.

The labor obligations derived from the Defined Contribution Pension Plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan's participants. This pension plan is invested in a fund as of December 31, 2020 and 2019, equivalent to Ps. 3,351 and Ps. 3,579, respectively, which is recorded under "Other assets" and is equivalent to the recorded plan liability.

As of December 31, 2020 and 2019, the PTU provision was Ps. 538 and Ps. 508, respectively.

26 - SUBORDINATED DEBENTURES

As of December 31, 2020 and 2019, the subordinated debentures in circulation are as follows:

	2020	2019
Non-preferred subordinated obligations, non-preferent, perpetual, non-cumulative 5 years callable BANOD19 999999 denominated in USD, with an interest rate of 6.875%.**	Ps. 6,969	Ps. 6,602

	2020	2019
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 10 years callable BANOE91 999999 denominated in USD, with an interest rate of 7.625%.**	10,950	10,375
Preferred subordinated obligations not susceptible to be converted into share capital BANOC36 311004 with maturity in October 2031, denominated in USD, with an interest rate of 5.75% payable semiannually and amortizing the capital at maturity.	5,857	5,550
Nonpreferred subordinated nonconvertible debentures IXEGB40 141020, maturing in October 2020, denominated in US dollars, at an interest rate of 9.25%, payable semiannually with a final principal payment at maturity.	-	2,264
Nonpreferred subordinated nonconvertible debentures Q BINTER 15 maturing in February 2025 and interest at an annual interest rate of TIIE to 28 days plus 2.5 points.	-	1,000
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, interest at a 4.95% annual rate.	1,829	1,772
Non-preferred subordinated obligations, non-preferent, perpetual, non-cumulative 5 years callable NC5 Notes denominated in USD, with an interest rate of 6.750%**	11,945	11,319
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 10 years callable NC10 Notes denominated in USD, with an interest rate of 7.50%**	9,954	9,432
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 10 years callable NC10 Notes denominated in USD, with an interest rate of 8.375%.	9,954	-
Accrued interest.	113	153
Issuance and placement expenses.	(419)	(417)
	Ps. 57,152	**Ps. 48,050**

** The above mentioned emission was recorded as a liability and the interests generated by the notes are payable against the retained earnings from prior years, considering the characteristic established in the obligations to pay in an optional way the yields to election of the issuer, what is considered to be a capital component.

The costs related to these debentures are amortized using the straight-line method over the term of the debt. The amortization charged to results were Ps. 106 and Ps. 87 in 2020 and 2019, respectively.

27 - TRANSACTIONS AND BALANCES WITH NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Pursuant to Article 73 Bis of the LIC, the loans granted by the Banking Institutions to related parties may not exceed 35% of the basic part of its net capital.

For the years ended December 31, 2020 and 2019, the amount of the loans granted to related parties were as follows:

Institution granting the loan	2020	% over the limit	2019	% over the limit
Banco Mercantil del Norte, S.A.	Ps. 14,844	8.3%	Ps. 11,306	7.9%

The loans granted by Banorte are under the 100% limit set forth by the LIC.

28 - INFORMATION BY SEGMENT

The main operations and balances per concept and/or business segment in the general balance sheet and the income statement are comprised as follows:

b. Interest and fees income is made up as follows:

	2020		
	Interest	Commissions	Total
	M.N.	M.N.	M.N.
Cash and cash equivalents	Ps. 2,513	Ps. -	Ps. 2,513
Margin securities	156	-	156
Investment in securities	33,112	-	33,112
Securities repurchasing and loans	2,792	-	2,792
Hedging transactions	3,947	-	3,947
Commercial loans	39,166	419	39,585
Mortgage loans	17,253	697	17,950
Consumer loans	27,872	322	28,194
Others	5,344	-	5,344
	Ps. 132,155	**Ps. 1,438**	**Ps. 133,593**

	2019		
	Interest	Commissions	Total
	M.N.	M.N.	M.N.
Cash and cash equivalents	Ps. 3,670	Ps. -	Ps. 3,670
Margin securities	307	-	307
Investment in securities	39,471	-	39,471
Securities repurchasing and loans	3,519	-	3,519
Hedging transactions	5,561	-	5,561
Commercial loans	48,325	455	48,780
Mortgage loans	16,223	640	16,863
Consumer loans	28,205	310	28,515
Others	3,828	-	3,828
	Ps. 149,109	**Ps. 1,405**	**Ps. 150,514**

b. The balances by service sector of the Financial Group, without considering the eliminations relative to the consolidation of the financial statements, are as follows:

	2020	2019
Banking sector:		
Net income	Ps. 20,384	Ps. 27,493
Stockholders' equity	135,047	114,261
Total portfolio	791,112	755,899
Past-due loan portfolio	8,580	12,392
Allowance for loan losses	(19,464)	(17,083)
Total net assets	1,262,185	1,149,536
Brokerage sector:		
Net income	1,492	1,259
Stockholders' equity	6,130	4,634
Portfolio balance	889,022	919,985
Total net assets	245,860	190,026
Long term saving sector*		
Net income	7,239	6,427
Stockholders' equity	35,915	28,613
Total net assets *	233,007	190,602
Other finance companies sector:		

	2020	2019
Net income	641	786
Stockholders’ equity	9,753	9,299
Total portfolio	35,215	34,870
Past-due loan portfolio	351	415
Allowance for loan losses	(540)	(556)
Total net assets	47,014	47,187
Grupo Financiero Banorte (Financial Group)		
Net income	30,484	36,487
Stockholders’ equity	222,262	191,743
Total assets	**222,267**	**191,743**

*For sector comparisons, Afore XXI Banorte’s results are shown at 100% in this table. As of the fourth quarter of 2016, results are reported in Seguros Banorte through participation method.

c. The trading results for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Trading results:		
Spot foreign currency	(Ps. 1,059)	(Ps. 8)
Derivatives financial instruments	742	(855)
Investments in securities	(106)	440
Valuation	**(423)**	**(423)**
Purchase-sales result, net		
Spot foreign currency	2,307	1,120
Derivatives financial instruments	1,252	2,358
Investments in securities	1,718	2,234
Purchase and Sale	**5,277**	**5,712**
Total trading results	**Ps. 4,854**	**Ps. 5,289**

d. The performing loan portfolio, grouped by economic sector and geographical location, is as follows

Economic sector	2020	%	2019
Agriculture	Ps. 9,325	1.2%	Ps.8,821
Commerce	74,706	9.3%	67,656
Construction	38,366	4.8%	32,799
Manufacturing	41,224	5.1%	34,981
Mining	4,744	0.6%	5,119
Services	42,874	5.3%	41,291
Financial and real estate services	53,292	6.6%	46,155
Transportation	43,177	5.4%	36,581
Government	161,563	20.1%	173,988
Vivienda	187,736	23.4%	170,086
Mortgage	36,651	4.6%	39,700
Credit card	79,833	10.0%	77,980
Other consumer loans	17,019	2.1%	15,471
Leasing	11,352	1.4%	11,620
Factoring	76	0.0%	31
Valuation of portfolio of GFInteracciones´s Entities	200	0.0%	363
	Ps. 802,138	**100%**	**Ps.762,642**

e. The past-due loan portfolio, grouped by economic sector and geographical location, is as follows

Economic Sector	2020	%	2019
Agriculture	Ps.170	1.9%	Ps. 341
Commerce	637	7.1%	1,922
Construction	773	8.7%	634
Manufacturing	289	3.2%	2,157
Mining	-	0.0%	-
Services	250	2.8%	607
Financial and real estate services	28	0.3%	43
Transportation	35	0.4%	471
Government	38	0.4%	4
Mortgage	1,658	18.6%	1,973
Credit card	3,120	34.9%	2,287
Other consumer loans	1,586	17.8%	2,028
Leasing	253	2.8%	226
Factoring	94	1.1%	113
	Ps. 8,931	**100%**	**Ps. 12,806**

f. Deposit accounts grouped by product and geographical location are as follows:

	2020							
	Geographical situation							
Product	**Monterrey**	**México**	**West**	**Northeast**	**Southeast**	**Treasury and other**	**Foreigners**	**Total**
Non-interest bearing checking accounts	Ps. 72,199	Ps. 120,298	Ps. 31,402	Ps. 39,653	Ps. 42,357	Ps. 1,294	Ps. -	**Ps. 307,203**
Interest-bearing checking accounts	15,922	93,516	7,943	8,862	21,857	283	-	**148,383**
Current account Ps. and pre-established	3,753	5,865	1,449	1,422	1,588	9	-	**14,086**
Non-interest bearing demand deposits, USD	7,636	9,963	1,777	9,715	2,429	1	-	**31,521**
Interest bearing demand deposits, USD	7,341	7,568	1,227	4,306	1,235	-	-	**21,677**
Retail time deposits	47,481	88,519	20,658	19,085	28,484	430	-	**204,657**
Time deposits, USD	3,156	5,035	1,421	2,408	586	6	-	**12,612**
Customers money market	17,400	10,913	3,616	1,159	1,815	98	-	**35,001**
Financial intermediaries	-	-	-	-	-	40,756	5,816	**46,572**
Total deposits	**Ps. 174,888**	**Ps. 341,677**	**Ps. 69,493**	**Ps. 86,610**	**Ps. 100,351**	**Ps. 42,877**	**Ps. 5,816**	**Ps. 821,712**

	2019							
	Geographical situation							
Product	**Monterrey**	**México**	**West**	**Northeast**	**Southeast**	**Treasury and others**	**Foreigners**	**Total**
Non-interest bearing checking accounts	Ps.42,788	Ps.106,420	Ps.28,887	Ps.34,641	Ps.37,340	Ps.1,053	-	Ps.251,129
Interest-bearing checking accounts	24,652	47,268	8,317	8,461	22,633	731	-	112,062
Current account Ps. and pre-established	2,877	4,730	1,201	956	1,245	2	-	11,011
Non-interest bearing demand deposits, USD	5,885	8,070	1,412	8,156	1,738	-	-	25,261
Interest bearing demand deposits, USD	4,517	8,756	1,070	3,819	1,353	1	-	19,516
Retail time deposits	46,295	94,811	22,355	21,142	30,770	1,177	-	216,550
Time deposits, USD	2,156	5,546	1,366	1,817	582	-	2,897	14,364
Customers money market	18,363	8,660	3,639	945	1,771	7	-	33,385
Financial intermediaries	-	-	-	-	-	39,326	1,886	41,212
Total deposits	**Ps.147,533**	**Ps.284,261**	**Ps.68,247**	**Ps.79,937**	**Ps.97,432**	**Ps.42,297**	**Ps.4,783**	**Ps.724,490**

29 - INCOME TAXES

The Financial Group is subject to Income Tax (ISR).

ISR

Pursuant to the ISR Law, the rate for 2020 and 2019 was 30% and will continue at the same rate for subsequent years.

Reconciliation of the ISR legal rate and the effective rate expressed as a percentage of the income before ISR and PTU is:

	2020	2019
Legal rate	30%	30%
Provisions	3%	2%
Reserves	15%	11%
Tax inflation	(1%)	(1%)
Non-tax accounting write-offs	1%	2%
Non-cumulative recoveries	(1%)	(1%)
Deductions by discounts and write-offs	(16%)	(10%)
Other entriers	(5%)	(6%)
Effective rate	**26%**	**27%**

30 - STOCKHOLDERS' EQUITY

The Financial Group's shareholders' common stock is comprised as follows:

Paid-in Capital	Number of shares with a nominal value of Ps. 3.50	
	2020	2019
"O" Series	2,846,844,254	2,867,523,331

Paid-in Capital	Historical Amounts	
	2020	2019
"O" Series	Ps. 9,964	Ps. 10,036
Restatement in Mexican pesos through December 2007	4,955	4,956
	Ps. 14,919	**Ps. 14,992**

Restrictions on profits

The distribution of stockholders' equity, except restated paid-in capital and retained tax earnings, will be subject to income tax on dividends payable by the Financial Group at the effective rate. Any tax paid on such distribution may be credited against that year's income tax paid on dividends and the two immediate fiscal years following such payment, charged against that year's tax and the provisional payments made.

The dividends paid derived from the profits generated as of January 1, 2014 to individuals residing in Mexico and abroad may be subject to additional 10% ISR, which will be withheld by the Financial Group.

The following are prior years' results that may be subject to withheld ISR for up to 10% on the paid out dividends:

Year	Amount that may be subject to withholding	Amount not subject to withholding
Accumulated earnings until	Ps. -	Ps. 39,303

December 31, 2013		
Earnings for 2014	50,407	-
Earnings for 2015	62,860	-
Earnings for 2016	68,492	-
Earnings for 2017	71,294	-
Earnings for 2018	76,550	-
Earnings for 2019	90,084	-
Earnings for 2019	118,773	-

As of December 31, the stockholders' equity tax account balances are as follows:

	2020	2019
Capital contribution account	Ps. 84,649	Ps. 82,064
Net tax profit account at the end of 2013 (CUFIN)	18,540	17,973
CUFIN as of 2014	19,433	18,841
Total	**Ps. 122,622**	**Ps. 118,878**

The Financial Group's net profit is subject to the requirement of transferring at least 5% of each year's net income to the legal reserve until the reserve equals 20% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Financial Group, except in the form of a stock dividend. As of December 31, 2020 and 2019, the legal reserve is Ps. 3,000 and Ps. 2,994 and represents 20% of paid-in capital.

Share-based payments

The Financial Group grants stock options to key officers through different payment schemes based on stocks. The Financial Group has established trusts to manage the plans and contributes the necessary funds so that shares can be purchased directly from the market at the initiation of each plan.

The Financial Group records its stock option plans according to the guidelines of NIF D-8, "Share-based payments". The compensation expense is recorded at fair value as of the date the stock options are granted. The NIF D-8 guidelines stipulate that the fair value determined at the beginning is not revalued at a later date.

During 2020 and 2019, the Institution recorded Ps. 841 and Ps. 433, respectively in Non-interest expense compensation for share-based payments against the paid-in capital.

As of December 31, 2020 and 2019, the Institution has 35,493,301 and 9,959,573 granted to its executives through various share-based payment plans. The share's average weighted price for all the plans during the year was Ps. $106.16 and $106.16, respectively.

During 2020 and 2019, 5,922,884 and 7,101,952 shares were operated, respectively.

Anex I-O (unaudited)

Composition of Capital Disclosure

Capitalization ratio (Banorte)

The capitalization rules for financial institutions establish requirements for specific levels of net capital, as a percentage of assets subject to both market and credit risk.

The information for December 31, 2020 sent to Banco de México for review is shown below.

Banorte's capitalization ratio as of December 31, 2020 was 20.20% of total risk (market, credit and operational), and 26.71% of credit risk, which in both cases exceed the current regulatory requirements.

VII. Integration of Equity

Table I.1

Format of disclosure of the integration of capital without considering transitory requirements in the application of regulatory adjustments

Referencia	Common equity level 1 (CET1): securities and allowance	Amount
1	Ordinary shares that qualify for common capital of level 1 plus its corresponding premium	21,759
2	Retained earnings from prior years	73,302
3	Other elements of comprehensive income (and other allowances)	39,975
4	Equity subject to gradual elimination of the common equity of level 1 (only applicable for companies that are not linked to shares)	N.A.
5	Ordinary shares issued by subsidiaries in third-party ownership (amount allowed in the common equity of level 1	N.A.
6	Level 1 common capital before regulatory adjustments	135,037
	Level 1 common capital: regulatory adjustments	
7	Adjustments for prudential valuation	N.A.
8	Goodwill (net of deferred taxes to charge)	1,005
9	Other intangibles different to servicing asset of mortgage loans (net of deferred taxes to charge)	1,448
10 (conservative)	Recoverable deferred income taxes that depend on future earnings excluding those that derive from temporary differences (net of payable deferred income tax)	-
11	Result from valuation of instruments for cash flow hedging	(905)
12	Reserves pending to constitute	0
13	Receivables generated by securitizations	110
14	Profits and losses caused by changes in the own credit rating on liabilities valued at fair value	N.A.
15	Defined benefit pension plan	(2,333)
16 (conservative)	Investments in own shares	-
17 (conservative)	Reciprocal Investments in the ordinary capital	-
18 (conservative)	Investments in ordinary shares of banks, financial institutions and insurance companies outside the scope of regulatory consolidation, net of the short positions eligible, where the Institution does not holds more than 10% of the issued share capital (amount that exceeds the threshold of 10%)	-
19 (conservative)	Significant investments in ordinary shares of banks, financial institutions and insurance companies outside the scope of regulatory consolidation, net of the short positions eligible, where the Institution holds more than 10% of the issued share capital (amount that exceeds the threshold of 10%)	1,849
20 (conservative)	Mortgage service rights (amount that exceeds the 10% threshold)	-
21	Recoverable deferred income taxes from temporary differences (amount that exceeds the 10% threshold, net deferred tax payable)	-
22	Amount exceeding 15% threshold	N.A.
23	Of which: significant investments where the institution has more than 10% in common shares of financial institutions	N.A.
24	Of which: mortgage service rights	N.A.

25	Of which: recoverable deferred income taxes from temporary differences	N.A.
26	Before regulatory national adjustments	2,724
A	of which: Other elements of comprehensive income (and other allowance)	7
J	of which: Deferred Charges and advance payments	2,717
27	Regulatory adjustments applied to Tier 1 common capital due to insufficiency of Tier 1 additional equity and Tier 2 common capital to cover deductions	-
28	**Total regulatory adjustments to common equity level 1**	5,107
29	**Common equity level 1 (CET1)**	129,929
	Additional equity level 1: instruments	
30	Instruments issued directly that qualify as additional equity of level 1, plus premium	49,772
31	Of which: classified as equity under applicable accounting criteria	-
32	Of which: classified as liability under applicable accounting criteria	N.A.
33	Instruments issued directly subject to gradual elimination of additional equity level 1	-
34	Instruments issued of Tier 1 additional capital and Tier 1 common equity instruments not included in item 5 that were issued by subsidiaries in third party	N.A.
35	Of which: Instruments issued by subsidiaries subject to gradual elimination	N.A.
36	Additional equity level 1 before regulatory adjustments	49,772
	Additional equity: regulatory adjustments	
37 (conservative)	Investments in additional equity instruments of Level 1 (amount allowed in the additional level 1)	N.A.
38 (conservative)	Equity investments in Tier 1 additional capital instruments	N.A.
39 (conservative)	Investments in the equity of banks, financial institutions and insurers beyond the scope of regulatory consolidation, net of eligible short positions, where the Institution has no more than 10% of the share capital issued (amount exceeding the threshold of 10%)	N.A.
40 (conservative)	Significant Investments in the equity of banks, financial institutions and insurers beyond the scope of regulatory consolidation, net of eligible short positions, where the Institution owns more than 10% of the share capital issued	N.A.
41	National regulatory adjustments	-
42	Regulatory Adjustments applied to Tier-1 additional capital due to inadequacy of Tier 2 capital to cover deductions	N.A.
43	**Total Adjustment to additional capital of level 1**	-
44	**Additional Capital of Level 1 (AT1)**	49,772
45	Equity level 1 (T1 = CET1 + AT1)	179,701
	Equity level 2: instruments and allowances	
46	Instruments issued directly that qualify as equity of level 2, plus premium	5,858
47	Instruments issued directly subject to gradual elimination of additional equity level 2	1,829
48	Tier 2 equity instruments and Tier 1 equity instruments and Tier 1 additional capital that have not been included in lines 5 or 34, which have been issued by subsidiaries in third-party ownership (amount allowed in the supplementary capital D E Level 2)	N.A.
49	of which: Instruments issued by subsidiaries subject to gradual elimination	N.A.

50	Allowances	1,207
51	**Equity level 2 before regulatory adjustments**	8,894
	Equity level 2: regulatory adjustments	
52 (conservative)	Investments in own shares level 2	N.A.
53 (conservative)	Reciprocal Investments in the ordinary capital level 2	N.A.
54 (conservative)	Investments in ordinary shares of banks, financial institutions and insurance companies outside the scope of regulatory consolidation, net of the short positions eligible, where the Institution does not holds more than 10% of the issued share capital (amount that exceeds the threshold of 10%)	N.A.
55 (conservative)	Significant Investments in the equity of banks, financial institutions and insurers beyond the scope of regulatory consolidation, net of eligible short positions, where the Institution owns more than 10% of the share capital issued	N.A.
56	National regulatory adjustments	-
57	Total regulatory adjustments in common equity level 2	-
58	Equity nivel 2 (T2)	8,894
59	Total Equity (TC = T1 + T2)	188,595
60	Total risk weighted assets	933,801
	Equity ratios and supplements	
61	Common equity level 1 (as a percentage of weighted assets for total risk)	13.91%
62	Equity level 1 (as a percentage of weighted assets for total risk)	19.24%
63	Total equity (as a percentage of weighted assets for total risk)	20.20%
64	Institutional specific supplement (at least must consist of: the requirement of Level 1 common equity plus the capital conservation mattress plus the countercyclical mattress plus the G-SIB mattress; expressed as a percentage of weighted assets for total risk)	7.00%
65	Of which: Equity preservation supplement	2.50%
66	Of which: countercyclical specific bank supplement	0.0001%
67	Of which: Systemically Important Global Banks (G-SIB) supplement	0.90%
68	Tier 1 Common Equity available to cover supplements (as a percentage of total weighted assets risk)	6.01%
	National minimums (if different from Basel 3)	
69	National minimum reason for CET1 (if it differs from the minimum established by Basel 3)	N.A.
70	National minimum reason for T1 (if it differs from the minimum established by Basel 3)	N.A.
71	National minimum Reason for TC (if it differs from the minimum established by Basel 3)	N.A.
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financial institutions	N.A.
73	Significant investments in common shares of financial institutions	N.A.
74	Rights for mortgage services (net of tax deferred earnings in charge)	N.A.
75	Deferred tax asset due to temporary differences (net of deferred tax liability)	-
	Limits applicable to the inclusion of reserves in the capital of Level 2	

76	Reserves eligible for inclusion in level 2 capital with respect to exposures subject to standardized methodology (prior to the application of the limit)	675
77	Limit on the inclusion of provisions in Level 2 capital under standardized methodology	5,760
78	Reserves eligible for inclusion in Level 2 capital with respect to exposures subject to internal qualifications methodology (prior to the application of the limit)	533
79	Limit on the inclusion of reserves in the capital of level 2 under the methodology of internal qualifications	1,246
	Equity instruments subject to gradual elimination (applicable only between 1 January 2018 and 1 January 2022)	
80	Current limit of CET1 instruments subject to gradual elimination	N.A.
81	Amount excluded from the CET1 due to the limit (excess over the limit after amortizations and maturities)	N.A.
82	Current limit of AT1 instruments subject to gradual elimination	-
83	Amount excluded from the AT1 due to the limit (excess over the limit after amortizations and maturities)	-
84	Current limit of AT2 instruments subject to gradual elimination	1,829
85	Amount excluded from T2 due to limit (excess over the limit after amortizations and maturities)	-

VIII. Relation of net capital with the Balance Sheet

Table II.1
Balance Sheet figures

Reference of balance sheet items	Balance Sheet figures	Amount presented in the balance sheet
	Activo	**1,261,618**
BG1	Cash and cash equivalents	108,293
BG2	Margin securities	18,099
BG3	Investments in securities	227,764
BG4	Debtor balances under repurchase en resale agreements	3,036
BG5	Securities lending	-
BG6	Derivatives financial instruments	50,277
BG7	Valuation adjustments for asset hedging	54
BG8	Loan portfolio, net	773,189
BG9	Receivables generated by securitization	110
BG10	Other accounts receivables	39,165
BG11	Foreclosed assets	1,384
BG12	Property, furniture and equipment	28,120
BG13	Permanent stock investment	2,539
BG14	Long-term assets available for sale	-
BG15	Deferred taxes	-
BG16	Other assets	9,587
	Liabilities	**1,126,574**
BG17	Deposits	841,003
BG18	Interbank and other loans	14,665
BG19	Creditor balances under repurchase and resale agreements	118,987

Reference of balance sheet items	Balance Sheet figures	Amount presented in the balance sheet
BG20	Securities lending	-
BG21	Colaterales vendidos o dados en garantía	13
BG22	Derivatives financial instruments	49,087
BG23	Valuation adjustments for financial liabilities coverage	-
BG24	Obligations in securitization operations	-
BG25	Other accounts payable	44,204
BG26	Subordinated debentures	57,152
BG27	Deferred taxes	253
BG28	Deferred credits and advance collections	1,211
	Stockholders' equity	**135,044**
BG29	Paid-in capital	21,759
BG30	Other capital	113,285
	Accounts	**1,770,854**
BG31	Avales otorgados	-
BG32	Contingent assets and liabilities	167
BG33	Credit commitments	256,306
BG34	Assets in trust or under mandate	315,988
BG35	Financial agent of the federal government	-
BG36	Managed assets in custody	370,011
BG37	Collateral received	280,054
BG38	Collateral received and sold or given as a pledge	183,050
BG39	Investment banking transactions on account of third parties, (net)	97,374
BG40	Interest accrued but not charged of past due loans	178
BG41	Other registration accounts	267,726

Table II.2
Regulatory concepts considered for calculating the components of net capital

Identifier	Regulatory concepts considered for calculating the components of net capital	Reference to the disclosure format for the capital integration of subparagraph (I) of this Annex	Amount in accordance with the notes to the table concepts regulatory considered for the calculation of the components of the net capital	Reference (s) of the item of the balance sheet and amount related to the regulatory concept considered for the calculation of the net capital coming from the mentioned reference.
	Activo			
1	Goodwill	8	1,005	BG16: 1,005 (Goodwill)
2	Other intangibles	9	1,448	BG16: 1,448 (Other intangibles)
3	Deferred income tax (recoverable) from tax losses and credits	10	-	

Identifier	Regulatory concepts considered for calculating the components of net capital	Reference to the disclosure format for the capital integration of subparagraph (I) of this Annex	Amount in accordance with the notes to the table concepts regulatory considered for the calculation of the components of the net capital	Reference (s) of the item of the balance sheet and amount related to the regulatory concept considered for the calculation of the net capital coming from the mentioned reference.
4	Receivables generated by securitization	13	110	BG9: 110 (Receivables generated by securitization)
5	Investments of the pension plan for benefits defined without restricted access and unlimited	15	-	
6	Investments in its own shares	16	-	
7	Mutual Investments in ordinary capital	17	-	
8	Direct Investments in the equity of financial institutions where the Institution has no more than 10% of the shares issued	18	-	
9	Indirect investments in the equity of financial institutions where the Institution has no more than 10% of the shares issued	18	-	
10	Direct investments in the equity of financial institutions where the Financial Group owns more than 10% of the shares issued	19	-	
11	Direct investments in the equity of financial institutions where the Financial Group owns more than 10% of the shares issued	19	1,849	BG13: 1,849 (Permanent stock investment)
12	Indirect investments in the capital of financial institutions where the Institution owns more than 10% of the share capital issued	21	Not aplicable	
13	Deferred income tax (recoverable) from temporary differences	50	1,207	BG16: 1,207 Reserves)
14	Reserves recognized as complementary capital	26 - B	-	
15	Subordinated debt investments	26 - D	-	
16	Investments in multilateral organisms	26 - E	-	

Identifier	Regulatory concepts considered for calculating the components of net capital	Reference to the disclosure format for the capital integration of subparagraph (I) of this Annex	Amount in accordance with the notes to the table concepts regulatory considered for the calculation of the components of the net capital	Reference (s) of the item of the balance sheet and amount related to the regulatory concept considered for the calculation of the net capital coming from the mentioned reference.
17	Investments in related companies	26 - F	-	
18	Investments in risk capital	26 - G	-	
19	Investments in societies of investment	26 - H	-	
20	Financing for the acquisition of own shares	26 - J	-	
21	Deferred charges and advance payments	26 - L	-	
22	Workers ' participation in deferred earnings (net)	26 - N	-	
23	Investments of the pension plan for defined benefits	26 - P	-	
	Pasivo			
24	Deferred tax (liability) associated to goodwill	8	1,005	BG16: 1,005 (Goodwill)
25	Deferred tax (liability) associated to other intangible	9	1,448	BG16: 1,448 (Other intangibles)
26	Liabilities of the pension plan for defined benefits without unrestricted and unlimited access	15	-	
27	Deferred income tax (payable) associated with pension plan for defined benefits	15	-	
28	Deferred income tax (payable) associated with others other than the above	21	-	
29	Subordinated obligations amount complying with Annex 1-R	31	-	
30	Subordinated debentures subject to transitory computing as basic Capital 2	33	-	
31	Subordinated obligations amount complying with Annex 1-S	46	-	
32	Subordinated debentures subject to transitory computing as complementary capital	47	1,829	BG26: 1,829 (Subordinated debentures)

Identifier	Regulatory concepts considered for calculating the components of net capital	Reference to the disclosure format for the capital integration of subparagraph (I) of this Annex	Amount in accordance with the notes to the table concepts regulatory considered for the calculation of the components of the net capital	Reference (s) of the item of the balance sheet and amount related to the regulatory concept considered for the calculation of the net capital coming from the mentioned reference.
33	Deferred income tax (in charge) associated with deferred charges and advance payments	26 - J	-	
	Stockholders' equity			
34	Contributed capital that complies with annex 1-Q	1	21,579	BG29; 21,579 (Capital contributed)
35	Retained earnings from prior years	2	73,302	BG30; 73,302 (Capital earned)
36	Result from valuation of instruments for cash flow hedging of items accounted at fair value	3	(905)	BG30; -905 (Capital earned)
37	Other elements of capital earned other than previous	3	40,880	BG30; 40,880 (Capital earned)
38	Contributed capital that complies with Annex 1-R	31	-	
39	Contributed capital that complies with Annex 1-S	46	-	
40	Result from valuation of instruments for cash flow hedging of items not accounted at fair value	3, 11	(905)	BG30; (905) (Capital earned)
41	Result from convertions	3, 26 - A	7	BG30; 7 (earned earned)
42	Income from non-monetary assets	3, 26 - A	-	
	Memorandum accounts			
43	Positions in First-Loss Schemes	26 - K	-	
	Regulatory Concepts not considered in the balance sheet			
44	Reserves pending to constitute	12	-	
45	Profit or increase the value of the assets by acquisition of positions of securitizations (Originating Institutions)	26 - C	-	
46	Operations that violate the dispositions	26 - I	-	
47	Operations with Relevant Related People	26 - M	-	

Identifier	Regulatory concepts considered for calculating the components of net capital	Reference to the disclosure format for the capital integration of subparagraph (I) of this Annex	Amount in accordance with the notes to the table concepts regulatory considered for the calculation of the components of the net capital	Reference (s) of the item of the balance sheet and amount related to the regulatory concept considered for the calculation of the net capital coming from the mentioned reference.
48	Abrogated	26 - O, 41, 56	-	

IX. Weighted Assets Subject to Total Risk

Table III.1
Positions exposed at market risk by risk factor

Concept	Amount of equivalent positions	Capital requirements
Transactions in local currency with nominal rate	117,364	9,389
Transactions in local currency with securities in local currency with surcharge and a rate reviewable	3,834	307
Transactions in local currency with real rate or denominated in UDI's	2,684	215
Operations in local currency with performance rate referred to the growth of the General Minimum Wage	-	-
Positions in UDI's or with yield referred to INPC	2	1
Positions in local currency with performance rate referred to the growth of the General Minimum Wage	-	-
Operations in foreign currency with nominal rate	12,497	1,000
Positions in foreign currency or with yield indexed to a exchange rate	18,818	1,505
Positions in capital instruments or with yield indexed at the cost of a capital instruments group	308	25
Positions in goods	-	-

Table III.2
Weighted Assets subject to credit risk by risk group

Concept	Risk Weighted Assets	Capital requirement
Grup I0A (weighted atl 0%)	-	-
Grup I0A (weighted at 10%)	-	-
Grup I0A (weighted at 20%)	-	-
Grup I0B (weighted at 20%)	19	2
Grup II (weighted at 100%)	969	78
Grup III (weighted at 20%)	8,099	648
Grup III (weighted at 23%)	-	-
Grup III (weighted at 50%)	5,177	414
Grup III (weighted at 57.5%)	-	-
Grup III (weighted at 100%)	99	8
Grup III (weighted at 115%)	-	-

Concept	Risk Weighted Assets	Capital requirement
Grup III (weighted at 120%)	-	-
Grup III (weighted at 138%)	-	-
Grup III (weighted at 150%)	-	-
Grup III (weighted at 172.5%)	-	-
Grup IV (weighted at 0%)	-	-
Grup IV (weighted at 20%)	12,091	967
Grup V (weighted at 10%)	-	-
Grup V (weighted at 20%)	21,546	1,724
Grup V (weighted at 50%)	7,416	593
Grup V (weighted at 115%)	655	52
Grup V (weighted at 150%)	20,460	1,637
Grup VI (weighted at 20%)	-	-
Grup VI (weighted at 50%)	46,989	3,759
Grup VI (weighted at 75%)	21,751	1,740
Grup VI (weighted at 100%)	262,703	21,016
Grup VI (weighted at 120%)	-	-
Grup VI (weighted at 150%)	-	-
Grup VI (weighted at 172.5%)	-	-
Grup VII_A (weighted at 10%)	-	-
Grup VII_A (weighted at 11.5%)	-	-
Grup VII_A (weighted at 20%)	7,215	577
Grup VII_A (weighted at 23%)	-	-
Grup VII_A (weighted at 50%)	1,131	90
Grup VII_A (weighted at 57.5%)	-	-
Grup VII_A (weighted at 100%)	170,158	13,613
Grup VII_A (weighted at 115%)	-	-
Grup VII_A (weighted at 120%)	-	-
Grup VII_A (weighted at 138%)	-	-
Grup VII_A (weighted at 150%)	86	7
Grup VII_A (weighted at 172.5%)	-	-
Grup VII_B (weighted at 0%)	-	-
Grup VII_B (weighted at 20%)	6,689	535
Grup VII_B (weighted at 23%)	-	-
Grup VII_B (weighted at 50%)	1,572	126
Grup VII_B (weighted at 57.5%)	-	-
Grup VII_B (weighted at 100%)	202,325	16,186
Grup VII_B (weighted at 115%)	-	-
Grup VII_B (weighted at 120%)	-	-
Grup VII_B (weighted at 138%)	-	-
Grup VII_B (weighted at 150%)	84	7
Grup VII_B (weighted at 172.5%)	-	-
Grup VIII (weighted at 115%)	4,027	322
Grup VIII (weighted at 150%)	1,225	98
Grup IX (weighted at 10%)	-	-
Grup IX (weighted at 50%)	-	-
Grup IX (weighted at 100%)	31,503	2,520
Grup IX (weighted at 115%)	-	-
Grup X (weighted at 1250%)	-	-

Concept	Risk Weighted Assets	Capital requirement
Securitizations with a Risk Degree 1 (weighted at 20%)	1,251	100
Securitizations with a Risk Degree 2 (weighted at 50%)	910	73
Securitizations with a Risk Degree 3 (weighted at 100%)	-	-
Securitizations with a Risk Degree 4 (weighted at 350%)	-	-
Securitizations with a Risk Degree 5, or unqualifed (weighted at 1250%)	-	-
Re-Securitizations with a Risk Degree 1 (weighted at 40%)	-	-
Re-Securitizations with a Risk Degree 2 (weighted at 100%)	-	-
Re-Securitizations with a Risk Degree 3 (weighted at 225%)	-	-
Re-Securitizations with a Risk Degree 4 (weighted at 650%)	-	-
Re-Securitizations with a Risk Degree 4, 5 or unqualified (weighted at 1250%)	-	-

Table III.3
Weighted assets subject to operational risk

Method	Weighted assets by risk	Capital requirement
Alternative Standard Method	71,860	5,849

Average requirement for market and credit risk in the past 36 months	Average of the annual positive net income of last 36 months
57,002	84,520

X. Characteristics of the securities that are part of the net Capital

Reference	Characteristics	Q BANORTE 08U
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP or Bloomberg	MX0QBA070037
3	Legal framework	LMV, LIC, CIRCULAR 2019/95, LGTOC
Regulatory treatment		
4	Level of capital with transience	Complementary Capital
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	276,936,300 (Two hundred and seventy-six million, nine hundred and thirty six thousand and three hundred) UDIs, respective to Ps. 1,772,120,368.55 1,962,998,835.09 (One billion seven hundred and seventy-two million one hundred and twenty thousand and three hundred and sixty-five pesos 55/100 M.N.).
9	Nominal value	100 (One hundred) UDIs
9A	Currency	UDI
10	Accounting classification	Liability at amortized cost
11	Date of issuance	11/03/2008

Reference	Characteristics	Q BANORTE 08U
12	Security term	Maturity
13	Date of maturity	15/02/2028
14	Clause of advance payment	Yes
15	First date of advance payment	22/08/2023
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any date of interest payment from the fifth year counted from the date of issue
Yields / dividends		
17	Type of yields/Dividends	Fix
18	Interest rate/Dividends	Real Gross (Yield)
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Partially discretionary
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulative
23	Security convertibility	Non-convertibles
24	Convertibility conditions	N. A.
25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertibles
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	No
31	Condiciones value decrease	N.A.
32	Grade of value decrease	N.A.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Preferential subordinated debentures
36	Default characteristics	No
37	Description of non-compliance features	N.A.

Reference	Characteristics	D2 BANOD19 999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP14008AD19
3	Legal framework	New York Laws
Regulatory treatment		
4	Level of capital with transience	Complementary capital
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.$350,000,000 (Three hundred fifty millon US dollars 00/100 USD)
9	Nominal value	U.S. $1,000.00 (Thousand 00/100 USD)
9A	Currency	USD dollar
10	Accounting classification	Liability at amortized cost

Reference	Characteristics	D2 BANOD19 999999
11	Date of issuance	06/07/2017
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Perpetual
15	First date of advance payment	Yes
15A	Regulatory or fiscal events	At any time before the expiration date
15B	Settlement price of the advance payment clause	Yes
16	Subsequent dates of payment in advance	Nominal value plus interest accrued at the date of the anticipated amortization
Yields / dividends		
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0Libor
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non cumulative
23	Security convertibility	Non convertible
24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	No
31	value decrease conditions	N.A.
32	Grade of value decrease	N.A.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-Preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

Reference	Characterístic	D2 BANOE91 999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP14008AE91
3	Legal framework	New York Law
Regulatory treatment		
4	Level of capital with transience	Basic Capital 2
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries

Reference	Characterístic	D2 BANOE91 999999
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.Ps. 550,000,000 (Five hundred and fifty million dollars 00/100 USD)
9	Nominal value	U.S. Ps. 1,000.00 (One thousand dollars 00/100 USD)
9A	Currency	USD dollars
10	Accounting classification	Liability at amortized cost
11	Date of issuance	04/10/2018
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Yes
15	First date of advance payment	At any time before the expiration date
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
Yields / dividends		
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0LIBOR
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulative
23	Security convertibility	Non-convertibles
24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertibles in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	No
31	Value decrease condition	N.A.
32	Grade of value decrease	N.A.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-Preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

Reference	Characteristic	D2 BANOC36 311004
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP14008AC36
3	Legal framework	New York Law
Regulatory treatment		
4	Level of capital with transience	Complementary capital

Reference	Characteristic	D2 BANOC36 311004
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.Ps. 500,000,000 (Five hundred million dollars) 00/100 USD)
9	Nominal value	U.S. Ps. 1,000.00 (One thousand dollars 00/100 USD)
9A	Currency	USD dollars
10	Accounting classification	Liability at amortized cost
11	Date of issuance	04/10/2016
12	Security term	Maturity
13	Date of maturity	04/10/2031
14	Clause of advance payment	Yes
15	First date of advance payment	At any time before the expiration date
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
Yields / dividends		
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0LIBOR
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulable
23	Security convertibility	Non-convertibles
24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	Yes
31	Value decrease conditions	Yes
32	Grade of value decrease	7%.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

Reference	Characteristics	D2 BANOA64 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP1400MAA64

Reference	Characteristics	D2 BANOA64 0999999
3	Legal framework	New York Law
Regulatory treatment		
4	Level of capital with transience	Complementary capital
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.$600,000,000 (Six hundred million dollars 00/100 USD)
9	Nominal value	U.S. $1,000.00 (One thousand dollar 00/100 USD)
9A	Currency	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Date of issuance	27/06/2019
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Yes
15	First date of advance payment	27/09/2024
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
Yields / dividends		
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0LIBOR
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulable
23	Security convertibility	Non-convertibles
24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	Yes
31	Value decrease conditions	Yes
32	Grade of value decrease	7%.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of

Reference	Characteristics	D2 BANOA64 0999999
		main in the due date, mercantile contest or it fails.

Reference	Characteristic	D2 BANOB48 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP1400MAB48
3	Legal framework	New York Laws
Regulatory treatment		
4	Level of capital with transience	Complementary capital
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.$500,000,000 (Five hundred million dollar 00/100 USD)
9	Nominal value	U.S. $1,000.00 (One thousand 00/100 USD)
9A	Currency	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Date of issuance	27/06/2019
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Yes
15	First date of advance payment	27/06/2029
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
Yields / dividends		
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0LIBOR
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulable
23	Security convertibility	Non-convertibles
24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	Yes
31	Value decrease conditions	Yes
32	Grade of value decrease	7%.

Reference	Characteristic	D2 BANOB48 0999999
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

Reference	Characteristic	D2 BANOC21 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP1400MAC21
3	Legal framework	New York Laws
Regulatory treatment		
4	Level of capital with transience	Complementary capital
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.$500,000,000 (Five hundred million dollar 00/100 USD)
9	Nominal value	U.S. $1,000.00 (One thousand 00/100 USD)
9A	Currency	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Date of issuance	14/07/2020
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Yes
15	First date of advance payment	01/07/2030
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
Yields / dividends		
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0Libor
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulative
23	Security convertibility	Non-convertibles
24	Convertibility conditions	N.A.

Reference	Characteristic	D2 BANOC21 0999999
25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	Yes
31	Value decrease conditions	Yes
32	Grade of value decrease	7%.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

XI. Management

Pursuant to the regulations in effect and the requirements of the CNBV, the Financial Group is developing its Capital Sufficiency Assessment which will consider the risks the Institution is exposed to as well as its major vulnerabilities in order to prove the Institution's solvency by means of financial forecasts with adverse macro-economic scenarios.

Additionally, with the purpose of managing the capital, weekly is carried out an analysis of follow-up to the requirements of the risk positions, in addition to supporting in simulations of operations or strategies to the different business areas in order to know their consumption.

XII.Weights involved in calculating the countercyclical Capital supplement of the institutions.

Countercyclical Capital supplement of the institution	
0.13 million	
Jurisdiction	**Weighting**
Germany	0.00%
Saudi Arabia	0.00%
Argentina	0.00%
Belgium	0.00%
Brazil	0.00%
Canada	0.00%
China	0.00%
Spain	0.00%
USA	0.00%
France	0.00%
Netherlands	0.00%
Hong Kong	1.25%
Indica	0.00%

Indonesia	0.00%
Italy	0.00%
Japan	0.00%
Korea	0.00%
Luxembourg	0.00%
México	0.00%
United Kingdom	0.50%
Russia	0.00%
Singapore	0.00%
South Africa	0.00%
Switerland	2.00%
Swiss	0.00%
Turkey	0.00%
Other Jurisdictions different from the above	0.00%

ANNEX 1-O BIS (In millions of Mexican pesos)

DISCLOSURE OF INFORMATION REGARDING LEVERAGE RATIO

December 2020 (4Q20)

I. Integration of the main sources of leverage

TABLE I.1

STANDARDIZED DISCLOSURE FORMAT FOR LEVERAGE RATIO		
REFERENCE	**ITEM**	**AMMOUNT**
Exposure inside the balance		
1	Items within the balance sheet (excluding derivative financial instruments and securities lending operations-SFT for its acronym in English-but including collateral received and recorded in the balance sheet)	1,208,305
2	(amounts of assets deducted to determine level 1 capital of Basel III)	(5,114)
3	Exhibitions within the balance sheet (Net) (excluding financial derivatives and SFT, sum of lines 1 and 2)	1,203,191
Exposures to derivative financial instruments		
4	Current cost of replacement associated with all operations with financial derivative instruments (net of margin of variation in cash admissible)	28,985
5	amounts of additional factors for potential future exposure, associated with all operations with derivative financial instruments	10,177
6	Increase in collateral provided in transactions with derivative financial instruments when such collaterals are discharged from the balance sheet under the operating accounting framework	N/A
7	(Deductions to the account receivables for change margin in cash contributed in operations with derivative financial instruments)	-

8	(Exposure by transactions in financial instruments derived by client accounts, in which the liquidating partner does not grant its guarantee in case of non-fulfilment of the obligations of the Central Counterpart)	N/A
9	Adjusted effective notional Amount of credit-derived financial instruments subscribed	N/A/
10	(Compensations made to the notional adjusted cash of the financial instruments derived from credit subscribed and deductions of the additional factors by the credit derivatives financial instruments subscribed)	N/A
11	Total exposures to derivative financial instruments (sum of lines 4 to 10)	39,162
Exhibitions by financing operations with values		
12	Assets SFT gross (without recognition of compensation), after adjustments for accounting transactions for sales	185,013
13	(Accounts payable and for charging of compensated SFT)	(3,036)
14	Exposure of counterpart risk by SFT	15,350
15	Exposure by SFT acting on behalf of third parties	-
16	Total exposures for financing operations with securities (sum of lines 12 to 15)	197,327
Other exposures off balance sheet		
17	Exposure out of balance (gross notional amount)	256,306
18	(Conversion adjustments to credit equivalents)	(216,491)
19	Off-balance sheet items (sum of the lines 17 and 18)	39,815
Capital and total exposure		
20	Equity level 1	179,701
21	Total exposures (Sum of lines 3, 11, 16 and 19)	1,479,495
Leverage ratio		
22	Leverage ratio of Basilea III	**12.15%**

TABLE I.2
Notes to standardized disclosure format for leverage ratio

REFERENCE	EXPLANATION
1	Total assets of the institution without consolidate subsidiaries or entities of specific purpose (less the assets presented in the above mentioned balance for: 1) operations with derivative financial instruments, 2) repurchase agreements and 3) securities.
2	Amount of deductions from the core capital laid down in subparagraphs (b) to (r) of the fraction I of article 2 Bis 6 of the present provisions. The amount must be recorded with a negative sign.
3	Sum of lines 1 and 2
4	Current Cost of replacement (RC) of transactions with derivative financial instruments, in accordance with those laid down in annex 1-L of these provisions, minus the partial cash settlements (cash variation margin) received, provided that The following conditions are fulfilled:
	a) In the case of counterparts other than the clearing houses referred to in the second subparagraph of article 2 Bis 12 (a), the cash received shall be available to the institution.
	b) The valuation at market of the operation is carried out daily and the received cash is exchanged with the same frequency.

REFERENCE	EXPLANATION
	c) The cash received as well as the operation with the derivative instrument, are denominated in the same currency.
	d) The amount exchanged from the cash variation margin is at least the amount necessary to cover the market value considering the threshold and the minimum amount transferred agreed in the corresponding framework contract.
	e) The amount exchanged from the cash variation margin is at least the amount necessary to cover the market value considering the threshold and the minimum amount transferred agreed in the corresponding framework contract.
	In any case, the maximum amount of cash variation margins received that may be considered will correspond to the positive value of the current replacement cost of each counterpart.
5	Additional Factor in accordance with annex 1-L of these provisions, of operations with derivative financial instruments. In addition, in the case of credit-derived financial instruments which provide credit protection, the conversion value must be included at the credit risk in accordance with article 2 Bis 22 of these provisions.
	In no case may they be used the real guarantees financial that the institution has received to reduce the amount of the additional factor reported in this line.
6	Not applicable. The accounting framework does not allow the cancel of assets given as collateral.
7	Total of margins of change in cash delivered in operations with derivative financial instruments that fulfill with the conditions indicated in the line 4 to reduce the in cash received change margins. The total must recorded with negative sign.
8	N.A.
9	Not applicable. The exhibition that is considered for the purposes of solvency framework in operations with financial derivative instruments of credit which provides credit protection corresponds to 100 per cent of the amount actually guaranteed in the operations concerned. This exhibition is regarded in Line 5.
10	Not applicable. The exhibition that is considered for the purposes of solvency framework in operations with financial derivative instruments of credit which provides credit protection corresponds to 100 per cent of the amount actually guaranteed in the operations concerned. This exhibition is regarded in Line 5.
11	Sum of lines 4 to 10
12	Amount of the assets recorded in the balance sheet (accounts receivable recorded) of operations of reported and securities lending. The amount shall not consider any compensation in accordance with the Accounting Criteria.
13	Positive amount resulting from deducting the accounts payable Accounts receivable generated by operations of reported and securities lending, by its own account, with a same counterpart, and provided that the following conditions are met:
	a) The corresponding operations have the same settlement date.
	b) The right to settle the operations at any time.
	c) The operations are liquidated in the same system and there is a mechanism or arrangements of liquidation (lines or guarantees) that allow the liquidation takes place at the end of the day in which it was decided to liquidate.
	d) Any problems related to the liquidation of collateral flows in the form of securities, do not obstruct the settlement of accounts payable and cash.
	The amount must be recorded with a negative sign.
14	Value of conversion to credit risk of the operations of reported and loan of securities on their own account, in accordance with Article 2 Bis 22 These provisions when there is not a framework contract of compensation. And in accordance with Article 2 Cis 37 when there

REFERENCE	EXPLANATION
	is such an agreement. The foregoing is without considering adjustments by eligible collateral that applies to the guarantee in the framework of capitalization.
15	In the case of operations of reported and securities lending for the account of third parties, in which the institution granted warranty with their clients before the breach of the counterpart, the amount that should be recorded is the positive difference between the value of the title or cash that the customer has delivered and the value of the guarantee that the borrower has provided.
	Additionally, if the institution can have the collateral delivered by their clients, for their own account, the amount equivalent to the value of the securities and/or cash delivered by the customer of the Institution.
16	Sum of lines 12 to 15
17	Amounts of credit commitments recognized in memorandum accounts according to accounting criteria.
18	Amounts of the reductions in the value of the credit commitments recognized in memorandum accounts by applying conversion factors to credit risk set out in the first title Bis of the present provisions, considering that the conversion factor to credit risk is a minimum of 10 % (for those cases in which the conversion factor is 0 %).
	The amount must be recorded with a negative sign.
19	Sum of lines 17 and 18
20	Basic Capital calculated in accordance with article 2 Bis 6 of provisions.
21	Sum of lines 3, 11, 16 and 19
22	Reason of Leverage. Quotient of the line 20 between the line 21.

II. Comparative of total assets and the assets adjusted

TABLE II.1

COMPARATIVE OF TOTAL ASSETS AND ASSETS ADJUSTED

REFERENCE	DESCRIPTION	AMOUNT
1	Total assets	1,261,618
2	Adjustment for investments in the capital of banks, financial, insurance or commercial entities that are consolidated for accounting purposes, but are outside the scope of regulatory consolidation	(5,114)
3	Adjustment for investments in the capital of banks, financial, insurance or commercial entities that are consolidated for accounting purposes, but are outside the scope of regulatory consolidation	N.A.
4	Adjustment for derivative financial instruments	(11,115)
5	Adjustment for repurchase agreements and securities lending operations [1]	194,291
6	Adjustment for items recognized in memorandum accounts	39,815
7	Other adjustments	-
8	Leverage coefficient exposure	1,479,495

[1] In which the value of the operation is the valuation at market of operations and are generally subject to margins agreements.

TABLE II.2

NOTES TO THE COMPARATIVE OF TOTAL ASSETS AND ASSETS ADJUSTED

REFERENCE	DESCRIPTION
1	Total assets of the institution without consolidate subsidiaries or entities of specific purpose
2	Total of the deductions of the basic capital contained in the interjections b), d), e), f), g), h), i), j) and l) of the fraction I, of the Article 2 Bis 6 of dispositions.
	The amount must be recorded with a negative sign.
3	Not applicable. The scope is on the Financial Group without consolidated subsidiaries or entities of specific purpose.
4	Amount equivalent to the difference between the figure contained in line 11 of Table I.1 and the figure presented in transactions with financial derivative instruments contained in the balance sheet.
	The amount must be recorded with the sign resulting from the difference mentioned, could be positive or negative.
5	Amount equivalent to the difference between the figure in line 16 of Table I.1 and the figure presented by repurchase agreements and lending operations of securities contained in the balance sheet.
	The amount must be recorded with the sign resulting from the difference mentioned, could be positive or negative.
6	Amount recorded in line 19 of Table I.1.
	The amount must be recorded with a positive sign.
7	Amount of the basic capital deductions contained in subparagraphs (c)), (k), M), N), (p), q) and R) of Fraction I, of article 2 Bis 6 of provisions.
	The amount must be recorded with a positive sign.
8	Sum of lines 1 to 7, which must coincide with line 21 of table I.1.

III conciliation of total assets and the exposure inside balance

TABLE III.1

CONCILIATION OF TOTAL ASSETS AND THE EXPOSURE INSIDE BALANCE

REFERENCE	CONCEPT	AMOUNT
1	Total assets	1,261,618
2	Operations in derivative financial instruments	(50,277)
3	Operations in repurchase agreements and lending of securities	(3,036)
4	Trust assets recognized in the balance sheet under the accounting framework, but excluded from the measure of the leverage ratio exposure	Nor Aplicable

5	Exposure inside balance	1,208,305

TABLE III.2
NOTES TO RECONCILIATION OF TOTAL ASSETS AND THE EXPOSURE INSIDE BALANCE

REFERENCE	DESCRIPTION
1	Total assets of without consolidated subsidiaries or entities of specific purpose.
2	The amount corresponding to the operations in financial derivative instruments presented in the asset from the last financial statements. The amount must be registrecordedered with a negative sign.
3	The amount corresponding to the operations of repurchase agreements and loan of values presented in the assets of the final financial statements. The amount must be recorded with a negative sign.
4	Does Not apply. The scope of application is on the Financial Group without consolidating subsidiaries or specific-purpose entities.
5	Sum of lines 1 to 4, which must coincide with Line 1 of table I.1

IV Main causes of significant variances of the elements (numerator and denominator) of the leverage ratio covenant

TABLE IV.1

MAIN CAUSES OF SIGNIFICANT VARIANCES OF THE ELEMENTS (NUMERATOR AND DENOMINATOR) OF THE LEVERAGE RATIO COVENANT

CONCEPT/TRIMESTRE	SEPTEMBER ‘20	DECEMBER ‘20	VARIATION (%)
Basic capital	Ps. 179,672	Ps. 179,701	0.016%
Adjusted assets	Ps 1,480,394	Ps 1,479,495	(0.061)%
Leverage ratio	Ps 12.14%	Ps 12.15%	0.050%

Management

Pursuant to the regulations in effect and the requirements of the CNBV, the Institution is developing its Capital Sufficiency Assessment which will consider the risks the Institution is exposed to as well as its major vulnerabilities in order to prove the Institution's solvency by means of financial forecasts with adverse macro-economic scenarios. In order to manage capital, a weekly follow-up analysis is conducted on the requirements derived from the risk position, as well as supporting through strategy or transactions’ simulations of the various areas of business operation in order to determine their consumption.

Additionally, with the purpose of managing the capital, weekly is carried out an analysis of follow-up to the requirements of the risk positions, in addition to supporting in simulations of operations or strategies to the different business areas in order to know their consumption.

31 - FOREIGN CURRENCY POSITION

As of December 31, 2020 and 2019, the Financial Group holds certain assets and liabilities in foreign currency, mainly US dollars, converted to the exchange rate issued by Banco de México Ps. 19.9087 and Ps. 18.8642 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	2020	**2019**
Assets	10,332,241	8,829,725
Liabilities	10,414,634	8,818,103
Net liability position in US dollars	**(82,393)**	**11,622**
Net liability position in Mexican pesos	**(Ps. 1,640)**	**Ps. 219**

32 - POSITION IN UDIS

As of December 31, 2020 and 2019, the Holding Company holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps 6.605597 and Ps. 6.399018, per UDI, respectively, as shown below:

	Thousands of UDIS	
	2020	**2019**
Assets	368,869	1,281,839
Liabilities	647,844	652,164
Net asset position in UDIS	**(278,975)**	**629,675**
Net asset position in Mexican pesos	**Ps. 1,843**	**Ps. 4,029**

33 - EARNINGS PER SHARE

Earnings per share are the result of dividing the net income by the weighted average of the Financial Group's shares in circulation during the year.

Earnings per share for the years ended December 31, 2020 and 2019 are shown below:

	2020			**2019**
	Net Income	**Weighted share average**	**Earnings per share**	**Earnings per share**
Net income per share	Ps. 30,508	2,851,283,198	Ps. 10.6998	Ps. 12.7496

Net earnings per share diluted for the years ended December 31, 2020 and 2019 are shown below:

	2020			**2019**
	Net Income	**Weighted share average**	**Earnings per share**	**Earnings per share**
Net income per share	Ps. 30,508	2,883,456,594	Ps. 10.5804	Ps. 12.6879

34 - RISK MANAGEMENT (unaudited)

Authorized bodies

For proper Risk management, the Board of Directors established since 1997 the Risk Policy Committee (CPR) to manage the risk that the Financial Group is exposed to as well as to monitor the performance of operations and that it sticks to the objectives, policies and procedures for risk management.

In addition, the CPR monitors the overall limits of risk exposure approved by the Board of Directors, in addition to approving specific risk limits for exposure to different types of risk.

The CPR is integrated with proprietary members of the Board, the CEO, the Directors of the entities, Risk Management and Audit, this last one participates with voice but no vote.

For the adequate performance of its objective, the CPR plays, among others, the following functions:

1. Propose for approval by the Board:

• The objectives, guidelines and policies for overall risk management.
• The global limits for risk exposure.
• The mechanisms for the implementation of corrective actions.
• The cases or special circumstances, which may exceed the overall limits as much as the specifics.

2. Approve and review at least once a year:

• Specific limits for discretionary risks and the risk tolerance levels for non-discretionary.
• The methodology and procedures to identify, measure, monitor, limit, control, report and disclose various types of risk to which the Financial Group is exposed to.
• The models, parameters and settings used to carry out the valuation, measurement and control of risks proposed by the unit for comprehensive risk management.

3. Approve:

• The methodologies for the identification, valuation, measurement and control of risks of new business, products and services that the holding intends to offer to the market.
• The corrective actions proposed by the drive for comprehensive risk management.
• Manuals for comprehensive risk management.
• The technical evaluation aspects of risk management.

4. Appoint and remove the unit responsible for overall risk management, it is ratified by the Board.

5. Report to the Board at least quarterly, the risk exposure and its possible negative effects and follow-up to the limits and tolerance levels.

6. Report to the Board on corrective actions taken.

35 - COMPREHENSIVE RISK MANAGEMENT UNIT (UAIR) (unaudited)

Risk management at Grupo Financiero Banorte is a key element in determining and implementing the Group's strategic planning. The Group's risk management and policies comply with regulations and market's best practices.

4. OBJECTIVES, SCOPE AND RISK MANAGEMENT FUNCTIONS

GFNorte's Risk Management main objectives are:

- To provide clear rules to different business areas, that contribute to minimizing risk and ensuring compliance with the parameters established and approved by the Board of Directors and the Risk Policies Committee (CPR by its acronym in Spanish).
- To establish mechanisms to monitor risk-taking across GFNorte, through the use of robust systems and processes.
- To verify the observance of Risk Appetite.
- To estimate and control GFNorte's capital, under regular and stressed scenarios, aiming to provide coverage for unexpected losses from market movements, credit bankruptcies, and operational risks.
- To implement pricing models for different types of risks.
- To establish procedures for portfolio's optimization and credit portfolio management.
- To update and monitor Contingency Plan in order to restore capital and liquidity levels in case of adverse events.

Moreover, GFNorte owns sound methodologies to manage quantifiable risks such as Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Concentration Risk and Counterparty Risk.

Credit Risk: revenue volatility due to constitution of provisions for impaired loans, and potential losses on borrower or counterparty defaults.

Market Risk: revenue volatility due to market changes, which affect the valuation of book positions for active, liabilities or contingent liabilities operations, such as: interest rates, spread over yields, exchange rates, price indices, etc.

Liquidity Risk: potential loss by the impossibility of renewing liabilities or securing resources in normal conditions, and by early or forced sale of assets at unusual discounts to meet their obligations.

Operational Risk: loss resulting from inadequate or failed internal processes, employees, internal systems or external events. This definition includes Technology Risk and Legal Risk. Technology Risk, groups all those potential losses from damage, interruption, disruption or failures resulting from use of or reliance on hardware, software, systems, applications, networks and any other information distribution channel, while the Legal Risk involves the potential loss by sanctions for noncompliance with laws and administrative or judicial decisions unfavorable related to GFNorte's operations.

Concentration Risk: potential loss by high and disproportional exposure to particular risk factors within a single category or among different risk categories.

Likewise, regarding unquantifiable risks, Risk Management's Manual in GFNorte establish specific objectives for:

Reputational Risk: potential loss in the performance of Institution's activities, due to an inappropriate or unethical perception of the different stakeholders, internal or external, on their solvency and viability.

1.3 Risk Management – Structure and Corporate Governance

Regarding the structure and organization for a comprehensive Risk Management, the Board of Directors is responsible for authorizing policies and overall strategies such as:

- GFNorte's Risk Appetite.
- Comprehensive Risk Management Framework.
- Risk exposure limits, risk tolerance levels and mechanisms for corrective actions.
- Contingency Plan and the Contingency Funding Plan.
- The outcome of the internal and regulatory capital adequacy scenarios.

The Board of Directors designates the CPR (Risk Policy Committee by its acronym in Spanish) as accountable for managing the risks that GFNorte is exposed to, in order to ensure that operations comply with objectives, policies and procedures established by Risk Management.

The CPR also monitors the overall limits of risk exposure approved by the Board of Directors, in addition to approving specific limits for exposure to different types of risk.

The CPR is integrated by members and deputies of the Board, the CEO, the Managing Directors of the Group's Entities, the Risk and Credit Managing Director and the Audit Managing Director, the latter participates with voice but no vote.

Moreover, the Assets and Liabilities Committee (ALCO) and the Capital and Liquidity Group, analyze, monitors, and decide regarding interest rate risks in the balance sheet, the financial margin, liquidity and net capital of the Institution.

The Unit for the Comprehensive Risk Management (UAIR by its acronym in Spanish) is in charge of the Risk Management and Credit Department (DGARC by its acronym in Spanish), and among its functions, is responsible to identify measure, monitor, limit, control, report and disclose the different types of risk to which the GFNorte is exposed to.

The DGARC reports to CPR, in compliance with the regulation related to its independence from the Business areas.

1.4 Scope and Nature of GFNorte's Risk Management

The Risk Management function extends to all subsidiaries that comprise GFNorte. Depending on the line of business of each of the Businesses, Credit, Concentration, Market, Liquidity and Operational Risks are measured, managed and controlled.

For this purpose, DGARC relies on different information and risk measurement systems, which comply with regulatory standards and align with the best international practices in Risk Management's matters. It's worth mentioning that information and reports contained and produced in the risk systems are constantly backed up following institutional procedures in IT security matters. Furthermore, risk systems enclose transactions susceptible to Credit, Market, Liquidity and Operational Risks, processed through revised models and methodologies, thus generating periodic reports for each one of these risks.

At GFNorte, there are policies and procedures for hedging, risk mitigation and compensation strategies for each type of risk in and off balance, all of them enclosed in models, methodologies and procedures for Risk Management. Within these policies, there are certain variables that must be considered for risk mitigation, such as: general features, loan to value, legal terms, instrumentation and hedging level. These policies and procedures also consider collateral execution as a risk compensation mechanism in the case of non-fulfillment by debtors. As part of the strategies and processes for monitoring the coverage or mitigation effectiveness for each type of risk, there are limits for each one of them (Credit, Market, Liquidity and Operational Risks), which are continuously monitored, as well as established procedures for the documentation of excesses and its causes, and the corrective actions implemented to return to acceptable risk levels.

5. CREDIT RISK

Credit risk is the risk of clients, issuers or counterparties not fulfilling their payment obligations. Therefore, proper management is essential to maintain loan quality of the portfolio.

The objectives of Credit Risk Management at GFNorte are:

- Comply with the Risk Appetite defined by the Board of Directors.
- Improve the quality, diversification and composition of the loan portfolio in order to optimize the risk- reward ratio.
- Provide Executive Management with reliable, timely information to assist decision making regarding funding.
- Provide Business Areas with clear and sufficient tools to support and monitor funding placement.
- Create economic value for shareholders through an efficient Credit Risk Management.

- Define and update the regulatory framework for the Credit Risk Management.
- Comply with the information requirements that the authorities establish regarding Credit Risk Management.
- Perform Risk Management in accordance with the best practices, implementing models, methodologies, procedures and systems based on best practices worldwide.
- Measure Institution's vulnerability to extreme conditions and consider those results for decisions making.

GFNorte's Credit Risk Management policies are:

- Grant and Manage Retail Credit Risk according to best market practices through Parametric Models aimed to identify risk, minimize losses and increase loan origination with quality.
- Grant and Manage Wholesale Loans to companies and other entities, according to best market practices through a credit strategy including Target Markets and Risk Acceptance Criteria, identifying and managing risk through Loan Rating and Early Warnings methodologies.
- Monitor and control asset quality through Loan Classification System, which provides treatment and general actions for defined situations, as well as departments or officers responsible for carrying out such actions.
- Surveillance and Control through Global and Specific Limits, loan rating policies, and Portfolio Credit Risk models that identify expected and unexpected losses at specific confidence levels.
- Inform and disclose Credit Risks to risk taking areas, CPR, Board of Directors, Financial Authorities and Investors.
- Define faculties for Credit Risks taking at Institution.

In order to comply with objectives and policies, a series of strategies and procedures have been defined including origination, analysis, approval, management, monitoring, recovery and collections.

2.1 Credit Risk Scope and Methodology

2.1.1 Individual Credit Risk

GFNorte segments the loan portfolio into two large groups: retail loans and wholesale loans.

The individual Credit Risk for retail loans is identified, measured and controlled through a parametric system (scoring) that includes models for each of the SME (small and medium enterprises) and consumer products (mortgage, auto, payroll, personal loans and credit cards).

Individual risk for wholesale loans is identified, measured and controlled through Target Markets, Risk Acceptance Criteria, Early Warnings and GFNorte's Internal Risk Rating (CIR Banorte).

The Target Markets, Risk Acceptance Criteria and Early Warnings are tools that, together with the Internal Risk Rating, are part of GFNorte's Loan Strategy and support the estimated level of Credit Risk.

The Target Markets are categories of economic activity by region, backed by economic research and loan behavior analysis as well as by expert opinions, where GFNorte is interested in granting loans.

The Risk Acceptance Criteria are parameters that describe different types of risks by industry, in order to estimate the risk taking when granting loans to customers based on their economic activity. The types of risk observed in the Risk Acceptance Criteria are: Financial, Operation, Market, and Enterprise's life cycle, Legal and Regulatory Risks, besides credit experience and management quality.

Early Warnings are a set of criteria based on borrower's information and indicators, as well as their environment, as a mechanism for timely prevention and identification of a probable deterioration in the loan portfolio, thereby enabling the Institution to take prompt preventive actions to mitigate Credit Risk.

Banorte’s CIR is a borrower’s rating methodology which assesses quantitative and qualitative criteria in order to determine credit quality. CIR applies to commercial loans equal to or greater than the equivalent of four million investment units (UDIs) in Mexican pesos on the rating date, or borrowers whose annual sales or income are greater or equal to 14 million UDIs (in case of being enterprises).

2.1.2 Portfolio Credit Risk

GFNorte developed a portfolio Credit Risk methodology that, besides including international standards for identifying, measuring, controlling and monitoring, has been adapted to function within the context of the Mexican Financial System.

This Credit Risk methodology provides current value of the entire loan’s portfolio at GFNorte, that is, the loan exposure, in order to monitor risk concentration levels through risk ratings, geographical regions, economic activities, currency and type of product in order to observe the portfolio’s profile and act to improve diversification, which will maximize profitability with the lowest risk.

The model considers the loan portfolio exposure directly to the balance of each loan, whereas for the financial instruments’ portfolio, considers the present value of the instruments and their future cash flows. This exposure is sensible to changes in the market, thereby facilitating estimations under different economic scenarios.

The methodology, besides loan exposure, takes into consideration the probability of default, recovery level associated to each client and the classification of the debtor based on the Merton model. The probability of default is the probability that the debtor will not fulfill his/her debt obligation with the institution according to the originally agreed terms and conditions. The probability of default is based on transition matrixes estimated by GFNorte based on the migration of the debtors through different risk rating levels. The recovery rate is the percentage of total exposure that is expected to be recovered if the debtor defaults. The classification of the debtor, based on the Merton model, associates the debtor’s future behavior to credit and market factors on which his “credit health” depends, as determined by statistical techniques.

The results of this methodology, are risk measures such as the expected and unexpected loss at a one-year horizon. The expected loss is the mean of the credit portfolio's loss distribution, which is used to measure the following year’s expected loss due to default or variations in debtors’ credit quality. The unexpected loss is an indicator of the loss in extreme scenarios and is measured as the difference between the maximum loss given the loss distribution, at a specific confidence level, which for GFNorte’s is 99.95%, and expected loss.

These results are used as a tool for better decision-making in granting loans and in the diversification of the portfolio, according to GFNorte’s strategy. The individual risk identification tools and the portfolio Credit Risk methodology are periodically reviewed and updated in order to include the application of new techniques that may support or strengthen them.

2.1.3 Credit Risk of Financial Instruments

Credit Risk Management of financial instruments is managed through a series of key pillars with a robust framework of policies for origination, analysis, authorization and management.

Origination policies define the types of eligible negotiable financial instruments, as well as the methodology for assessing credit quality of different types of issuers and counterparties. Credit quality is allocated through: a rating obtained with an internal methodology, evaluations of external rating agencies or a combination of both. Maximum parameters of operation are also defined based on the type of issuer or counterparty, rating and type of operation.

The Loan Committee authorizes operation lines with financial instruments for clients and counterparties in accordance with authorization policies. The authorization request is submitted by the business area and other areas involved in the operation, with all the relevant information for analysis by the Committee who, if considered appropriate, issues its authorization. Nevertheless, counterparty credit lines (mainly to financial entities) that comply with certain criteria may be approved through a parametric methodology approved by the CPR.

In the specific case of derivatives contracts, and in line with best practices, a methodology for estimating potential exposure to lines is used, which are analyzed and approved within the Credit Committee and are monitored on daily basis and reported monthly in the CPR, where guarantee analysis for derivative transaction is held both for clients and financial counterparties.

The correspondent Credit Committee holds the minimum faculty to approve derivative lines for clients (when applicable, a fast track process has been approved by the CPR). For these transactions, the use of derivatives lines with margin calls shall be privileged in order to mitigate the risk of potential exposure to these transactions.

To determine adversely correlated lines (Wrong Way Risk “WWR”) a potential exposure adjustment is considered.

On an individual level, the risk concentration on financial instruments is managed on a continuous basis, establishing and monitoring maximum parameters of operation for each counterparty or issuer depending on the rating and type of operation. There are defined risk diversification policies for portfolios, for economic groups and internal groups. Additionally, the concentration of counterparty type or issuer, size of financial institutions and the region in which it operates, are monitored so that an appropriate diversification is obtained and undesired concentrations are avoided.

Credit Risk is measured through a rating associated with the issuer, security or counterparty, which has a previously assigned risk level based on two fundamentals:

3) The probability of default of the issuer, security or counterparty, which is expressed as a percentage between 0% and 100% where the better the rating or lower rate differential vs. the instrument of an equivalent government bond, the lower the probability of default and vice versa.

4) The loss given default that could be experienced with respect of the total of the operation in the event of non-fulfillment, is expressed as a percentage between 0% and 100% where the better the guarantees or credit structures, the smaller the loss given default and vice versa. To mitigate Credit Risk and to reduce the loss given default in the event of non-fulfillment, the counterparties have signed ISDA contracts and agreements to net out, in which credit lines and the use of collateral to mitigate loss in the event of non-fulfillment are implemented.

2.2 Credit Risk Exposure

As of December 31, 2020 the total amount of the exposure subject to the Standard Method and the Internal Models (Advanced Approach Internal Model for Credit Cards and Auto Loans, and Foundation Approach Internal Model for Business Enterprises) to estimate the Capital Ratio is the following:

Gross Exposures subject to the Standard Method and Internal Models *(Million pesos)*	**Banorte**	**Arrendadora y Factor***	**Total Portfolio**
Commercial	67,764	844	68,607
YoY Revenues or Sales < 14 MM UDIS	67,764	844	68,607
States or Municipalities	106,582	84	106,666
Decentralized Federal Government Agencies and State Companies	32,694	6,441	39,134
Projects with own source of payment	98,711	-	98,711
Financial Institutions	24,898	659	25,557
Mortgage	189,394	-	189,394
Consumer Non-Revolving	53,163	7	53,170
Total Loans subject to the Standard Method	**573,205**	**8,035**	**581,240**
Commercial	132,937	27,180	160,118
YoY Revenues or Sales >= 14 MM UDIS	132,937	27,180	160,118
Federal, State and Municipal Government Decentralized Agencies, with annual income or Sales >= 14 MM UDIS	16,874	-	16,874

Total Loans subject to the Foundation Approach Internal Model	**149,811**	**27,180**	**176,991**
Consumer Non-Revolving (Auto)	28,248	-	28,248
Credit Card	39,771	-	39,771
Total Loans subject to Advanced Approach Internal Model	**68,020**	**-**	**68,020**
Eliminations and Accounting Records			**(15,257)**
Not Rated			**76**
Total Loans			**811,070**

* Excludes Pure Leasing

** The exposure does not consider Letters of Credit and it has accounting adjustments.

For transactions subject to Credit Risk, the Institution uses external ratings issued by the rating agencies S&P, Moody's, Fitch, HR Ratings, Verum, DBRS Ratings México and A.M. Best America Latina. Only ratings issues by rating agencies are considered, and are not assigned based on comparable assets.

2.2.1 Loan Portfolio

GFNorte's Credit Risk loan portfolio as of 4Q20 presents a total exposure of Ps 811.07 billion, Ps 5.93 billion higher vs. the previous quarter or 0.7% higher, and Ps 35.62 billion higher or a 4.6% increase versus the previous year.

Variations per product of GFNorte's total portfolio are:

Product / Segment	**Total Loan**			**Var. vs. 3Q20**		**Var. vs. 4Q19**	
(Million pesos)	**4Q19**	**3Q20**	**4Q20**	**Ps**	**%**	**Ps**	**%**
Government	173,992	162,897	161,600	(1,297)	(0.8%)	(12,392)	(7.1%)
Commercial	176,892	190,005	195,291	5,286	2.8%	18,398	10.4%
Mortgage	172,059	184,495	189,394	4,899	2.7%	17,335	10.1%
Corporate	130,510	147,070	143,595	(3,476)	(2.4%)	13,084	10.0%
Payroll	53,069	53,252	53,093	(159)	(0.3%)	24	0.04%
Credit Card	41,987	39,831	39,771	(60)	(0.2%)	(2,216)	(5.3%)
Auto Loans	26,938	27,587	28,326	738	2.7%	1,387	5.2%
Total Loans	**775,448**	**805,138**	**811,070**	**5,932**	**0.7%**	**35,622**	**4.6%**

Subsidiary	**Loans**		**Distressed Portfolio**		**Total**	**Total Reserves**
(Million pesos)	**Performing**	**Past-due**	**Performing**	**Past-due**		
Banorte*	767,182	6,604	854	1,976	776,616	14,983
Arrendadora y Factoraje	34,861	13	3	338	35,215	540
Accounting Records**	(761)	-	-	-	(761)	4,481
Total Loans	**801,281**	**6,617**	**857**	**2,314**	**811,070**	**20,004**

* Banorte' s total loans include eliminations for (Ps 14,420) million.

** Includes portfolio from trust FCICK 16-1 for Ps 75,8 million.

Total reserves of Ps 20,004 million include rating reserves of Ps 15,523 million and accounting records (to provision 100% of past due interests, valuation, negative debts in the Credit Bureau, and those recorded in recoveries) of Ps 4,481 million.

GFNorte's performing, past-due and distressed portfolios in 4Q20 grouped by sector and subsidiary are detailed in the following two tables:

Sector *(Million pesos)*	Loans		Distressed		Total Loans	Reserves		4Q20 Charge offs	Days Past-- Due**
	Performing	Past-Due	Performing	Past-Due		4Q20	Var vs. 3Q20		
Government	161,561	4	2	33	161,600	1,356	113	0	276
Services*	90,837	17	208	293	91,355	761	(93)	108	74
Manufacturing	49,655	46	112	280	50,093	500	(8)	82	71
Commerce	48,675	83	274	545	49,577	716	(39)	128	170
Transportation	44,364	11	55	198	44,628	450	(14)	10	63
Top 5 Sectors	**395,093**	**161**	**651**	**1,349**	**397,253**	**3,781**	**(41)**	**327**	
Other Sectors	101,892	92	206	965	103,156	1,103	76	330	-
Mortgage	187,736	1,658	-	-	189,394	1,019	(31)	602	-
Consumer	116,485	4,706	-	-	121,190	9,619	968	2,149	-
Accounting Records	76	-	-	-	76	4,481	-	-	-
Total Loans	**801,281**	**6,617**	**857**	**2,314**	**811,070**	**20,004**	**973**	**3,408**	**-**

* Includes Financial, Real Estate and Other Services
** Days past due from Non-Performing Loans.
*** Includes portfolio from trust FCICK 16-1 for Ps 75.8 million.

Sector/Subsidiary *(Million pesos)*	Banorte*	AyF	Accounting Record	Total Loans
Government	156,149	6,490	(1,038)	161,600
Services**	84,646	6,508	201	91,355
Manufacturing	41,513	8,579	-	50,093
Commerce	43,957	5,620	-	49,577
Transportation	40,961	3,667	-	44,628
Top 5 Sectors	**367,225**	**30,865**	**(837)**	**397,253**
Remaining***	409,390	4,350	76	413,817
Total Loans	**776,616**	**35,215**	**(761)**	**811,070**

* Banorte' s total loans include eliminations for (Ps 14,420) million.
** Includes Financial and Real Estate services
*** Remaining includes the portfolio from trust FCICK 16-1 for Ps 75.8 million

As of 4Q20, GFNorte's performing, past due and distressed portfolios grouped by federal entity and subsidiary are detailed in the following two tables:

	Federal Entities *(Million pesos)*	Loans		Distressed		Total Loans	Total Reserves
		Performing	Past-Due	Performing	Past-Due		
1	Ciudad de México	238,943	1,720	225	950	241,838	4,014
2	Nuevo León	120,314	603	100	283	121,300	1,981
3	Estado de México	65,470	743	74	115	66,402	1,495
4	Jalisco	51,649	436	70	56	52,210	840
5	Baja California Sur	24,557	125	4	14	24,699	353
6	Tamaulipas	23,412	217	35	28	23,693	470
7	Sinaloa	21,739	148	37	165	22,088	372
8	Coahuila	21,298	142	12	34	21,486	365

9	Chihuahua	19,501	158	39	86	19,784	452
10	Baja California Norte	19,194	78	6	40	19,318	303
	Top 10	**606,077**	**4,370**	**601**	**1,770**	**612,819**	**10,643**
	Other Federal Entities	195,965	2,247	256	544	199,012	4,880
	Accounting Records	(761)	-	-	-	(761)	4,481
	Total Loans	**801,281**	**6,617**	**857**	**2,314**	**811,070**	**20,004**

* Banorte' s total loans include eliminations for (Ps 14,420) mllion.
** Includes the portfolio from trust FCICK 16-1 for Ps 75.8 million.

As of 4Q20, GFNorte's performing, past due and distressed portfolios grouped by term are detailed below:

Remaining Term	**Portfolio**		**Distressed**		**Total Loans**	**Total Reserves**
(Million pesos)	**Performing**	**Past-Due**	**Performing**	**Past-Due**		
0 - 1 years	121,509	3,246	252	1,134	126,142	6,683
1 - 5 years	216,281	1,715	578	686	219,260	5,976
5 - 10 years	95,874	155	24	156	96,210	611
> 10 years	333,517	1,488	-	-	335,005	1,713
Banorte*	**767,182**	**6,604**	**854**	**1,976**	**776,616**	**14,983**
Arrendadora y Factor	34,861	13	3	338	35,215	540
Accounting Records**	(761)	-	-	-	(761)	4,481
Total Loans	**801,281**	**6,617**	**857**	**2,314**	**811,070**	**20,004**

* Banorte' s total loans include eliminations for (Ps 14,420) million.
**Includes the portfolio from trust FCICK 16-1 for Ps 75.8 million.

The total distressed portfolio is Ps 3,172 million. Below is the quarterly balance of loan loss provisions for this portfolio:

Loan Loss Provisions for Distressed Portfolio	**4Q20**		
(Million pesos)	**Banorte**	**Arrendadora y Factor**	**GFNorte**
Initial Loan Loss Provisions	**1,045**	**305**	**1,350**
Charged to results	606	10	616
Loans' write offs	345	-	345
Adjustments in Credit Risk	261	10	272
Sale of Portfolios	-	-	-
FX Effect	(2)	-	(2)
Received in lieu of payment	(14)	-	(14)
Write-offs, charge-offs and discounts	(627)	-	(627)
Final Loan Loss Provisions	**1,008**	**316**	**1,324**
Loan Recoveries	**76**	**-**	**76**

2.2.2 Exposure to Financial Instruments

As of December 31, 2020, exposure to Credit Risk for Securities Investments of Banco Mercantil del Norte was Ps 227.0 billion, of which 94.2% is rated higher or equal to A+(mex) on a local scale, placing them in investment grade, and the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 5% of the Tier 1 Capital as of September 2020. Additionally, exposure of investments with the same counterparty other than the Federal Government that represents a higher or equal concentration to 5% of the

Net Capital as of September 2020 it is rated as AAA(mex), except Pemex that has BBB-(mex), and is comprised of (*weighted average, amounts in pesos and weighted average return to annualized maturity*): certificates of deposit and market certificates of Banobras for 8 months totaling Ps 13.10 billion at 4.5%; and market and bond certificates of Pemex for 4 years and 4 months totaling Ps 12.49 billion at 3.6%.

For Derivatives operations, the exposure of the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 5% of the Tier 1 Capital as of September 2020.

Exposure to Credit Risk for Securities Investments of Casa de Bolsa Banorte was Ps 239.15 billion, of which 99.5% is rated higher or equal to A+(mex) on a local scale, placing them in investment grade and the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 87% of the Equity as of September 2020. Additionally, the exposure of investments with the same counterparty other than the Federal Government that represents a higher or equal concentration to 5% of the Equity as of September 2020 has a higher or equal rating to A-(mex) and are comprised of (*weighted average term, amounts in pesos and weighted average return to annualized maturity*): certificates of deposit and market certificates of Banco Santander Mexicano for 8 months totaling Ps 8.34 billion at 4.5%; certificates of deposit and market certificates of BBVA Mexico for 1 year and 7 months totaling Ps 5.94 billion at 4.6%; certificates of deposit and market certificates of HSBC Mexico for 1 year and 3 months totaling Ps 4.24 billion at 4.6%; market certificates of Scotiabank Inverlat for 1 year and 4 months totaling Ps 3.91 billion at 4.7%; market certificates of Mexico City Government for 26 years and 9 months totaling Ps 2.45 billion at 4.7%; market certificates of FEFA for 2 years and 7 months totaling Ps 1.72 billion at 4.8%; certificates of deposit and market certificates of Banco del Bajío for 1 year and 3 months totaling Ps 1.58 billion at 4.9%; certificates of deposit of Banco Multiva for 5 months totaling Ps 1.40 billion at 4.7%; market certificates of Consubanco for 3 months totaling Ps 832 million at 5.7%; market certificates of Banco Compartamos for 2 years and 3 months totaling Ps 830 million at 5.1%; market certificates of Banco Inbursa for 2 years and 5 months totaling Ps 814 million at 4.7%; certificates of deposit of Banco Invex for 3 months totaling Ps 801 million at 4.8%; Deutsche Bank bonds for 2 years and 5 months totaling Ps 789 million at 4.4%; certificates of deposit and market certificates of Banobras for 2 months totaling Ps 778 million at 4.4%; CABEI bonds for 1 year and 10 months totaling Ps 730 million at 3.9%; market certificates of Grupo Aeroportuario del Pacífico for 4 years totaling Ps 494 million at 5.3%; market certificates of Pemex for 4 years and 3 months totaling Ps 468 million at 8.0%; certificates of deposit of Banca Mifel for 10 months totaling Ps 351 million at 5.0%; and market certificates of Nafinsa for 4 months totaling Ps 319 million at 4.4%.

There are no Derivatives operations.

Arrendadora y Factor Banorte had no exposure to Securities Investments or to Derivatives.

Banorte' s exposure to counterparty risk from transactions with derivatives is presented below, as well as the netting effect and risk mitigation based on the aggregate guarantees related to settled transactions (includes operations with Banxico. Excludes settled transactions through central counterparties).

Position (Million Pesos)	**4Q20**	**4Q20 Average**
Forwards	744	620
FX Swaps	(100)	99
FX	-	-
Options	127	224
Swaps with Interest Rates IRS	16,615	15,660
Cross Currency Swap (CCIRS)	(6,394)	(6,846)
Credit Default Swaps (CDS)	152	207
Total	**11,144**	**9,963**
Positive Fair Value *(Positive Market Value)*	27,650	25,778

Netting Effect*	16,506	15,815
Delivered Guarantees (-) /Received (+)		
Cash	(11,887)	(11,732)
Securities	-	-
Total	**(11,887)**	**(11,732)**

* Difference between the positive market value (not considering the net positions) and the portfolio market value. Transactions performed at the Clearing House are not included, as they are not subject to counter party risk.

The following table represents the current and potential levels of exposure at the end and the average of the quarter, respectively.

(Million Pesos)	**Potential Risk**		**Current Risk**	
Financial Counterparties	**4Q20**	**4Q20 Average**	**4Q20**	**4Q20 Average**
FWD			639	545
FX SWAP	9,673	9,064	(100)	99
FX			-	-
OPTIONS	6,301	5,512	78	188
INTEREST RATE SWAP	6,502	7,398	(5,686)	(5,313)
CCS	9,733	9,049	(6,408)	(6,863)
CDS	152	208	152	207
Total	**5,588**	**5,512**	**(11,324)**	**(11,137)**
Clients (Non-Financial)	4Q20	4Q20 Avg	4Q20	4Q20 Avg
FWD	117	94	105	74
OPTIONS	97	90	49	36
INTEREST RATE SWAP	22,649	21,307	22,301	20,973
CCS	28	32	14	16
Total	**22,886**	**21,520**	**22,469**	**21,100**

Based on conditions established in derivative agreements, tolerance levels of exposure are considered according to the rating of involved entities. The following table presents the amount of guarantees to be delivered, in case of a rating downgrade. It's worth noting that with most counterparties we've migrated to cero threshold, thus, guarantees to be delivered do not depend on credit rating but to market movements:

Net Cash Outflows (Million pesos)	**4Q20**	**4Q20 Average**
Cash Outflow with 1-notch Downgrade	-	-
Cash Outflow with 2-notch Downgrade	-	-
Cash Outflow with 3-notch Downgrade	-	-

In the following table, the derivatives' market value is detailed according to the counterparties' ratings:

Rating (Million Pesos)	**MoM 4Q20**	**4Q20 Average**
AAA/AA-	-	-
A+/A-	(11,680)	(11,041)

BBB+/BBB-	2,002	1,744
BB+/BB-	10,666	9,643
B+/B-	1,841	1,648
CCC/C	-	-
SC	8,315	7,969
Total	**11,144**	**9,963**

2.3 Credit Collaterals

Collaterals represent the second credit recovery source when its coverage, through the predominant activity of the applicant, is compromised. Collaterals may be real or personal.

The main types of real collaterals are the following:

- Civil Mortgage
- Industrial Mortgage
- Regular Pledge
- Pledge w/o possession transfers
- Pledge / Pledge Bond
- Pledge Bond
- Caution Securities
- Securities Pledge
- Management and Payments Trust
- Development Funds

For assets granted in guarantee, the Institution has policies and procedures to monitor and make periodic inspection visits to ensure the existence, legitimacy, value and quality of the guarantees accepted as an alternative credit support. Furthermore, when guarantees are securities, there are policies and procedures to monitor its market's valuation and require additional guarantees if needed.

The covered loan portfolio by type of collateral is as follows:

Collateral Type (Million Pesos)	**4Q20**		
	Banorte	**Arrendadora y Factor****	**GFNorte***
Total Loan Portfolio	**791,112**	**35,215**	**811,070**
Covered Loan Portfolio by type of collateral			
Real Financial Guarantees	18,367	-	18,367
Real Non-Financial Guarantees	456,669	6,904	463,573
Pari Passu	33,993	-	33,993
First Losses	17,841	-	17,841
Personal Guarantees	22,929	4,480	27,410
Total Loan Portfolio Covered	**549,800**	**11,384**	**561,184**

* Total Loans includes eliminations and accounting records for (Ps 15.26 billion).

** Excludes Pure Leasing

Expected Loss

As of December 31, 2020, Banco Mercantil del Norte's total portfolio was Ps 791.04 billion. The expected loss represents 1.9% and the unexpected loss is 4.3% of the total portfolio. The average expected loss is 1.8% for the period October-December 2020.

Regarding Casa de Bolsa Banorte, the credit exposure of investments is Ps 239.15 billion and the expected loss represents 0.02% of the exposure. The average expected loss is 0.02% between October- December 2020.

The total portfolio of Arrendadora y Factor Banorte, including pure leasing is Ps 37.56 billion. The expected loss represents 1.6% and the unexpected loss is 6.0% of the total portfolio. The average expected loss is 1.5% for the period October- December 2020.

2.4 Internal Models

2.4.1 Advanced Approach Internal Model for Credit Card

On November 15, 2017, GF Banorte received approval from the banking regulator (Comisión Nacional Bancaria y de Valores) to use Internal Models (IM) for credit card rating for reserves and regulatory capital generation by credit risk with an Advanced Approach (Document 111-3/706/2017). On yearly basis, Internal Models are recalibrated, and CNBV's certification is granted in order to use the Models for the estimation of the regulatory requirements for another 12-month period.

These internal models improve overall credit risk management by estimating risk parameters from the bank's own experience based on January 2018 data, and have been applied as of February 2018. The aforementioned parameters are:

- Probability of Default (PD). Indicates the probability that a credit card customer defaults on its contractual obligations within the next twelve months after the month being rated. For each loan, there is a score, which is mapped to a Master rating scale.
- Loss Given Default (LGD). Measures the intensity of the loss upon default expressed as a percentage of the Exposure at Default (EAD).
- Exposure at Default (EAD). The amount of the debt at the time of default, considering a time horizon of twelve months after the month being rated.

The next table shows the Credit Card portfolio subject to the Advanced Approach Internal Model, classified by degrees of regulatory risk:

Consumer Revolving Credit Card Portfolio under Advanced Approach Internal Model						*Million Pesos*	
Risk Level*	**Accounting Balance**	**Exposure at Default (EAD)****	**Loss Given Default**	**PD factored by EAD**	**Unused credit lines**	**EAD factored by Exposure**	**Current EAD**
A1	15,128	28,238	87.30%	1.08%	53,495	46%	28,238
A2	5,186	8,932	87.30%	3.43%	8,567	42%	8,932
B1	4,412	5,839	87.30%	4.93%	1,634	24%	5,839
B2	405	748	87.30%	4.93%	1,104	46%	748

B3	2,007	2,690	87.30%	8.13%	815	25%	2,677
C1	4,400	5,616	87.30%	9.33%	1,180	22%	5,585
C2	3,081	3,815	87.30%	17.34%	598	19%	3,683
D	4,598	4,993	87.30%	47.75%	505	8%	1,452
E	555	566	88.11%	97.46%	157	2%	18
Total Portfolio	**39,771**	**61,437**	**87.39%**	**8.59%**	**68,054**	**35%**	**57,171**

* The scale of Risk Level for the Advanced Apporach Internal Model has been mapped in accordance with regulatory risk levels.
** The balances under Exposure at Default include Potential Risk as well as used credit line balance.

The next table shows the difference between expected loss and observed loss resulting from the Advance Approach Internal Model for Credit Cards from 1Q20.

Backtesting				
Portfolio	**Expected Loss Internal Model***	**Observed Loss***	**Difference Ps (Observed Loss – Expected Loss)**	**% NCL Coverage**
Credit Card	4,413	4,356	(56)	101%
Total Portfolio	**4,413**	**4,356**	**(56)**	**101%**

* Expected and Observed Loss is equal to the last twelve months' average.

2.4.2 Advanced Approach Internal Model for Auto Loans

On November 15, 2019, GF Banorte received approval from the banking regulator (Comisión Nacional Bancaria y de Valores) to use Internal Models (IM) for Auto Loans rating for reserves and regulatory capital generation by credit risk with an Advanced Approach (Document 111/678/2019). On yearly basis, Internal Models are recalibrated, and CNBV's certification is granted in order to use the Models for the estimation of the regulatory requirements for another 12-month period.

These internal models improve overall credit risk management by estimating risk parameters from the bank's own experience based on January 2020 data, and have been applied as of February 2020. The aforementioned parameters are:

- Probability of Default (PD). Indicates the probability that an auto customer defaults on its contractual obligations within the next twelve months after the month being rated. For each loan, there is a score, which is mapped to a Master rating scale.
- Loss Given Default (LGD). Measures the intensity of the loss upon default expressed as a percentage of the Exposure at Default (EAD).
- Exposure at Default (EAD). The amount of the debt at the time of default, considering a time horizon of twelve months after the month being rated.

The next table shows the Auto portfolio subject to the Advanced Approach Internal Model, classified by degrees of regulatory risk:

Consumer Revolving Auto Portfolio under Advanced Approach Internal Model

Risk Level*	Accounting Balance	Exposure at Default (EAD)**	Loss Given Default	PD factored by EAD	Current EAD
A1	22,217	22,217	56.90%	0.98%	22,217
A2	2,978	2,978	61.48%	3.56%	2,978
B1	492	492	68.98%	5.36%	492
B2	-	-	-%	-%	-
B3	-	-	-%	-%	-
C1	729	729	52.04%	13.91%	729
C2	1,188	1,188	68.98%	13.91%	1,187
D	231	231	52.04%	53.43%	18
E	413	413	68.86%	69.27%	7
Total Portfolio	**28,248**	**28,248**	**47.70%**	**3.63%**	**27,629**

* The scale of Risk Level for the Advanced Approach Internal Model has been mapped in accordance with regulatory risk levels.

The next table shows the difference between expected loss and observed loss resulting from the Advance Approach Internal Model for Auto Loans from 1Q20.

Backtesting				
Portfolio	**Expected Loss Internal Model***	**Observed Loss**	**Difference Ps (Observed Loss – Expected Loss)**	**% NCL Coverage**
Auto Loans	**711**	**687**	**(24)**	**103%**
Total Portfolio	**711**	**687**	**(24)**	**103%**

* Data as of December 2019.

2.4.3 Foundation Approach Internal Model for Commercial Loans

On November 30th, 2018, GFNorte obtained authorization from the banking regulator CNBV (Comisión Nacional Bancaria y de Valores) to use the Internal Model (IM) for Commercial Loans for reserves generation and regulatory capital requirements by credit risk with a Foundation Approach, as per Document 111-3/1472/2018 in Banco Mercantil del Norte, and on March 1st, 2019 for Arrendadora y Factor Banorte as per Documents 111-1/160/2019 and 111-1/161/2019. On yearly basis, Internal Models are recalibrated, and CNBV's certification is granted in order to use the Models for the estimation of the regulatory requirements for another 12-month period.

Exposures subject to this rating are those pertaining to corporations (other than states, municipalities and financial entities), and individuals (sole proprietorships), both with annual sales higher or equal to 14 million UDIs.

The Internal Model (IM) enhances the overall credit risk management practice by estimating risk parameters through the institution's own experience with such customers. These models have been applied since February 2019 (January figures) at Banco Mercantil del Norte, and starting in March 2019 (with February figures) at Arrendadora y Factor Banorte. The parameter authorized under the Foundation Approach Internal Model for Corporations is:

- Probability of Default (PD). Shows the likelihood that a borrower defaults on its contractual obligations within twelve months after the month being rated. There is a score assigned to each borrower, which is in turn mapped against a master rating scale.

The following table shows the portfolio which is subject to the Foundation Approach Internal Model for Commercial Loans, classified by risk level:

Commercial Loans subject to the Foundation Approach Internal Model Grupo Financiero Banorte			*Million Pesos*
Risk Level	**Accounting Balance**	**Exposure at Default (EAD)***	**PD weighted by EAD**
1	68,285	68,377	0.13%
2	54,579	54,619	0.50%
3	44,273	44,452	0.81%
4	9,992	9,992	1.43%
5	6,595	6,595	2.52%
6	756	757	6.30%
7	895	895	15.37%
8	939	939	31.22%
9	200	200	57.62%
Default	664	664	100.00%
Total	**187,177**	**187,491**	**1.22%**

* EAD balances include both potential risk as well as used balance risk.

A breakdown of risk exposure and expected loss by subsidiary is shown below:

Commercial Loans Portfolio subject to the Foundation Approach Internal Model			*Million Pesos*
Subsidiary	**Accounting Balance**	**Exposure at Default (EAD)****	**Expected Loss**
Banco Mercantil del Norte	159,858	160,172	692
Arrendadora y Factor Banorte	27,319	27,319	128
Total Loans*	**187,177**	**187,491**	**819**

* The balance includes Letters of Credit of Ps 10.03 billion and excludes accounting adjustments of Ps 16 million in Banorte and Ps 139 million in Arrendadora y Factor Banorte.
** EAD balances include both potential risk as well as used balance risk.

The following table shows the difference between expected loss estimated by the Foundation Approach Internal Model for Commercial Loans, and the real loss observed in the following 12 months. Because the model was just recently authorized, the table shows estimations obtained during the parallel model runs period.

Backtesting*			Million Pesos
Period	**Expected Loss with Internal Model**	**Observed Loss**	**% Coverage (Expected Loss / Observed Loss)**
4Q19	685	224	306%

*Excludes non-recurring write-offs from June 2020.

2.7 Risk Diversification

In December 2005, the CNBV issued "General Provisions Applicable to Credit Institutions related to Risk Diversification". These guidelines state that institutions must perform an analysis of their borrowers and/or loans to determine the amount of "Common Risk"; also, institutions must have the necessary information and documentation to prove that the person or group of people represent a common risk in accordance with the assumptions established in those rules.

In compliance with risk diversification regulation on active and passive operations, **Banco Mercantil del Norte** presents the following information (million pesos):

Tier 1 Capital as of September 30, 2020	**179,672**
I. Loans with individual balance greater than 10% of Tier 1 Capital:	
Loan Operations	
Number of loans	-
Total amount of loans	-
% in relation to Tier 1	-%
Money Market Operations	
Number of loans	-
Total amount of loans	-
% in relation to Tier 1	-%
Overnight Operations	
Number of loans	-
Total amount of loans	-
% in relation to Tier 1	-%
II. Maximum amount of credit with the 3 largest debtors and common risk groups:	**45,030**

In compliance with risk diversification regulation on active and passive operations, **Arrendadora y Factor Banorte** presents the following information (million pesos):

Equity as of September 30, 2020	**9,073**
I. Loans with individual balance greater than 10% of Equity:	
Loan Operations	
Number of loans	5
Total amount of loans	8,706
% in relation to Equity	96%
Money Market Operations	
Number of loans	-
Total amount of loans	-
% in relation to Equity	-%
Overnight Operations	
Number of loans	-
Total amount of loans	-
% in relation to Equity	-%
II. Maximum amount of credit with the 3 largest debtors and common risk groups:	**6,809**

3. MARKET RISK (BANORTE Y CASA DE BOLSA)

GFNorte's objectives regarding Market Risk are:

- Comply with the Desired Profile Risk defined by the Group's Board of Directors.
- Maintain an adequate monitoring on Market Risk.
- Maintain the Senior Management adequately informed in time and form.
- Quantify exposure to Market Risk through the use of various methodologies.
- Define maximum risk levels the Institution is willing to maintain.
- Measure the Institution's vulnerability to extreme market conditions and consider such results when making decisions.

GFNorte's Market Risk Policies are:

- New products subject to market risk must be evaluated and approved though the new products' guidelines approved by the CPR.
- The Board of Directors is the entitled body to approve global limits and market risk's appetite metrics, as well as their amendments.
- The CPR is the entitled body to approve models, methodologies and specific limits, as well as their amendments.
- Market risk models will be valid by and independent area, which is different from the one that develop and manage them.
- Market risk inputs and models will be valid as per a properly approved policy by the CPR.

3.1 Market Risk Methodology

Market Risk Management is controlled through a series of fundamental pillars, highlighting the use of models and methodologies such as potential loss commonly known as "*expected shortfall*", Back Testing and Stress Testing, which are used to measure the risk of traded products and portfolios in the financial markets. Banorte implemented during January 2019 the calculation of expected shortfall, thus substituting the calculation of VaR. In addition, it was implemented the valuation of derivatives by OIS curves and curves adjusted for collateral following international standards.

Risk management is supported by a framework of policies and manuals through which the implementation and monitoring on market risk limits, the disclosure of the aforementioned risk metrics and its tracking regarding the established limits, are set.

Key risk ratios are disclosed in monthly reports to the Risk Policy Committee and through a daily report to top executives at the Institution, related to the Market Risk risk-taking.

3.2 Market Risk Exposure

Exposure of the Institution's financial portfolios to Market Risk is quantified using the methodology denominated Expected Shortfall, which is the average of losses once VaR is surpassed.

The expected shortfall model considers a one-day horizon base, and considers a non-parametric historical simulation with a 97.5% confidence level and 500 historical observations on risk factors. Furthermore, it considers all the positions (money market, treasury, equities, FX and derivatives) classified for accounting purposes as trading assets, both on and off the balance sheet.

The average expected shortfall of the Bank´s portfolio for 4Q20 was Ps 42.7 million (Ps 20.8 million lower than the average expected shortfall from last quarter).

The result shows that the Bank's expected shortfall, using a 97.5% confidence level, is on average Ps 42.7 million.

Expected Shortfall Million Pesos	**Average 4Q20**
Total Expected Shortfall	42.7
Net Capital	188,595
Expected Shortfall/Net Capital	**0.02%**

Expected shortfall by risk factor behavior during the fourth quarter of the year:

Risk Factor Million Pesos	**4Q20**	**Average 4Q20**
Rates	32.3	35.9
FX	20.3	13.5
Equity	29.6	27.4
Diversification Effect	(38.7)	(34.1)
Bank's Expected Shortfall	**43.5**	**42.7**

Expected shortfall for 4Q20 was Ps 43.5 million. The contribution to the Bank´s Expected shortfall for each risk factor is:

Risk Factor Million Pesos	4Q20	Average 4Q20
Domestic Rates	8.6	12.8
Foreign Rates	2.3	2.4
FX	7.2	4.8
Equity	25.3	22.7
Bank's Expected Shortfall	**43.5**	**42.7**

Expected shortfall by risk factor is determined by simulating 500 historical scenarios to each risk factor and assessing instruments by their main risk factor. It is important to note that all positions classified as trading were considered, positions classified as held to maturity and available for sale were excluded.

The average proportion by market risk factor excluding the diversification effect is:

Risk Factor	4Q20
Rates	25%
FX	17%
Equity	58%

3.2.1 Sensitivity Analysis and Stress Testing under extreme conditions

With the purpose of complementing and strengthening risk analysis, Banorte tests under extreme conditions known as Stress Testing. This is presented to the Risk Policy Committee on monthly basis with the main objective of assessing the impact on the Institution's positions of extreme movements in risk factors.

3.2.2 Back testing

In order to validate the effectiveness and accuracy of the expected shortfall, a monthly Back testing analysis is presented to the Risk Policy Committee. Through this analysis, it is possible to compare losses and gains observed with respect to the estimated expected shortfall and if necessarily make the required adjustments to the parameter.

3.2.3 Expected Shortfall of Casa de Bolsa

The expected shortfall average in 4Q20 was Ps 43.0 million, Ps 13.6 million higher vs. 3Q20.

The result shows that potential loss for Casa de Bolsa, using a 97.5% confidence level, is on average Ps 43.0 million:

Expected Shortfall Million Pesos	Average 4Q20
Total Expected Shortfall	43.0
Net Capital	4,525
Expected Shortfall/Net Capital	**0.95%**

The expected shortfall by risk factor for Casa de Bolsa Banorte portfolio behavior during the fourth quarter of the year was:

Risk Factor *(Million Pesos)*	4Q20	Average 4Q20
Rates	37.9	43.0

FX	-	-
Equity	-	0.1
Diversification effect	-	(0.1)
Casa de Bolsa Expected Shortfall	**37.9**	**43.0**

Expected shortfall at the end of 4Q20 was Ps 37.9 million.

The expected shortfall by risk factor is determined by simulating 500 historical scenarios and performing a grouping of instruments by their main risk factor. It is important to note that all positions classified as trading were considered, excluding the held-to-maturity position and available for sale.

Concentration by Market Risk factor is mainly in interest rates

3.2.4 Sensitivity Analysis and Stress Testing under extreme conditions

Complementing the potential losses methodology with the purpose of enhancing risk analysis, Casa de Bolsa Banorte complements its risk analysis enforcing tests under extreme conditions known as Stress Testing. This is presented to the Risk Policy Committee on a monthly basis with the main objective of assessing the impact on the Institution's positions of extreme movements in risk factors

3.2.5 Back testing

In order to validate the effectiveness and accuracy of the expected shortfall, a monthly Back testing analysis is presented to the Risk Policy Committee. Through this analysis it is possible to compare losses and gains observed with respect to the estimated expected shortfall and if necessarily make the required adjustments to the parameter.

4. BALANCE AND LIQUIDITY RISK

GFNorte's Balance and Liquidity Risk objectives are:

- Comply with the Risk Appetite defined by the Group's Board of Directors.
- Give proper monitoring of Balance and Liquidity Risk.
- Assessing through the use of different methodologies, Balance and Liquidity Risk exposure.
- Measure Institution's vulnerability to extreme market conditions and consider such results for decision making.
- Maintain Senior Management properly informed in a timely manner on Balance and Liquidity Risk exposure and on any limits' and risk profile's deviation.
- Follow-up on the institution's coverage policy and review it at least annually.
- Maintain a sufficient level of liquid assets eligible to guarantee the institution's liquidity even under stress conditions.

GFNorte's Liquidity Risk Policies are:

- Establishment of specific global limits of Balance and Liquidity Risk Management.
- Measurement and monitoring of Balance and Liquidity Risk.
- Information and disclosure of Liquidity Risk to risk-taking areas, CPR, Board of Directors, Financial Authorities and to public investors.

4.1 Liquidity Risk Methodology and Exposure

Balance and Liquidity risk is managed through a series of fundamental pillars that include the use of key indicators such as the Liquidity Coverage Ratio (LCR), re-price gaps and liquidity, as well as stress testing. The latter, based on a framework of policies and manuals, including a funding contingency plan, and a contingency plan to preserve solvency and liquidity. Similarly, is enhanced with monitoring limits and Risk Appetite metrics of Balance and Liquidity Risk. The disclosure of metrics and indicators and their compliance with established limits and desired established risk profile is performed through monthly reports to the CPR, weekly reports to the capital and liquidity management group, and quarterly reports to the Board of Directors.

4.2 Profile and Funding Strategy

The composition and evolution of the Bank's funding during the quarter is shown in the following table:

Funding Source (Million Pesos)	3Q20	4Q20	Change vs. 3Q20
Demand Deposits			
Local Currency (1)	450,484	480,761	6.7%
Foreign Currency (1)	59,067	53,345	(9.7%)
Demand Deposits	**509,551**	**534,106**	**4.8%**
Time Deposits – Core			
Local Currency (2)	206,691	204,658	(1.0%)
Foreign Currency	12,945	12,613	(2.6%)
Core Deposits	**729,187**	**751,378**	**3.0%**
Money Market			
Local Currency (3)	58,600	49,308	(15.9%)
Foreign Currency (3)	43,482	40,318	(7.3%)
Banking Sector Deposits	**831,270**	**841,003**	**1.2%**

4. Includes balance of the Global Deposits without Movement.
5. Includes eliminations among subsidiaries.
6. Money Market & Time Deposits.

4.3 Liquidity Coverage Ratio (LCR)

The LCR measures Liquidity Risk through the relationship between Liquid Assets and Net Cash Outflows in the next 30 days, under a regulatory stress scenario.

The LCR is an indicator designed to ensure that the institution has sufficient liquidity to meet its short-term obligations, under an extreme scenario using exclusively high-quality liquid assets as source of funding.

The following table presents the average evolution of LCR components in 4Q20.

	LCR Components	Bank and Sofomes	
	(Million Pesos)	**Unweighted amount (Average)**	**Weighted amount (Average)**
COMPUTABLE LIQUID ASSETS			
1	Total Computable Liquid Assets	NA	144,142
CASH DISBURSEMENTS			
2	**Unsecured retail financing**	**437,703**	**29,854**
3	Stable financing	278,317	13,916
4	Less stable financing	159,386	15,939
5	**Unsecured wholesale financing**	**296,866**	**85.060**
6	Operational Deposits	251,182	57,500
7	Non-Operational Deposits	39,445	21,321

8	Unsecured debt	6,239	6,239
9	**Secured wholesale financing**	**261,909**	**19,381**
10	**Additional Requirements:**	**300,684**	**22,238**
11	Disbursements related to derivatives and other guarantee requirements	31,085	6,933
12	Disbursements related to losses from debt financing	0	0
13	Lines of credit and liquidity	269,599	15,305
14	Other contractual financing obligations	1,606	161
15	Other contingent financing liabilities	0	0
16	**TOTAL CASH DISBURSEMENTS**	**NA**	**156,694**
CASH INFLOWS			
17	Cash Inflows for secured operations	185,814	18,978
18	Cash Inflows for unsecured operations	78,966	58,096
19	Other Cash Inflows	4,639	4,639
20	**TOTAL CASH INFLOWS**	**269,419**	**81,713**
Adjusted amount			
21	**TOTAL COMPUTABLE LIQUID ASSETS**	**NA**	**144,142**
22	**TOTAL NET CASH DISBURSEMENTS**	**NA**	**74,981**
23	**LIQUID COVERAGE RATIO**	**NA**	**192.52%**

During 4Q20, the 92-day average LCR for the Bank and Sofomes was 192.52%, and at the end of 4Q20 the LCR was 207.76%, the aforementioned levels are above the Risk Appetite and the regulatory minimum standards. These results show that Banorte can meet all of its short-term obligations in a crisis scenario[2].

4.4 Evolution of LCR Components

The evolution of the LCR components comparing 3Q20 and 4Q20 is presented in the following table:

LCR Component (Million Pesos)	3Q20	4Q20	Var. vs. 3Q20
Liquid Assets	130,857	142,015	8.5%
Cash Inflows	79,080	77,100	(2.5%)
Cash Outflows	148,584	145,456	(2.1%)

The Liquid Assets that compute in the LCRs for the Bank and Sofomes between 3Q20 and 4Q20 are distributed as follows:

Type of Asset (Million Pesos)	3Q20	4Q20	Var. vs. 3Q20
Total	**130,857**	**142,015**	**8.5%**
Level I	121,192	132,921	9.7%
Level II	9,666	9,095	(5.9%)
Level II A	5,652	5,030	(11.0%)
Level II B	4,013	4,065	1.3%

Liquidity Coverage Ratio variations between 3Q20 and 4Q20, mainly regarding the increase in Liquid Assets, due to

[2] The Liquidity Coverage Ratio information is preliminary and is subject to Banco de Mexico's affirmation.

the implementation of several initiatives aimed at strengthening Liquidity.

4.5 Liquidity Risk in foreign currency

For Liquidity Risk quantification and monitoring, in the specific case of the foreign currency denominated portfolio, Banorte uses the criteria established by Banco de México for the assessment of the foreign currency Liquidity Coefficient.

The Liquidity Coefficient in foreign currencies should be interpreted as the ability of the institution to meet its liquidity mismatches with liquid assets, both in foreign currency.

4.6 Main Initiatives affecting Banorte's Liquidity during 4Q20

Banorte’s Liquidity strategy is aimed at maintaining adequate levels based on prevailing circumstances; as such during 4Q20 liquidity was managed through the core deposits, strengthening quality, stability and costs with customers while taking advantage of the historical cyclicality observed during the last quarter that inreases the core deposits volumes.

It should be mentioned, that Banorte has not used the Ordinary Facilities or the Extraordinary Facilities from Banco de México during 4Q20.

4.7 Exposure to Derivatives and possible Margin calls

Banorte applies the regulatory methodology to determine potential cash outflows for derivatives. At the end of 4Q20, estimated outflows for derivatives were as follows:

Derivatives Cash Outflows (Million Pesos)	**3Q20**	**4Q20**	**Var. vs. 3Q20**
Net cash outflows at market value and for potential future exposure	5,343	5,822	9.0%
Cash outflows for a 3-notch credit rating downgrade.	-	-	-%

The measurement shows that potential outflows for derivatives may represent a liquidity requirement up to Ps 5.82 billion, with an increase of 9.0% vs. 3Q20.

4.8 Liquidity Gaps

As part of the liquidity analysis for the Bank, 30-day liquidity gaps for the Institution’s assets and liabilities (obligations) are analyzed. Results for the Bank at the end of 4Q20 are presented in the following table.

Concept *(Million Pesos)*	**3Q20**	**4Q20**	**Var. vs. 3Q20**
Cumulative 30-day Gap	(67,973)	(65,449)	(3.7%)
Liquid Assets	90,038	97,838	8.7%

Mismatch among inflows and outflows (gaps) for the next 30 days are covered with liquid assets. In addition, a more granular breakdown of the liquidity gaps is presented, remaining as follows for 4Q20:

Concept (Million pesos)	**1 day**	**7 days**	**1 month**	**3 months**	**6 months**	**12 months**
Natural Gap	(89,081)	41,865	(18,232)	38,083	14,041	27,779

Accumulated Gap	(89,081)	(47,217)	(65,449)	(27,366)	(13,325)	14,454

4.9 Stress Testing under liquidity extreme conditions

As part of its Liquidity Risk management, Banorte performs tests under extreme liquidity circumstances with internal scenarios, to assess the Bank's liquidity adequacy under adverse conditions from the environment as well as by the bank's intrinsic conditions. A total of 9 scenarios, based on 3 sources of risk (systemic, idiosyncratic and combined) with 3 levels of severity (moderate, medium and severe) are used.

4.10 Contingency Funding Plan

In order to comply with comprehensive liquidity management practices, and to ensure its operation in adverse situations in terms of Liquidity, Banorte has implemented a contingency funding plan, which incorporates elements to identify possible liquidity problems and defines alternate funding sources available to deal with contingencies.

4.11 Balance Risk

Interest rate risk entails estimating its impact on the financial margin. Financial margin is the difference between interest income and costs associated to interest bearing liabilities (interest expense). Depending on the balance's structure, variations in interest rates may have either a positive or negative impact in the rate scenarios.

Given that financial margin follows the flow structure of assets and liabilities in the balance sheet, the model used is a re-pricing model by brackets in which all assets and liabilities are distributed in different bands depending on their re-pricing characteristics and/or tenure. Once categorized by re-pricing structure, the impact that each of these bands have on these metrics can be estimated.

4.11.1 Financial Margin Sensitivity

Financial Margin sensitivity is a static metric that takes into consideration a twelve-month period. Only the bands with duration lower than 1 year are impacted by interest rate simulated fluctuations. Relevant considerations behind margin sensitivity calculations are:

- Considers repricing outcomes for all financial assets and liabilities in the balance sheet.
- Separated trading book surveillance.
- Considers the behavior for all balance sheet models, such as mortgage prepayments and deposit survival.
- The balance sheet is considered static and constant through time. Neither organic growth nor interest rate structure or changes or strategies in product's mixture are considered.

The following table shows Financial Margin Sensitivity for Banorte Bank:

Margin Sensitivity *(Million Pesos)*	**3Q20**	**4Q20**	**Change vs. 3Q20**
Local Currency Balance	504	561	11.3%
Foreign Currency Balance	785	565	(28.0%)

At the end of 4Q20, local currency balance sensitivity for a 100bps shift in reference rates, changed from Ps 504 million in 3Q20 to Ps 561 million. Foreign currency balance sensitivity for a 100bps shift in reference rates changed from Ps 785 million to Ps 565 million. The calculation does not consider the positive effect of lower rates on the Negotiable Position that would be recorded under Trading Income. The Available for Sale portfolio had a balance of Ps 153 billions at the end of 4Q20, with an average of PS 151 billion balance.

It is important to mention, that the Balance Book in local currency shows an exposure to base risk due to the composition and structure of assets and liabilities. Base risk arises when banks owns positions within their balance sheets at a floating rate with different re-price base rates and different currencies. In the Bank's balance for local currency, on assets side, the Commercial portfolio at a floating rate based on TIIE, while on the liabilities side, demand deposits pays interest on a percentage of CETES. Finally, there is a positive difference between the average value of TIIE and CETES that produces base risk As long as the difference is positive and greater, it will have a positive effect on the financial margin.

4.12 Subsidiaries

Balance and Liquidity Risk Management processes for the Bank and its Sofomes are centralized in GFNorte's Credit and Risk Management and Credit Managing Direction. To monitor Sofomes' liquidity, an analysis of the balance sheet structural behavior is conducted, as well as funding diversification. Furthermore, a liquidity gap analysis is performed. Specifically for the Brokerage House, regulatory liquidity requirements are monitored.

The following table shows the composition of the gap indicators for the Bank's subsidiaries and Sofomes at the end of 4Q20.

Liquidity Ratio *(Million Pesos)*	**Casa de Bolsa Banorte**	**Arrendadora y Factor**
Cumulative 30 days Gap	4,236	(15,055)
Liquid assets	4,456	42

5 OPERATIONAL RISK

GFNorte has a formal Operational Risk department reporting directly to the Chief Risk Officer.

Operational Risk is defined as the potential loss due to failures or deficiencies in internal controls, errors in operation processing and storing or in data transmitting, as well as to adverse administrative and judicial rulings, fraud or theft (this definition includes Technological and Legal Risk).

The objectives of Operational Risk Management are: a) Enable and support the organization to reach its institutional objectives through prevention and management of operational risks; b) To ensure that the existing operational risks and the required controls are properly identified, assessed, and in line with the risk strategy established by the organization; and c) To ensure that operational risks are properly quantified in order to adequately allocate capital by Operational Risk.

5.1 Policies, Objectives and Guidelines

As part of the Institutional regulations, there are documented policies, objectives, guidelines, methodologies and responsible areas in Operating Risk management.

The Operational Risk Management Directors maintains close communication and coordination with the Regulatory Comptrollership in order to facilitate effective Internal Control in which proper procedures and controls are established for mitigating Operating Risk among the processes and provide monitoring through the Internal Audit Department.

The Regulatory Comptrollership, as part of the Internal Control System, carries out the following activities to mitigate risk: a) Internal control validations; b) Institutional regulations management and control; c) Monitoring of operating processes' internal control by means of control indicators reports, that are reported by the process comptrollers in the various areas; d) Money Laundering Prevention process management; e) Control and monitoring of the regulatory provisions; and f) Analysis and assessment of the operating processes and projects with the participation of the responsible Directors of each process in order to ensure adequate internal control.

5.2 Quantitative and Qualitative Measuring Tools

5.2.1 Operational Losses Database

In order to record operating loss events, the Institution owns a system that enables, the central information supplier areas, to directly record such events online, which are classified by Type of Event in accordance with the following categories:

Internal Fraud: Losses derived from a type of action intended to defraud; unlawfully assets appropriation; or sidestep regulations, laws or company policies (excluding diversity/discrimination events) in which at least one company party is involved.

External Fraud: Losses derived from a type of action intended to defraud; unlawfully assets appropriation; or sidestep the laws, caused by a third party.

Labor Relations and Safety in the Workplace: Losses caused by acts incompatible with the legislation or labor agreements regarding hygiene or safety, the payment of personal damage claims, or cases associated with diversity/discrimination.

Customers, Products & Business Practices: Losses caused by involuntary noncompliance or negligence of a professional obligation to specific customers (including fiduciary and adjustment requirements), or due to the nature or design of a product.

Natural Disasters and Other Events**:** Losses caused by damage or harm to material assets as a consequence of natural disasters or other events.

Incidences in the Business and Systems Failures**:** Losses caused by incidences in the business and systems failures.

Process Execution, Delivery and Management**:** Losses caused by errors in operations processing or management, as well as relations with commercial counterparties and suppliers.

This historical Database provides the statistics of the operational events in which the institution has incurred to determine their trends, frequency, impact and distribution.

5.2.2 Legal and Fiscal Contingencies Database

For recording and monitoring legal, administrative and tax issues that may arise from adverse ruling, an internal system called “Legal Risk Issues Monitoring System” (SMARL by its acronym in Spanish) was developed. This system enables the central data supplying areas to record such events directly and on-line, which are then classified by company, sector and legal issue, among others.

As part of GFNorte’s Legal Risk Management, legal and fiscal contingencies are estimated by the attorneys that process the cases, determining its risk level based on an internal methodology. This allows to constitute necessary reserves in a determined term (according to lawsuit’s term) to face such Contingencies.

5.3 Risk Management Model

GFNorte has defined objectives, which are achieved through different plans, programs and projects. Compliance with such objectives may be adversely affected due to operating risks; therefore it is imperative to provide a methodology for managing them within the organization. Consequently, Operating Risk Management is now an institutional policy defined and supported by senior management.

To perform Operating Risk Management, each of the operating risks involved in the processes must be identified in order to analyze them. In this regard, the risks identified by the Regulatory Comptrollership with the support of Process Comptrollership, are processed in order to eliminate or mitigate them (seeking to reduce their severity or frequency) and if applicable, define tolerance levels. Currently, work is being done on developing a new Institution Operating Risk Management Model and the technological tools needed to implement it.

5.4. Required Capital Calculation

In accordance with the current Capitalization for Operational Risk Regulations, the Institution has adopted the Alternative Standardized Approach (ASA) Model, which is estimated and reported periodically to the authorities.

5.5. Information and Reporting

The information generated by the Database and the Management Model is processes periodically to report to the Risk Policies Committee and the Board of Directors regarding the main operating events that were detected, the trends, identified risks and their mitigating strategies. Reporting is also done regarding the status of the main Operating Risk mitigation initiatives implemented by the various areas of the organization.

5.6 Technological Risk

Technological Risk is defined as all potential losses from damage, interruption, alteration or failures derived from the use of or dependence on hardware, software, systems, applications, networks and any other information distribution channel in the rendering of banking services to the customers. This risk forms an inherent part of Operating Risk, which is why its management is handled collectively throughout the entire organization.

To address the Operating Risk associated with information integrity, and "Integrity Committee" has been created. Its objectives are to align security and information control efforts under a prevention focus, to define new strategies, policies, processes or procedures and to provide solutions to information security issues that affect or may affect the Institutional patrimony.

The functions established by the CNBV for Technology Risk Management are performed by the Institution under regulatory and Integrity Committee guidelines.

To address the Operating Risk caused by high impact external events, GFNorte has a Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) based on a same-time data replication system at an alternate computer site. All the above, covers the backup and recovery of the Institution's critical applications in the event or any relevant operating contingency.

5.7 Legal risk

Legal Risk is defined as the potential loss from failure to comply with the applicable legal and administrative provisions, the issuance of indisputable unfavorable court rulings and the application of penalties regarding the operations that the institution performs.

The Legal Risk must be measured as an inherent part of Operating Risk in order to understand and estimate its impact. Therefore, those legal issues, which result in actual operating losses of the SMARL system are later recorded in the SCERO a database of operational events.

Based on the statistics of the current legal issues and real loss events, the Institution can identify specific legal or operating risks, which are analyzed in order to eliminate or mitigate them in an attempt to reduce or limit their future occurrence or impact.

6 SECURITIZATIONS PERFORMED BY GFNORTE

The main objective of the securitization operations carried out by the Group, is to transfer risks and benefits of certain financial assets to third parties.

GFNorte has carried out the following securitizations:

- On October 11, 2006, Fincasa Hipotecaria (Fincasa), now merged with Banorte, held the irrevocable trust for the issuance of market certificates No. 563, issuer code FCASACB, whose underlying assets are mortgages originated and transferred by Fincasa.

- On November 5, 2007, Banorte held the irrevocable trust for the issuance of market certificates No. 477, issuer code BNTECB, whose underlying assets are loans originated and transferred by Banorte to states, municipalities, and their decentralized agencies, as well as trusts in which any of such entities act as trustees.

In accordance with criterion C-1 *Recognition and Disposal of Financial Assets,* these assets were written off from the Institution's balance sheet as a sale, given that conditions for the risk's and benefit's transfer inherent in the ownership of the financial assets were met. The Institution is not responsible for assumed or retained risks regarding the trust assets, its sole responsibility is the fulfillment of its obligations in the trust agreement and administration contract.

The Institution is responsible that each of the assigned loans meets the eligibility criteria, at the time of their respective assignment. If the trust, the common representative, the financial guarantor, identify any non-eligible loans, they may require Banorte to replace such loan or if replacement is not possible, to make payment for the "non-replaced ineligible loan" in question. If Banorte identifies any non-eligible loan, it must be notified and replace it or make the corresponding payment.

Trust 477 has derivatives operations, particularly swap contracts, in order to reduce exposure to exchange rate and interest rate risks. The Institution assumes the counterparty risk generated by these operations, however these operations are only carried out with institutions of recognized solvency. The Trust's policy is to only carry out derivative instrument operations for the sole purpose of coverage, never for speculation.

The Institution's Board of Directors has no pre-determined policies for the issuance of securitizations, authorization for any new issuance must be requested.

The Institution does not participate in securitizations of third-party positions.

There are several risk factors for securitizations that may affect trusts' assets. If these risks materialize, payment to market certificates' holders could be adversely affected. The main risks to which these financial instruments are exposed to are credit, market, liquidity and operational risk, which have been detailed in previous sections.

To monitor the quality of Credit Risk exposure of financial instruments arising from securitized assets, the Institution estimates expected loss within one-year time horizon. Likewise, in order to monitor exposure to market risk, the value at risk is calculated with a one-day time horizon and a 99% confidence level, for these instruments.

Banco Mercantil del Norte is the settlor and trustee of trusts for the securitizations carried out. At the same time, it acts as underwriter on each issue, offering bonds to investors. Additionally, the Institution also carries out the duties of administrator in each of the trusts.

On the other hand, the Institution also acts as an investor by acquiring titles of market certificates issued by the trusts set up for securitizations. As of December 31, 2020 Grupo Financiero Banorte holds the following Securities and amounts in securitizations carried out by GFNorte:

Securitization	**Banorte**		**Seguros Banorte**		**Total GFNorte**	
(Million pesos)	**Securities**	**Ps**	**Securities**	**Ps**	**Securities**	**Ps**
91_BNTECB_07	50,763,776	1,170	500,000	12	51,263,776	1,181
91_BNTECB_07-2	563,059	13	-	-	563,059	13
97_FCASACB_06U	-	-	-	-	-	-

The following shows the proportion of Securities held by Grupo Financiero Banorte, for each series:

Securitization *(Million pesos)*	**Issued Securities**	**Banorte**	**Seguros Banorte**	**Total GFNorte**	**Total Clients**
91_BNTECB_07	52,313,776	97.0%	1.0%	98.0%	2.0%
91_BNTECB_07-2	1,113,059	50.6%	0.0%	50.6%	49.4%
97_FCASACB_06U	1,351,386	0.0%	0.0%	0.0%	100.0%

Ratings assigned by each rating agency at the end of the quarter for each market certificate issued by the aforementioned trusts are as follows:

Securitization	**Standard & Poor's**		**Fitch Ratings**		**Moody's**		**HR Ratings**		**Verum**		**Best**		**DBRS**	
	Local	Global	Local	Global	Local	Global	Local	Global	Local	Global	Local	Gobal	Local	Global
91_BNTECB_07					Aa3.mx	Baa3	HR AA+							
91_BNTECB_07-2					A3.mx	Ba3	HR AA							
97_FCASACB_06U	mxCCC		CCC (mex)											

As of December 31, 2020 the amounts of the underlying assets of each securitization were:

Securitization *(Million pesos)*	**Amount**		
	Performing	**Past-Due**	**Total**
91_BNTECB_07 91_BNTECB_07-2	Ps. 1,639	Ps. -	Ps. 1,639
97_FCASACB_06U	Ps. 77	Ps. 110	Ps. 188

There are no impaired assets in trust 477.

Securitization exposure broken down by Credit Risk Weight is shown below:

Concept *(Million Pesos)*	**Balance***	**Capital Requirement**
Securitizations with Risk Level 1 (weighted 20%)	-	-
Securitizations with Risk Level 2 (weighted 50%)	1,170	47
Securitizations with Risk Level 3 (weighted 100%)	13	1
Securitizations with Risk Level 4 (weighted 350%)	-	-
Securitizations with Risk Level 5, 6 or not rated (weighted 1250%)	-	-

*Excludes the position in Seguros Banorte

No securitization position is recorded in memorandum accounts and no maintained securitization position is deducted from Tier 1 Capital.

Securitizations trusts 563 and 477 consider early amortization provisions. The institution has not made revolving securitizations or re-securitizations operations during the quarter.

6.2 Applied Accounting Policies

All securitization operations carried out by the Institution were recognized as sales in accordance with criterion C-1 *Recognition and Disposal of Financial Assets*. This is because, despite retaining the contractual rights to receive cash flows from financial assets, a contractual obligation is assumed to pay such cash flows to a third party. In addition, an analysis of the transfer of these assets concluded that the entity substantially transfers all the risks and benefits inherent with ownership of the financial assets. Registration of profits from sales conforms to the provisions in paragraph 31 of criterion C-1, which states:

d) Eliminate transferred financial assets at the last book value;
e) Recognition for the consideration received in the operation;
f) Recognition of profit or loss in the income statement, for the difference between the book value of eliminated financial assets, and the sum of (i) compensation received (recognized at fair value) and (ii) the effect (gain or loss) by cumulative valuation recognized in equity.

The MBS (Mortgage-Backed Securities) and S&M (States & Municipalities) Trusts issued certificates in favor of the institution, as holders of rights in last place under the trust agreement. These certificates provide the right to receive a percentage of the distributions and in general to the corresponding proportions of the remnant that may be in the trust after full payment of the bonds. Valuation of the certificates is based on the method of net present value of remaining cash flows expected over the lifespan of the securitization. Remaining cash flows, depending on the type of securitization, are determined as follows:

a) MBS: the sum of cash flows to be received from the securitized loan portfolio, minus cash flow to be paid to securitized portfolios, minus the monthly administration expenses, plus the income from sales of foreclosed properties, if applicable. At the end of the period, the certificate related to securitization FCASACB 06U shows a fair market value of zero, since no remaining cash flows are expected to be received.
b) S&M: is the sum of cash flows to be received from securitized loan portfolios, minus the cash flow to be paid to stock certificates, minus monthly management expenses, plus or minus the change in the interest reserve.

Remaining flows are discounted with the B1 banking curve, which takes into consideration the trusts' Credit Risks. The most important assumptions in the valuation of the certificates are the following:

i) Non-compliance rate: cash flows to be received from loan portfolios are adjusted by a determined percentage of the outstanding portfolio amount that is estimated to fall into non-compliance. That percentage is estimated using historical performance information of this portfolio. This percentage is applied to flows greater than 12 months.
j) Prepayment rate: cash flows to be received from the loan portfolio are adjusted by a determined percentage of the outstanding portfolio amount estimated to be prepaid. That percentage is estimated using historical performance information of this portfolio.
k) Portfolio term: is estimated using WAM (*Weighted Average Maturity*) of the securitized portfolio.
l) Portfolio interest rate: is estimated using WAC (*Weighted Average Coupon*) of the securitized portfolio.
m) Portfolio payment dates: loan portfolio payment dates are considered to be the same as those of the stock certificates.
n) Reserve to be rated: the current value of the remaining flows is reduced by the amount of the reserve to be rated. This reserve corresponds to the non-compliance risk for cash flows in the first 12 months.
o) General account: the current value of the remaining flows is added to the amount of cash or cash equivalents deposited in the general account, collection account and if the case, in the expense reserve account, in case of total payment of the stock certificates, these assets would be distributed to the certificate holders.
p) General terms of stock certificates: estimated to be in accordance with prices published by PiP-Latam.

Regarding the policies for recognizing obligations in balance sheet of the agreements that may require financial support from the Institution in case of asset's securitization: all amounts due under the stock certificates of the different existing securitizations, will be charged to the trust estate. If, for any reason, the liquid assets of the trust net worth are not sufficient to ensure payment of the amounts due under the stock certificates, holders will not have the right to claim payment from the Institution, the Trust, the common representative, the placement agent, the guarantor or guarantors in the case, or anyone else. The stock certificates have not been guaranteed or endorsed by any of the persons involved in the issuance thereof, therefore none of them are obligated to make payments to the certificate holders, with the exception, in the case of a trust, where payments may be charged to the trust in accordance with the trust agreement.

7 POSITION IN SHARES:

At the end of December 31, 2020, Banco Mercantil del Norte held shares amounting to Ps 1.43 billion, with gains of Ps 242.4 million accumulated during the year.

During the fourth quarter, accumulated revenues from sales and settlements were Ps 0.0 million.

The capital requirement for Market Risk was Ps 22 million, and the regulatory Net Capital deductions reached Ps 496 million.

Institution	Type of Trading	Accounting Classification	Capitalization Treatment	Market Value 4Q20	Gains / Losses Cumm.	Profit / Loss Sales / Purchases
Banorte	Public Trading	Negotiation	Market Risk	-	(27.1)	-
Banorte	Public Trading	Available for Sale	Market Risk	-	(14.8)	-
Banorte	Public Trading	Negotiation	Capital Deduction	496	254.6	-
Banorte	w/o Public trading	Available for Sale	Market and Credit Risk	932.0	29.7	-
			Total	**1,428**	**242.4**	**-**

As of December 31, 2020 a position of Ps 655.6 million is held in Casa de Bolsa Banorte, where accumulated gains during the year as of 410.9 million.

During the quarter, there were gains for Ps 3.1 million from sales and settlements.

Regarding Market Risk Capital Requirement, the amount was Ps 196.9 million of the total position in shares of Banorte.

Institution	Type of Trading	Accounting Classification	Capitalization Treatment	Market Value 4Q20	Gains / Losses Cumm.	Profit / Loss Sales / Purchases
Casa de Bolsa Banorte	Public	Negotiation	Market Risk	655.6	410.9	3.1
			Total	**655.6**	**410.9**	**3.1**

36 - MEMORANDUM ACCOUNTS

	2020	2019
Operations on behalf of third parties		
Banks customers (current accounts)	Ps. 62	Ps. 56

Settlement of customer transactions	(30)	143
Customer securities received in custody	669,495	716,128
Customer repurchase agreements	238,032	184,063
Collateral pledged on account of clients	238,040	184,063
Managed trusts	204	83,298
Investment banking transactions on account of third parties, (net)	97,374	96,100
	Ps. 1,243,177	**Ps. 1,263,851**
Proprietary transactions		
Contingent assets and liabilities	$167	Ps. 49
Assets in trust or under mandate	315,988	460,021
Managed assets in custody	633,424	631,539
Credit commitments	292,701	286,019
Collateral received	282,054	213,885
Collateral received and sold or given as a pledge	421,090	304,448
Deposits of assets	3,325	3,107
Interest accrued but not charged of past due loans	178	299
Other registration accounts	295,069	280,016
	Ps. 2,243,996	**Ps. 2,179,383**

37 - COMMITMENTS

As of December 31, 2020 and 2019, the Financial Group had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 292,701 (Ps. 286,068 in 2019), which are recorded in memorandum accounts.

- The Institution takes on lease properties where its branches are located, as well as some of its administrative offices, which consider an annual increase in the amount of the rent calculated based on the National Index of Consumer Prices. The Lease terms range from one to fifteen years, for which, as of December 31, 2020, the commitments for payment of rents are as follows

Year	Ammount
2021	Ps. 1,924
2022	2,061
2023	2,208
2024	2,367
2025 a 2034	35,909
Total	**Ps. 44,469**

- In addition, the Institution also takes in lease some equipment for operation, mainly computer equipment, electronic and utility vehicles. At December 31, 2019, the commitments for payment of rents are the following:

Year	Ammount
2021	Ps. 1,435
2022	1,485
2023	1,537
2024	1,591
2025 a 2034	19,322
Total	**Ps. 25,370**

38 - CONTINGENCIES

As of December 31, 2019, there are lawsuits filed against the Holding Company in civil and business court cases; however, the Holding Company's attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Financial Group's consolidated financial position. As of December 31, 2020, the Financial Group has recorded a reserve for contentious matters of Ps. 1,287 (Ps. 1,481 in 2019).

39 - PREVENTIVE MECHANISM FOR SAVINGS' PROTECTION

The objective of the Institute for the Protection of Bank Savings (IPAB) is to protect the deposits of small customers and thereby contribute to maintain the financial system's stability and the proper functioning of the payments systems.

According to the Law of Bank Savings Protection (LPAB), the IPAB manages a bank savings protection system that guarantees the payment of bank deposits or loans or credits to Full Service Banking Institution up to an amount equivalent to 400 thousand UDIS per individual or business entity, regardless of the number or type of such obligations in the customer's favor and charged to a single bank.

On July 30, 2007, general rules were issued for addressing joint accounts or those in which there is more than one account holder, referred to in art. 14 of the LPAB, as well as the rules banks must observe for classifying information relative to transactions associated with guaranteed obligations.

The IPAB plays a major role in the implementation of the LPAB resolutions methods and the Law of Credit Institutions (LIC) as timely and adequate mechanisms for salvaging and liquidating Full Service Banking Institutions in financial trouble that may affect their solvency. The purpose is to provide maximum protection to the public while minimizing the negative impact that salvaging an institution may have on others in the banking system.

During 2020 and 2019, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps 3,630 and Ps 3,297, respectively.

40 - NEW ACCOUNTING GUIDELINES

As of December 31, 2020, CINIF has issued the following NIFs and improvements to current NIFs, which could generate accounting changes.

Accord with the resolution amending published on December 4, 2020 that modifies the general provisions applicable to credit institutions, the NIFs issued by the CINIF, referred in paragraph 3 of criteria A-2, will be applicable beginning January 1, 2022.

To date we are in the process of analysis of the impacts that these NIFs may have in the financial statements, same that we will inform in due time considering the final version of the project once it is published in the Official Gazette of the Federation and according to the requirements of the NIF B-1, "Accounting changes and corrections of errors".

The NIFs issued and which will be applicable to credit institutions from January 1, 2022 are:

- NIF B-5, "Segment information".
- NIF B-12, "Compensation of financial assets and liabilities".
- NIF B-17, "Determination of fair value".
- NIF C-2, "Investments in securities".
- NIF C-3, "Accounts receivable".
- NIF C-9, "Provisions, contingencies and commitments".
- NIF C-10, "Derivatives Financial Instruments and hedging".
- NIF C-13, "Related parties".

- NIF C-14, “Transfer and derecognition of financial assets”.
- NIF C-16, “Impairment of financial instruments receivable”.
- NIF C-19, “Financial instruments to be paid”.
- NIF C-20, “Financial instruments to charge principal and interest”.
- NIF D-1, “Income from contracts with customers”.
- NIF D-2, “Customer contract costs”.
- NIF D-5, “Leases”.