

Date: November 13, 2024

IMPORTANT NOTICE

Dear Sir or Madam,

Banco Mercantil del Norte, Institución de Banca Múltiple, Grupo Financiero Banorte – Issue of United States dollar-denominated perpetual callable subordinated non-preferred non-cumulative Tier 1 capital notes (the “Offer”)

We refer to the proposed offer of the securities referred to above (the “Notes”), further details of which are set out in the Offering Memorandum dated November 13, 2024 (the “**Offering Memorandum**”), which is being sent to you with this letter and which will be supplemented by a pricing term sheet relating to the Notes. This letter contains important information relating to restrictions with respect to the offer and sale of the Notes (including pursuant to the Regulations (as defined below) to retail investors).

Certain of the affiliates of Barclays Capital Inc. (“Barclays”), Goldman Sachs & Co. LLC (“Goldman Sachs”), and Morgan Stanley & Co. LLC (“Morgan Stanley, and together with Barclays, and Goldman Sachs the “Global Coordinators”) and Barclays, Goldman Sachs, Morgan Stanley and MUFG Securities Americas Inc. (together the “Joint Book-Running Managers”, and together with the Global Coordinators, the “Initial Purchasers”) are required to comply with some or all of the EU Regulations. By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from Banco Mercantil del Norte, Institución de Banca Múltiple, Grupo Financiero Banorte (the “Issuer”) and/or the Initial Purchasers or their affiliates you represent, warrant, agree with and undertake to the Issuer and each of the Initial Purchasers or their affiliates that:

1. you are not:

(a) a retail client in the EEA (as defined in point (11) of Article 4(1) of the Markets in Financial Instruments Directive 2014/65/EU (as amended) (“MiFID II”)); or

(b) a customer in the EEA within the meaning of Directive (EU) 2016/97 (the “Insurance Distribution Directive”) where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II;

each referred to as “EEA Retail Investor”;

2. whether or not you are subject to the EU Regulations, you will not:

(a) sell or offer the Notes (or any beneficial interests therein) to EEA Retail Investors; or

(b) communicate (including the distribution of the Offering Memorandum) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by an EEA Retail Investor.

In selling or offering the Notes or making or approving communications relating to the Notes, that prospective investor may not rely on the limited exemptions set out in the PI Instrument; and

3. you will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) MiFID II and any such other applicable laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

Certain of the affiliates of the Initial Purchasers are required to comply with some or all of the UK Regulations. By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes)

from the Issuer and/or the Initial Purchasers or their affiliates you represent, warrant, agree with and undertake to the Issuer and each of the Initial Purchasers or their affiliates that:

1. you are not:

(a) a retail client in the UK (as defined in point (8) of Article 2 of Regulation (EU) 2017/565 as it forms part of UK domestic law by virtue of the EUWA); or

(b) a customer in the UK within the meaning of the provisions of the Financial Services and Markets Act 2000 (“FSMA”) and any rules or regulations made under FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law in the UK by virtue of the EUWA;

each referred to as “UK Retail Investor”;

2. whether or not you are subject to the UK Regulations, you will not:

(a) sell or offer the Notes (or any beneficial interests therein) to a UK Retail Investor; or

(b) communicate (including the distribution of the Offering Memorandum) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a UK Retail Investor.

In selling or offering the Notes or making or approving communications relating to the Notes, that prospective investor may not rely on the limited exemptions set out in the PI Instrument; and

3. you will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the UK) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) UK MiFIR and any such other applicable laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

PRIIPs Regulation / Prohibition of Sales to EEA Retail Investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any EEA Retail Investor. Consequently, no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to EEA Retail Investors has been prepared and therefore offering or selling the Notes or otherwise making them available to any EEA Retail Investor may be unlawful under the PRIIPs Regulation.

UK PRIIPs Regulation / Prohibition of Sales to UK Retail Investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any UK Retail Investor. Consequently, no key information document required by the UK PRIIPs Regulation for offering or selling the Notes or otherwise making them available to UK Retail Investors has been prepared and therefore offering or selling the Notes or otherwise making them available to any UK Retail Investor may be unlawful under the UK PRIIPs Regulation.

EEA MiFID II Product Governance – Solely for the purposes of each relevant manufacturer’s product approval process, where the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the notes to eligible counterparties and professional clients are appropriate, any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturers’ target market assessment in respect of the Notes; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

UK MiFIR Product Governance – Solely for the purposes of each relevant manufacturer’s product approval process, where the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients, as defined in UK MiFIR; and (ii) all channels for distribution of the notes to eligible counterparties and professional clients are appropriate, any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturers’ target market assessment in respect of the Notes; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels. Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interests therein) from the Issuer and/or the Initial Purchasers or their affiliates the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client(s).

This communication is only being distributed to and is only directed at (i) persons who are outside the UK or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or (iii) high net worth entities and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “**relevant persons**”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

You acknowledge that each of any Issuer and the Initial Purchasers will rely upon the truth and accuracy of the representations, warranties, agreements and undertakings set forth herein and are entitled to rely upon this letter and are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby. This letter is additional to, and shall not replace, the obligations set out in any pre-existing general engagement terms entered into between you and any of the Initial Purchasers relating to the matters set out herein.

This document is not an offer to sell or an invitation to buy any Notes.

Your offer or agreement to buy any Notes will constitute your acceptance of the terms of this letter and your confirmation that the representations and warranties made by you pursuant to this letter are accurate.

This letter and any non-contractual obligations arising out of or in connection with it are governed by English law. The courts of England have exclusive jurisdiction to settle any dispute arising out of or in connection with this letter (including a dispute relating to the existence or validity of this letter or any non-contractual obligations arising out of or in connection with this letter) or the consequences of its nullity.

Should you require any further information, please do contact us.

Yours faithfully,

The Initial Purchasers and their respective affiliates licensed to offer and sell the Notes in the UK and the EEA

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS (“QIBs”) (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, AS AMENDED (THE “SECURITIES ACT”)) OR (2) NON-U.S. PERSONS (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) OUTSIDE THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to the Offering Memorandum following this page, and you are advised to read this carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to the many times you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE LAWS OF OTHER JURISDICTIONS.

PRIIPs Regulation / Prohibition of Sales to EEA Retail Investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any EEA Retail Investor. Consequently, no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to EEA Retail Investors has been prepared and therefore offering or selling the Notes or otherwise making them available to any EEA Retail Investor may be unlawful under the PRIIPs Regulation.

UK PRIIPs Regulation / Prohibition of Sales to UK Retail Investors – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any UK Retail Investor. Consequently, no key information document required by the UK PRIIPs Regulation for offering or selling the Notes or otherwise making them available to UK Retail Investors has been prepared and therefore offering or selling the Notes or otherwise making them available to any UK Retail Investor may be unlawful under the UK PRIIPs Regulation.

EEA MiFID II Product Governance – Solely for the purposes of each relevant manufacturer’s product approval process, where the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the notes to eligible counterparties and professional clients are appropriate, any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the manufacturers’ target market assessment in respect of the Notes; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

UK MiFIR Product Governance – Solely for the purposes of each relevant manufacturer’s product approval process, where the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients, as defined in UK MiFIR; and (ii) all channels for distribution of the notes to eligible counterparties and professional clients are appropriate, any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the manufacturers’ target market assessment in respect of the Notes; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interests therein) from the Issuer and/or the Initial Purchasers or their affiliates the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client(s).

This communication is only being distributed to and is only directed at (i) persons who are outside the UK or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (iii) high net worth entities and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view the following Offering Memorandum or make an investment decision with respect to the securities, investors must be either (1) QIBs or (2) non-U.S. persons (within the meaning of Regulation S under the Securities Act) outside the U.S. The Offering Memorandum is being sent at your request and by accepting the e-mail and accessing the Offering Memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) non-U.S. persons (within the meaning of Regulation S under the Securities Act) and that the electronic mail address that you gave us and to which the Offering Memorandum has been delivered is not located in the U.S., and (2) that you consent to delivery of such Offering Memorandum by electronic transmission.

You are reminded that the Offering Memorandum has been delivered to you on the basis that you are a person into whose possession the Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver the Offering Memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the issuer in such jurisdiction.

The Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and consequently neither the Initial Purchasers, nor any person who controls them nor any of their directors, officers, employees nor any of their agents nor any affiliate of any such person accept any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers.



U.S.\$750,000,000 8.375% NC6.5 Notes

U.S.\$750,000,000 8.750% NC10.5 Notes

Banco Mercantil del Norte, S.A.,

Institución de Banca Múltiple, Grupo Financiero Banorte,

acting through its Cayman Islands Branch

8.375% Perpetual 6.5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes

8.750% Perpetual 10.5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (the “Bank” or the “Issuer”), a multiple purpose bank incorporated in accordance with the laws of the United Mexican States (“Mexico”), acting through its Cayman Islands Branch, is offering U.S.\$750,000,000 in aggregate principal amount of its 8.375% Perpetual 6.5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes (the “NC6.5 Notes”) and U.S.\$750,000,000 in aggregate principal amount of its 8.750% Perpetual 10.5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes (the “NC10.5 Notes”) (the NC6.5 Notes and the NC10.5 Notes, collectively, the “Notes” and separately, each a “series of Notes”). Each series of Notes will be issued under a separate indenture. The Notes are perpetual instruments with no fixed maturity or fixed redemption date, unless previously redeemed as described in this offering memorandum. The Bank may redeem the NC6.5 Notes, in whole or in part, subject to certain regulatory requirements, at its option on May 20, 2031 (the “NC6.5 First Call Date”) and on any Interest Payment Date (as defined below) thereafter. The Bank may redeem the NC10.5 Notes, in whole or in part, subject to certain regulatory requirements, at its option on May 20, 2035 (the “NC10.5 First Call Date”) and on any Interest Payment Date (as defined below) thereafter. **THE BANK MAY ALSO REDEEM EACH SERIES OF NOTES SEPARATELY, IN WHOLE BUT NOT IN PART, SUBJECT TO CERTAIN REGULATORY REQUIREMENTS AND APPROVALS, AT ANY TIME, IF THERE ARE SPECIFIED CHANGES IN (1) MEXICAN OR CAYMAN ISLANDS LAWS AFFECTING THE WITHHOLDING TAX APPLICABLE TO PAYMENTS UNDER SUCH SERIES OF NOTES; (2) MEXICAN LAWS THAT RESULT IN A CAPITAL EVENT (AS DEFINED IN THIS OFFERING MEMORANDUM); OR (3) APPLICABLE TAX LAWS THAT RESULT IN INTEREST ON SUCH SERIES OF NOTES NOT BEING DEDUCTIBLE BY THE BANK, IN WHOLE OR IN PART, FOR MEXICAN INCOME TAX PURPOSES. SEE “DESCRIPTION OF THE NC6.5 NOTES—REDEMPTION—WITHHOLDING TAX REDEMPTION,” “DESCRIPTION OF THE NC10.5 NOTES—REDEMPTION—WITHHOLDING TAX REDEMPTION,” “DESCRIPTION OF THE NC6.5 NOTES—REDEMPTION—SPECIAL EVENT REDEMPTION” AND “DESCRIPTION OF THE NC10.5 NOTES—REDEMPTION—SPECIAL EVENT REDEMPTION.”**

PRINCIPAL AND INTEREST ON EACH SERIES OF NOTES WILL NOT BE PAID UNDER CERTAIN CIRCUMSTANCES. IF A TRIGGER EVENT (AS DEFINED HEREIN) OCCURS, THE PRINCIPAL AMOUNT OF THE NOTES OF EACH SERIES WILL BE WRITTEN DOWN AS DESCRIBED IN THIS OFFERING MEMORANDUM, WITHOUT THE POSSIBILITY OF ANY FUTURE WRITE-UP OR REINSTATEMENT OF SUCH PRINCIPAL, AND HOLDERS OF THE NOTES WILL AUTOMATICALLY BE DEEMED TO HAVE IRREVOCABLY WAIVED THEIR RIGHT TO CLAIM OR RECEIVE REPAYMENT OF ANY WRITTEN DOWN PRINCIPAL AMOUNT, OR ANY ACCRUED AND UNPAID INTEREST WITH RESPECT THERETO, AS FURTHER DESCRIBED IN THIS OFFERING MEMORANDUM. SEE “DESCRIPTION OF THE NC6.5 NOTES—TRIGGER EVENT AND WRITE-DOWN—WRITE-DOWN” AND “DESCRIPTION OF THE NC10.5 NOTES—TRIGGER EVENT AND WRITE-DOWN—WRITE-DOWN.” INTEREST ON THE NOTES OF EACH SERIES WILL BE DUE AND PAYABLE ONLY AT THE BANK’S SOLE DISCRETION AND THE BANK WILL HAVE SOLE AND ABSOLUTE DISCRETION AT ALL TIMES AND FOR ANY REASON TO CANCEL ANY INTEREST PAYMENT IN WHOLE OR IN PART THAT WOULD OTHERWISE BE PAYABLE ON ANY INTEREST PAYMENT DATE. ADDITIONALLY, INTEREST DUE ON THE NOTES FROM THE BANK WILL BE MANDATORILY AND AUTOMATICALLY CANCELED IF (A) THE BANK IS CLASSIFIED AS CLASS II OR BELOW PURSUANT TO ARTICLES 121 AND 122 OF THE MEXICAN BANKING LAW (*LEY DE INSTITUCIONES DE CRÉDITO*) AND REGULATIONS THEREUNDER, WHICH SPECIFY CAPITALIZATION REQUIREMENTS, OR (B) AS A RESULT OF THE APPLICABLE PAYMENT OF INTEREST, THE BANK WOULD BE CLASSIFIED AS CLASS II OR BELOW (AN “INTEREST CANCELLATION EVENT”). PAYMENTS OF INTEREST DUE ON THE NOTES OF EACH SERIES WILL NOT BE CUMULATIVE, SO THAT IN THE EVENT THAT PAYMENTS OF INTEREST ARE CANCELED, HOLDERS OF EACH SERIES OF NOTES WILL NOT HAVE THE RIGHT TO CLAIM AND RECEIVE CANCELED INTEREST, EVEN IF THE BANK THEREAFTER SATISFIES APPLICABLE CAPITALIZATION REQUIREMENTS. IF AN INTEREST CANCELLATION EVENT IS IN EFFECT ON ANY WRITE-DOWN OF THE NOTES OF EACH SERIES UPON THE OCCURRENCE OF A TRIGGER EVENT, THE NOTES OF SUCH SERIES WILL BE WRITTEN DOWN AND ANY AND ALL INTEREST WILL CONTINUE TO BE CANCELED. SEE “DESCRIPTION OF THE NC6.5 NOTES—INTEREST CANCELLATION—MANDATORY CANCELLATION OF INTEREST PAYMENTS” AND “DESCRIPTION OF THE NC10.5 NOTES—INTEREST CANCELLATION—MANDATORY CANCELLATION OF INTEREST PAYMENTS.”

The NC6.5 Notes are denominated in U.S. dollars and, subject to a prior redemption and/or one or more Write-Downs (as defined herein), will bear interest on the then Current Principal Amount (as defined herein) from time to time outstanding from and including November 20, 2024 (the “Issue Date”), to (but excluding) the NC6.5 First Call Date at an initial fixed rate *per annum* equal to 8.375%. Subject to a prior redemption and/or one or more Write Downs, the NC6.5 Notes will bear interest on the then Current Principal Amount from time to time outstanding from (and including) the NC6.5 First Call Date (such date, and each fifth anniversary thereafter, a “NC6.5 Reset Date”) to (but excluding) the next succeeding NC6.5 Reset Date, at a fixed rate per annum equal to the sum of (a) the then-prevailing Treasury Yield (as defined herein) on the second Business Day (as defined herein) immediately preceding the applicable NC6.5 Reset Date (the “NC6.5 Reset Determination Date”) and (b) 407.2 basis points (rounded to two decimal places, with any value equal to or lesser than 0.005 being rounded down). The interest rate following any NC6.5 Reset Date may be less than the initial interest rate and/or the interest rate that applies immediately prior to such NC6.5 Reset Date. The NC10.5 Notes are denominated in U.S. dollars and, subject to a prior redemption and/or one or more Write-Downs (as defined herein), will bear interest on the then Current Principal Amount (as defined herein) from time to time outstanding from and including

November 20, 2024 (the “Issue Date”), to (but excluding) the NC10.5 First Call Date at an initial fixed rate *per annum* equal to 8.750%. Subject to a prior redemption and/or one or more Write Downs, the NC10.5 Notes will bear interest on the then Current Principal Amount from time to time outstanding from (and including) the NC10.5 First Call Date (such date, and each tenth anniversary thereafter, a “NC10.5 Reset Date”) to (but excluding) the next succeeding NC10.5 Reset Date, at a fixed rate per annum equal to the sum of (a) the then-prevailing Treasury Yield (as defined herein) on the second Business Day (as defined herein) immediately preceding the applicable NC10.5 Reset Date (the “NC10.5 Reset Determination Date”) and (b) 429.9 basis points (rounded to two decimal places, with any value equal to or lesser than 0.005 being rounded down). The interest rate following any NC10.5 Reset Date may be less than the initial interest rate and/or the interest rate that applies immediately prior to such NC10.5 Reset Date. Subject to the conditions described under “*Description of the NC6.5 Notes—Interest Cancellation*,” “*Description of the NC10.5 Notes—Interest Cancellation*,” “*Description of the NC6.5 Notes—Trigger Event and Write-Down—Write-Down*,” and “*Description of the NC10.5 Notes—Trigger Event and Write-Down—Write-Down*,” the Bank will pay interest on each series of Notes quarterly in arrears on February 20, May 20, August 20, and November 20 of each year (each an “Interest Payment Date”), commencing on February 20, 2025.

The Notes of each series will be issued by the Bank, acting through its Cayman Islands Branch, and will be the Bank’s unsecured subordinated general non-preferred obligations, ranked equally with other unsecured subordinated general non-preferred obligations of the Bank. The Notes of each series will rank (i) subordinate and junior in right of payment and in liquidation to all of the Bank’s present and future senior indebtedness and subordinated preferred indebtedness, (ii) *pari passu* without preference among themselves and with all the Bank’s present and future other unsecured subordinated non-preferred indebtedness and (iii) senior only to all classes of the Bank’s present and future equity or capital stock, as described in this offering memorandum. See “*Description of the NC6.5 Notes—Subordination*” and “*Description of the NC10.5 Notes—Subordination*.” **THE NOTES ARE NOT DEPOSITS WITH THE BANK, WILL BE UNSECURED AND NOT INSURED OR GUARANTEED BY ANY MEXICAN GOVERNMENTAL AGENCY, INCLUDING, WITHOUT LIMITATION, THE MEXICAN SAVINGS PROTECTION AGENCY (INSTITUTO PARA LA PROTECCIÓN AL AHORRO BANCARIO (THE “IPAB”)), THE UNITED STATES FEDERAL DEPOSIT INSURANCE CORPORATION, ANY OTHER UNITED STATES GOVERNMENTAL AGENCY OR ANY GOVERNMENTAL AGENCY OF THE CAYMAN ISLANDS.** The Notes of each series will be obligations of the Bank and will not be guaranteed by Grupo Financiero Banorte, S.A.B. de C.V., the parent company of the Bank, or any other member of the financial group to which the Bank belongs.

Payments of interest (or amounts deemed interest under Mexican law) made by the Bank through its Cayman Islands Branch are generally not subject to Mexican or Cayman Islands withholding tax. See “*Taxation—Certain Mexican Income Tax Consequences*” and “*Taxation—Certain Cayman Islands Income Tax Consequences*.” However, if any such withholding tax were to apply, subject to certain exceptions described in this offering memorandum, the Bank will pay additional amounts so that the net amount received by holders of each series of Notes after Mexican or Cayman Islands withholding tax, if imposed, will equal the amount that would have been received if no withholding tax had been applicable. See “*Description of the NC6.5 Notes—Payment of Additional Amounts*” and “*Description of the NC10.5 Notes—Payment of Additional Amounts*.”

Application is expected to be made to list the Notes of each series on the Singapore Exchange Securities Trading Limited (“SGX-ST”). The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this offering memorandum. Admission to the SGX-ST is not to be taken as an indication of the merits of the Notes or the Bank.

Investing in the Notes of either or both series involves risks. See “*Risk Factors*” beginning on page 35.

NC6.5 Notes’ Price: 100.00%, plus accrued interest, if any, from November 20, 2024.

NC10.5 Notes’ Price: 100.00%, plus accrued interest, if any, from November 20, 2024.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”). The Notes may not be offered or sold within the United States or to U.S. persons, except to persons reasonably believed to be qualified institutional buyers (“QIB”) in reliance on the exemption from registration provided by Rule 144A under the Securities Act (“Rule 144A”) and to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act (“Regulation S”). You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

The Notes are not intended to be offered, sold or otherwise made available and should not be offered, sold or otherwise made available to retail clients in the European Economic Area (“EEA”), as defined in the rules set out in the Markets in Financial Instruments Directive 2014/65/EU, as amended or replaced from time to time, or to retail clients in the United Kingdom (“UK”), as defined in the rules set out in the Commission Delegated Regulation (EU) 2017/565 as it forms part of domestic law in the UK by virtue of the European Union (Withdrawal) Act 2021. Prospective investors in the EEA and in the UK are referred to the section headed “*Restrictions on marketing and sales to retail investors in the EEA*” and “*Restrictions on marketing and sales to retail investors in the UK*” on pages iii and iv of this offering memorandum for further information.

THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM IS EXCLUSIVELY THE RESPONSIBILITY OF THE BANK AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE MEXICAN NATIONAL BANKING AND SECURITIES COMMISSION (COMISIÓN NACIONAL BANCARIA Y DE VALORES) (“CNBV”). THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (REGISTRO NACIONAL DE VALORES) (“RNV”) MAINTAINED BY THE CNBV AND THEREFORE THE NOTES MAY NOT BE PUBLICLY OFFERED OR SOLD NOR CAN THEY BE SUBJECT OF BROKERAGE ACTIVITIES IN MEXICO, EXCEPT THAT THE NOTES MAY BE OFFERED AND SOLD IN MEXICO, ON A PRIVATE PLACEMENT BASIS, TO INVESTORS THAT QUALIFY AS INSTITUTIONAL INVESTORS (INVERSIONISTAS INSTITUCIONALES) OR ACCREDITED INVESTORS (INVERSIONISTAS CALIFICADOS), PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (LEY DEL MERCADO DE VALORES) AND THE REGULATIONS THEREUNDER. AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW, THE BANK WILL NOTIFY THE CNBV OF THE OFFERING AND ISSUANCE OF THE NOTES OUTSIDE OF MEXICO AND THE TERMS OF THE NOTES. SUCH NOTICE WILL BE SUBMITTED TO THE CNBV TO COMPLY WITH ARTICLE 7, SECOND PARAGRAPH, OF THE MEXICAN SECURITIES MARKET LAW AND REGULATIONS THEREUNDER, AND FOR STATISTICAL AND INFORMATIONAL PURPOSES ONLY. THE DELIVERY OF SUCH NOTICE TO, AND THE RECEIPT OF SUCH NOTICE BY, THE CNBV DOES NOT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, THE BANK’S SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH HEREIN AND DOES NOT RATIFY OR VALIDATE ANY ACTIONS OR OMISSIONS, IF ANY, IN CONTRAVENTION OF APPLICABLE LAW. THIS OFFERING MEMORANDUM MAY NOT BE PUBLICLY DISTRIBUTED IN MEXICO.

THE ACQUISITION OF THE NOTES BY AN INVESTOR WHO IS A RESIDENT OF MEXICO WILL BE MADE UNDER SUCH INVESTOR'S RESPONSIBILITY.

Barclays

Global Coordinators and Joint Book-Running Managers

Goldman Sachs & Co. LLC

Morgan Stanley

Book-Running Manager

MUFG

Delivery of the Notes of each series will be made in book-entry form on or about November 20, 2024, through The Depository Trust Company (“DTC”) and its direct and indirect participants, including Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, *société anonyme*, Luxembourg (“Clearstream”).

The date of this offering memorandum is November 13, 2024.

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BANCO DE MÉXICO (THE “MEXICAN CENTRAL BANK”) HAS AUTHORIZED THE ISSUANCE OF EACH SERIES OF NOTES, AS REQUIRED UNDER APPLICABLE MEXICAN LAW. FURTHERMORE, THE RESPECTIVE INDENTURE GOVERNING EACH SERIES OF NOTES WILL BE EXECUTED BY AN AUTHORIZED OFFICIAL OF THE CNBV, AS REQUIRED UNDER MEXICAN LAW. AUTHORIZATION OF THE ISSUANCE OF EACH SERIES OF NOTES BY THE MEXICAN CENTRAL BANK DOES NOT ADDRESS THE LEGAL, TAX OR OTHER CONSEQUENCES TO THE HOLDERS OF EACH SERIES OF NOTES, NOR DOES IT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES OR AS TO THE BANK’S SOLVENCY, LIQUIDITY OR CREDIT QUALITY, OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH HEREIN, AND DOES NOT RATIFY OR VALIDATE ANY ACTIONS OR OMISSIONS, IF ANY, IN CONTRAVENTION OF APPLICABLE LAW OR THE TRANSLATION OF THE TERMS OF APPLICABLE MEXICAN LAW AND REGULATION, INCLUDING ARTICLES 121 AND 122 OF THE MEXICAN BANKING LAW (*LEY DE INSTITUCIONES DE CRÉDITO*), RELEVANT PROVISIONS OF CIRCULAR 3/2012 ISSUED BY THE MEXICAN CENTRAL BANK AND THE GENERAL RULES APPLICABLE TO MEXICAN BANKS (*DISPOSICIONES DE CARÁCTER GENERAL APLICABLES A LAS INSTITUCIONES DE CRÉDITO*) ISSUED BY THE CNBV. THE CONTENT, ACCURACY, CORRECTNESS AND TIMELINESS OF THE INFORMATION CONTAINED HEREIN ARE OUR EXCLUSIVE RESPONSIBILITY.

Neither we nor the initial purchasers have authorized anyone to provide you with different or additional information from that contained in this offering memorandum, and neither we nor the initial purchasers take responsibility for any other information that others may give you. Neither we nor the initial purchasers are making an offer of the Notes in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the front of this offering memorandum, regardless of the time of delivery of this offering memorandum or any sale of the Notes.

Unless otherwise specified or the context otherwise requires, references in this offering memorandum to “the Bank” or “the Issuer” are references to Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte. References to “Banorte,” “we,” “us” and “our” are references to Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, together with our subsidiaries, but are not references to Grupo Financiero Banorte, S.A.B. de C.V., our parent company. References to “GFNorte” are to Grupo Financiero Banorte, S.A.B. de C.V., together with its subsidiaries and joint ventures.

In connection with the issuance of each series of Notes, the initial purchasers (or persons acting on behalf of the initial purchasers) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes of each series at a level higher than that which might otherwise prevail. However, there is no assurance that the initial purchasers (or persons acting on behalf of the initial purchasers) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the Notes is made and, if begun, may be ended at any time. Any stabilization action or over-allotment must be conducted by the initial purchasers (or persons acting on behalf of the initial purchasers) in accordance with all applicable laws and rules.

We are relying upon an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing Notes of either or both series, you will be deemed to have made the acknowledgements, representations and agreements described under “*Transfer Restrictions*” in this offering memorandum. We are not, and the initial purchasers are not, making an offer to sell the Notes in any jurisdiction except where such an offer or sale is permitted. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

Neither the CNBV nor the U.S. Securities and Exchange Commission (the “SEC”) nor any state or foreign securities commission or regulatory authority has approved or disapproved the offering of the Notes or determined if this offering memorandum is truthful, accurate or complete. Any representation to the contrary is a criminal offense.

We have submitted this offering memorandum solely to a limited number of persons reasonably believed to be QIBs in the United States and to non-U.S. persons, as defined in Regulation S, so that they can consider a purchase of Notes of either or both series. This offering memorandum has been prepared solely for use in connection with the placement of the Notes. We have not authorized the use of this offering memorandum for any other purpose. This offering memorandum may not be copied or reproduced in whole or in part. This offering memorandum may be distributed and its contents disclosed only to those prospective investors to whom it is provided. By accepting delivery of this offering memorandum, you agree to these restrictions. See “*Transfer Restrictions*.” The SGX-ST takes no responsibility for the contents of this offering memorandum, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum. Each series of Notes will be traded on the SGX-ST in a minimum board lot size of 200,000 Singapore dollars, or SGD (or its equivalent in foreign currencies) for so long as each series of Notes is listed on the SGX-ST.

This offering memorandum is based on information provided by us and by other sources that we believe are reliable, but no assurance can be given as to the accuracy or completeness of any such information obtained from third-party sources. The initial purchasers assume no responsibility for the accuracy or completeness of the information contained herein (financial, legal or otherwise). In making an investment decision, prospective investors must rely on their own examinations of us and the terms of this offering and each series of Notes, including the risks involved. Moreover, the contents of this offering memorandum are not to be construed as legal, business or tax advice. You are urged to consult your own attorney, business or tax advisor for legal, business or tax advice.

This offering memorandum does not constitute an offer of, or an invitation by or on behalf of, us or the initial purchasers, or any of our or their respective directors, officers and affiliates, to subscribe for or purchase any securities in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction. Each prospective purchaser of the Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Notes or possesses or distributes this offering memorandum and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales.

Notwithstanding anything in this document to the contrary, you (and each of your employees, representatives or other agents) may disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and tax structure of the offering of Notes and all materials of any kind (including opinions or other tax analyses) that are provided to you relating to such tax treatment and tax structure. For these purposes, “tax structure” is limited to facts relevant to the U.S. federal income tax treatment of the offering of Notes.

Pursuant to Article 119 of the Mexican Financial Groups Law (*Ley para Regular las Agrupaciones Financieras*) (“Financial Groups Law”), a financial services holding company such as GFNorte, our holding company, is secondarily (*subsidiariamente*) and unlimitedly (*ilimitadamente*) liable for the performance of the obligations undertaken by the members of our financial group (including Banorte), in respect of the operations that each company is allowed to carry out pursuant to applicable law. In addition, GFNorte is unlimitedly liable for the losses of each and every company comprising our financial group; provided that for such purposes, a company is deemed to have losses when its assets are insufficient to fulfill its payment obligations. The enforcement of GFNorte’s liability pursuant to Article 119 of the Financial Groups Law is subject to a specific procedure provided for in the Financial Groups Law and may not be enforced expeditiously. Thus the timing and outcome of an action against GFNorte is uncertain. For the avoidance of doubt, the Notes offered hereby are not guaranteed by GFNorte or any other entity, including any of the regulated subsidiaries of GFNorte.

We reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than the full amount of the Notes offered hereby.

Any purchaser or holder of Notes or any interest therein will be deemed to have represented by its purchase or holding thereof that either (i) it is not a Plan, it is not purchasing securities on behalf of or using the assets of any such Plan, and it is not a Non-ERISA Arrangement (as defined below) or (ii) its purchase, holding and any subsequent disposition of the Notes will not result in a prohibited transaction under Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”) or Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”) (or, in the case of a Non-ERISA Arrangement, any other laws or regulations that are substantially similar to the provisions of Title I of ERISA or Section 4975 of the Code (“Similar Laws”) for which an exemption is not available). Prospective purchasers must carefully consider the restrictions on purchase set forth in “*Transfer Restrictions*” and “*Certain ERISA Considerations*.”

RESTRICTIONS ON MARKETING AND SALES TO RETAIL INVESTORS IN THE EEA

The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the European Economic Area (“EEA”). For these purposes, a “retail investor” in the EEA means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of the Markets in Financial Instruments Directive 2014/65/EU (as amended, “MiFID II”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended, the “PRIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIPs Regulation.

The Notes are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors. In particular, (i) on January 1, 2021, the provisions of the PRIPs

Regulation on key information documents for packaged and retail and insurance-based investment products became directly applicable in all EEA member states and (ii) MiFID II was required to be implemented in EEA member states by January 3, 2021. Thus, relevant regulations in the EEA include the PRIIPs Regulation and MiFID II (the “Regulations”).

The Regulations set out various obligations in relation to (i) the manufacturing and distribution of financial instruments and (ii) the offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write down or convertible securities, such as the Notes.

Potential investors should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Notes (or any beneficial interests therein), including the Regulations. The Issuer and each of the initial purchasers is required to comply with some or all of the Regulations.

By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from the Issuer and/or the initial purchasers, each prospective investor in relation to the Notes (or any beneficial interests therein) represents, warrants, agrees with and undertakes to the Issuer and each of the initial purchasers that:

- (i) it is not a retail client in the EEA as defined in MiFID II;
- (ii) it is not a customer in the EEA, within the meaning of the Insurance Distribution Directive (each of (i) and (ii) referred to as a “retail investor”);
- (iii) whether or not it is subject to the Regulations, it will not:
 - (A) sell or offer the Notes (or any beneficial interests therein) to a retail investor; or
 - (B) communicate (including the distribution of this offering memorandum) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (as defined in MiFID II); and,
- (iii) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) MiFID II and any such other applicable laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

Each prospective investor further acknowledges that:

- (i) the identified target market for the Notes (for the purposes of the product governance obligations in MiFID II) is eligible counterparties and professional clients; and
- (ii) no key information document under the PRIIPs Regulation has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interests therein) from us and/or the initial purchasers the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

RESTRICTIONS ON MARKETING AND SALES TO RETAIL INVESTORS IN THE UK

The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the UK. For these purposes, a “retail investor” in the UK means a person who is one (or more) of: (i) a retail client as defined in point (8) of Article 2 of Regulation (EU) 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2021 (the “EUWA”); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the “FSMA”) and any rules or regulations made under FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA (“UK MiFIR”). Consequently, no key information document required by the PRIIPs Regulation, as it forms part of the domestic law in the UK by virtue of the EUWA (the “UK PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore, offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

In the UK, this communication is only being distributed to and is only directed at (i) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (ii) high net worth entities falling within Article 49(2) of the Order, and other persons to whom it may lawfully be communicated (all such persons together being referred to as “relevant persons”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire the Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents. Persons into whose possession this offering memorandum may come are required by the Issuer and the initial purchasers to inform themselves about and to observe such restrictions.

Potential investors in the UK are advised that all, or most, of the protections afforded by the UK regulatory system will not apply to an investment in the Notes and that compensation will not be available under the UK Financial Services Compensation Scheme.

It is the responsibility of all persons under whose control or into whose possession this offering memorandum comes to inform themselves about and to ensure observance of all applicable provisions of the Financial Services and Markets Act 2000 in respect of anything done in relation to the Units in, from or otherwise involving, the UK.

The Notes are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors. In particular, in June 2015, the UK Financial Conduct Authority (the “FCA”) published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (“PI Instrument”). Together, the PI Instrument, UK PRIIPs Regulation, UK MiFIR, the FCA Handbook Product Intervention and Product Governance Sourcebook (the “UK MiFIR Product Governance Rules”) and the FCA Handbook Conduct of Business Sourcebook are referred to as the “UK Regulations”.

The UK Regulations set out various obligations in relation to (i) the manufacturing and distribution of financial instruments and (ii) the offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write down or convertible securities, such as the Notes.

Potential investors should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Notes (or any beneficial interests therein), including the UK Regulations. The Issuer and each of the initial purchasers is required to comply with some or all of the UK Regulations.

By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from the Issuer and/or the initial purchasers, each prospective investor in relation to the Notes (or any beneficial interests therein) represents, warrants, agrees with and undertakes to the Issuer and each of the initial purchasers that:

- (i) it is not a retail client in the UK as defined in point 8(2) of Article 2 of Regulation (EU) 2017/565 as it forms part of UK domestic law by virtue of the EUWA;
- (ii) it is not a customer within the meaning of the provisions of the FSMA and any rules or regulations made under FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) or Article 2(1) of the UK MiFIR (each of (i) and (ii) referred to as a “retail investor”);
- (iii) whether or not it is subject to the UK Regulations, it will not:
 - (A) sell or offer the Notes (or any beneficial interests therein) to a retail investor in the UK; or
 - (B) communicate (including the distribution of this offering memorandum) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the UK, as defined in point 8(2) of Article 2 of Regulation (EU) 2017/565 as it forms part of UK domestic law by virtue of the EUWA. In selling or offering Notes or making or approving communications relating to the Notes, that prospective investor may not rely on the limited exemptions set out in the PI Instrument; and,
- (iv) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the UK) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) UK MiFIR, the UK MiFIR Product Governance Rules and any such other applicable laws, regulations and regulatory guidance relating to determining the

appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

Each prospective investor further acknowledges that:

- (i) the identified target market for the Notes (for the purposes of the product governance obligations in the UK MiFIR Product Governance Rules) is eligible counterparties and professional clients; and
- (ii) no key information document under the UK PRIIPs Regulation has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interests therein) from us and/or the initial purchasers the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

CAYMAN ISLANDS SELLING RESTRICTIONS

NO INVITATION, WHETHER DIRECTLY OR INDIRECTLY, MAY BE MADE TO MEMBERS OF THE PUBLIC IN THE CAYMAN ISLANDS TO SUBSCRIBE FOR THE NOTES UNLESS THE ISSUER IS LISTED ON THE CAYMAN ISLANDS STOCK EXCHANGE. THE NOTES MAY, HOWEVER, BE OFFERED AND SOLD TO ORDINARY NON-RESIDENT AND EXEMPTED COMPANIES IN THE CAYMAN ISLANDS.

AVAILABLE INFORMATION

We are not subject to the information requirements of the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”). To preserve the exemption for resales and transfers under Rule 144A under the Securities Act, we have agreed that we will promptly provide any holder or any prospective purchaser of the Notes who is designated by that holder and is a “qualified institutional buyer,” as defined under Rule 144A, upon the request of such holder or prospective purchaser, with information meeting the requirements of Rule 144A(d)(4), unless we either furnish information in accordance with Rule 12g3-2(b) under the Exchange Act or furnish information to the SEC pursuant to Section 13 or 15(d) of the Exchange Act. For so long as such series of Notes are outstanding, such information will be available at our specified offices and, for so long as the Notes are listed on the SGX-ST, through the Singapore Paying Agent. Following completion of this offering, we are not otherwise obligated to furnish holders or others with any supplemental information, discussion or analysis of our business or financial reports, other than as required by the respective indenture governing each series of Notes.

Application is expected to be made to list the Notes of each series on the SGX-ST, in accordance with its rules. We will be required to comply with any undertakings given by us from time to time to the SGX-ST in connection with each series of Notes, and to furnish to it all such information as the rules of the SGX-ST may require in connection with the listing of such series of Notes.

ENFORCEMENT OF JUDGMENTS

The Bank is a multiple purpose bank (*institución de banca múltiple*) incorporated and organized in accordance with the laws of Mexico with limited liability (*sociedad anónima*) and is issuing the Notes acting through its Cayman Islands Branch. All of our directors and officers and experts named herein are non-residents of the United States and substantially all of the assets of such non-resident persons and substantially all of our assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce against them or us in United States courts judgments predicated upon the civil liability provisions of United States federal securities laws. We have been advised by our Mexican counsel, White & Case, S.C. that there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated in whole or in part on the laws of any jurisdiction outside Mexico, including any judgment predicated in whole or in part on U.S. securities laws and as to the enforceability in Mexican courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of U.S. laws.

We have been advised by White & Case, S.C., our Mexican counsel, that no bilateral treaty is currently in effect between the United States and Mexico that covers the reciprocal enforcement of civil foreign judgments and that service of process by mail does not constitute effective service under Mexican law and if a final judgment is obtained based on service of process by mail, it would not be enforceable in Mexico. In the past, Mexican courts have enforced judgments rendered in the United States by virtue of the legal principles of reciprocity and comity, consisting of the review in Mexico of the United States judgment, in order to ascertain, among other matters, whether Mexican legal principles of due process and the non-violation of Mexican law and/or Mexican public policy (*orden público*), among other requirements set forth under Mexican law, have been duly complied with, without reviewing the merits of the subject matter of the case, provided that U.S. courts recognize the principles of reciprocity and would enforce Mexican judgments as a matter of reciprocity. If an action were to be brought in Mexico seeking to enforce our payment obligations under the Notes, pursuant to the laws of Mexico, we may satisfy those obligations by paying Mexican Pesos at the rate of exchange prevailing in Mexico on the date on which payment is made pursuant to Article 8 of the Mexican Monetary Law (*Ley Monetaria de los Estados Unidos Mexicanos*).

Additionally, we have been advised by White & Case, S.C. that there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated in whole or in part on the U.S. securities laws and as to the enforceability in Mexican courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of U.S. federal securities laws.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Examples of such forward-looking statements include, but are not limited to: (i) statements regarding our future results of operations and financial position; (ii) statements of plans, objectives or goals, including those related to our operations; and (iii) statements of assumptions underlying such statements. Words such as “believes,” “anticipates,” “should,” “consider,” “estimates,” “seeks,” “forecasts,” “will,” “expects,” “may,” “assume,” “intends,” “plans” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

You should not place undue reliance on forward-looking statements, which are based on current expectations. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution investors that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed or implied in such forward-looking statements, including the following factors:

- changes in economic, political, social and other conditions in Mexico and elsewhere;
- competition in the banking industry and fintech in Mexico;
- the profitability of our business;
- credit and other lending risks, including an increase in defaults on our loan portfolio and restructuring of our existing loans;
- limitations on our access to sources of financing on competitive terms;
- restrictions on foreign currency convertibility and remittance outside of Mexico;
- failure to meet capital requirements or other requirements;
- limitations on our ability to freely determine interest rates, commissions and fees;
- interruptions or failures in our technology systems;
- changes in reserve and/or capital requirements, changes in the laws or regulations applicable thereto, or the interpretation of how such reserve or capital requirements are to be calculated;
- additional capital requirements relating to our classification as a systemically important local bank and to countercyclical risks;
- the effect of new legislation, constitutional changes, intervention by regulatory authorities, government directives and monetary and/or fiscal policy in Mexico by the current administration, including but not limited to, the implementation of the Mexican judicial reform published in the Mexican Federal Official Gazette (*Diario Oficial de la Federación*) (the “Official Gazette”) on September 15, 2024 (referred to as the “Mexican judicial reform”).
- actions taken by the Mexican Antitrust Commission (*Comisión Federal de Competencia Económica*) (the “Mexican Antitrust Commission”) with respect to our business and the Mexican banking industry generally, and by the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*) (“SHCP”) with respect to our lending to certain sectors;
- inability to timely and duly enforce our claims on collateral provided by borrowers;
- possible disruptions to commercial activities due to natural and man-made disasters, including health epidemics, weather events, terrorist activities and armed conflicts;
- cyberattacks, terrorist and organized criminal activities, as well as geopolitical events and military conflicts, such as the current conflicts in Israel and Ukraine;
- changes in requirements to make contributions to, or the receipt of support from, programs organized by the Mexican government;

- credit penetration in Mexico and credit demand in the segments and sectors in which we participate;
- changes in overall economic, business, international trade, social and political conditions in Mexico and internationally, particularly in the United States;
- changes in exchange rates, market interest rates, tax rates or the rate of inflation;
- changes in our or Mexico's domestic and international credit ratings;
- changes in the regulatory framework of the Mexican banking industry and in regulations relating to the products and services we offer or otherwise, including caps imposed on the interest rates and fees we may charge;
- acquisitions and divestitures, and our ability to successfully integrate the operations of businesses or assets that we acquire;
- changes in accounting principles and rules applicable to us;
- inability to retain certain key personnel and ability to hire additional key personnel; and
- other factors discussed under “*Risk Factors*” in this offering memorandum.

Should one or more of these factors or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended.

Additional factors affecting our business may arise periodically and we cannot predict such factors, nor can we assess the impact of all these factors on our business or the extent to which such factors or combination of factors could cause our results to materially differ from those contained in any forward-looking statement. Although we consider the plans, intentions, expectations, and estimates reflected in, or suggested by, forward-looking statements included in this offering memorandum to be reasonable, we cannot provide any assurance that our plans, intentions, expectations and estimates will be achieved. Additionally, historical trends in our statements should not be interpreted as a guarantee that these trends will continue in the future.

Prospective investors should read the sections of this offering memorandum entitled “*Risk Factors*,” “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and “*Business*” for a more complete discussion of the factors that could affect our future performance and the markets in which we operate. In light of these risks, uncertainties and assumptions, the forward-looking events described in this offering memorandum may not occur. All forward-looking statements included in this offering memorandum are based upon information available to us as of the date of this offering memorandum, and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information or future events or developments.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Statements

This offering memorandum includes:

- our audited consolidated financial statements as of December 31, 2023 and 2022 and for the years ended December 31, 2023 and 2022 and our audited consolidated financial statements as of December 31, 2021 and for the year ended December 31, 2021, in each case together with the notes thereto (together, our “Audited Consolidated Financial Statements”), and
- our unaudited condensed consolidated interim financial statements as of September 30, 2024 and for the nine-month periods ended September 30, 2024 and 2023, together with the notes thereto (our “Unaudited Condensed Consolidated Interim Financial Statements”), and together with the Audited Consolidated Financial Statements, our “Financial Statements”).

Our Financial Statements have been prepared in accordance with the Mexican Banking GAAP (as defined below).

Accounting Principles

Mexican Banking GAAP differs in certain significant respects from accounting principles generally accepted in the United States of America (“U.S. GAAP”). For a summary of the principal differences between Mexican Banking GAAP and U.S. GAAP, as they relate to our Financial Statements, see “*Annex A – Significant Differences Between Mexican Banking GAAP and U.S. GAAP.*” No reconciliation of any of our Financial Statements to U.S. GAAP has been prepared for the purposes of this offering memorandum. Any such reconciliation would likely result in material differences. Mexican Banking GAAP also differs from Mexican Financial Reporting Standards (*Normas de Información Financiera*) (the “MFRS”), as currently in effect and issued by the Mexican Council of Financial Information Standards (*Consejo Mexicano de Normas de Información Financiera*, A.C.) (“CINIF”).

Pursuant to publications in the Official Gazette dated March, 13, 2020, December 4, 2020 and December 30, 2021, the CNBV announced the obligation, effective January 1, 2022, for Mexican banks and other financial institutions in Mexico to adopt new accounting standards. In addition, pursuant to the transitory articles of the General Rules Applicable to Mexican Banks, and as a practical solution, Mexican banks may recognize as of the date of initial application, which is January 1, 2022, the cumulative effect of the accounting changes and shall not present retrospectively the effects of such accounting changes in financial statements for prior periods. The aim of these new accounting standards is to adopt new standards applicable to the classification and measurement of our financial assets and liabilities, including our total non-performing loans in order to reduce the differences between Mexican Banking GAAP and International Financial Reporting Standards. For more information regarding new accounting criteria, see Note 3 to our Audited Consolidated Financial Statements as of December 31, 2022 and for the year ended December 31, 2022.

As a result, financial information as of December 31, 2023 and 2022, and for the years then ended, presented in this offering memorandum is not comparable with any prior historical financial period. For this reason, financial information as of December 31, 2021 and for the year then ended is presented in this offering memorandum on a stand-alone basis. See “Risk Factors—Risks Relating to Our Business—As a result of the implementation of new accounting criteria for credit institutions in Mexico established by the CNBV, financial information as of and for the years ended December 31, 2023 and December 31, 2022 is not comparable with financial information for prior years.”

The Financial Statements and the other financial information contained in this offering memorandum are presented on a consolidated basis.

Currencies

The financial information appearing in this offering memorandum is presented in Mexican Pesos. In this offering memorandum references to “Pesos” or “Ps.” are to Mexican Pesos and references to “U.S. dollars,” “dollars,” “U.S.\$” or “\$” are to United States dollars. This offering memorandum contains translations of certain Peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, U.S. dollar amounts that have been translated from Pesos have been so translated at an exchange rate of Ps. 19.6921 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2024, and published on October 1, 2024, in the Official Gazette, based on the average of wholesale foreign exchange market quotes for transactions settling within two banking business days (the “Mexican Central Bank Exchange Rate”). As of September 30, 2024, the noon buying

rate in New York City for cable transfers in Pesos per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York was Ps. 19.6903 per U.S. dollar.

References herein to “UDIs” are to investment units (*unidades de inversión*), a Peso equivalent unit of account indexed for Mexican inflation. UDIs are units of account whose value in Pesos is indexed to inflation on a daily basis, as measured by the change in the National Consumer Price Index (*Índice Nacional de Precios al Consumidor*) (the “NCPI”). Under a UDI-based loan or financial instrument, the borrower’s nominal Peso principal balance is converted either at origination or upon restructuring to a UDI principal balance, and interest on the loan or financial instrument is calculated on the outstanding UDI balance of the loan or financial instrument. Principal and interest payments are made by the borrower in an amount of Pesos equivalent to the amount due in UDIs at the stated value of the UDIs on the day of payment. As of September 30, 2024, one UDI was equal to Ps. 8.2472 (U.S.\$0.4188).

Terms Relating to Our Loan Portfolio

References in this offering memorandum to “allowance” are to the aggregate loan loss allowance or reserves shown as of a particular date as a balance sheet item. References in this offering memorandum to “provisions” are to additions to the loan loss allowance or reserves recorded in a particular period and charged to income.

As of and for the Year ended December 31, 2021

As used in this offering memorandum, and unless otherwise indicated, the following terms relating to our loan portfolio and other credit assets as of and for the year ended on December 31, 2021 have the meanings set forth below.

The terms “total performing loans” and “total performing loan portfolio” refer to the aggregate of:

- the total principal amount of loans outstanding as of the date presented;
- amounts attributable to “accrued interest”;
- “rediscounted loans” (as described below); and
- the “UDI Trusts” (as described below).

Under Mexican Banking GAAP, we include as income for any reporting period interest that is accrued but unpaid during that period. Such “accrued interest” is reported as part of our total performing loan portfolio in our Financial Statements until it is paid or becomes part of the total non-performing loan portfolio in accordance with the CNBV’s rules.

“Rediscounted loans” are Peso- and dollar-denominated loans made to finance projects in industries that qualify for priority status under the wholesale lending programs of the Mexican government’s development banks and are generally funded by such development banks. In accordance with Mexican Banking GAAP, rediscounted loans are recorded on the balance sheet as outstanding loans. As mandated by the CNBV, total performing loans include the portfolio trusts (the “UDI Trusts”) holding our loans converted into UDIs that are consolidated in our Financial Statements.

Unless otherwise specified herein, the terms “total performing loans” and “total performing loan portfolio” do not include “total non-performing loans,” as defined below. The term “net total performing loans” refers to total performing loans less allowance for loan losses on these loans.

The terms “total non-performing loans” and “total non-performing loan portfolio” include past-due principal and past-due interest. For a description of our policies regarding the classification of loans as non-performing, see “*Selected Statistical Information—Non-Performing and Stage 3 Loan Portfolio*”. The term “net non-performing loans” refers to total non-performing loans less allowance for loan losses on these loans.

The terms “total loans” and “total loan portfolio” include total performing loans plus total non-performing loans, each as defined above. The terms “net total loans” and “net total loan portfolio” refer to net total performing loans plus net non-performing loans, as defined above.

As of and for the Nine-Month Periods Ended September 30, 2024 and 2023 and as of and for the Years Ended December 31, 2023 and 2022

As used in this offering memorandum, and unless otherwise indicated, the following terms relating to our loan portfolio and other credit assets as of and for the nine-month periods ended September 30, 2024 and 2023 and for the years ended December 31, 2023 and 2022 have the meanings set forth below, regarding financial information.

Loans are classified into three “Stages” based on their risk, as follows:

- Stage 1 includes loans where the risk of default is not considered to have increased significantly.
 - Loans with single amortization at maturity of principal and interest that accumulate from 0 to 29 calendar days after payment overdue.
 - In the case of loans with a single amortization of principal at maturity, but with periodic interest payments, when they accumulate between 0 and 29 days after payment overdue of principal, or between 0 and 30 days after payment overdue in interest payments.
 - Commercial loans whose amortization of principal and interest have been agreed in partial periodic payments, when the first amortization is 0 to 30 calendar days after payment overdue, in the case of consumer credits when they accumulate zero arrears or the equivalent of 1 arrears or less.
- Stage 2 includes loans that have already shown a significant increase in credit risk, but without objective evidence of impairment.
 - In the case of commercial loans with a single amortization of principal at maturity, but with periodic interest payments, when interest accumulates from 31 to 89 calendar days after payment overdue.
 - Loans whose amortization of principal and interest have been agreed in partial periodic payments, when they are 31 to 89 calendar days after payment overdue in their amortizations, in the case of consumer loans when they accumulate more than 1 arrears or the equivalent of 3 arrears or less.
- Stage 3 includes loans for which one or more events have occurred that have a detrimental impact on future cash flows.
 - Loans with single amortization at maturity of principal and interest, 30 calendar days after maturity occurs.
 - In the case of loans with a single amortization of principal at maturity, but with periodic interest payments, the total principal and interest at 30 and 90 calendar days after payment overdue, respectively.
 - Loans whose amortization of principal and interest have been agreed in partial periodic payments, 90 calendar days after payment overdue in their amortizations, in the case of consumer loans when they accumulate more than three arrears or 90 or more days after payment overdue in their payments, whichever comes first.
 - In the case of revolving loans, when payment has not been made for two periods or they are 90 or more days after payment overdue, in the case of consumer loans when they accumulate more than three arrears or 90 or more days in arrears in their payments.
 - In the case of overdrafts in customer checking accounts, they are considered as a Stage 3 portfolio at the time the overdraft occurs.

Terms Relating to Our Capital Adequacy

As used in this offering memorandum, the following terms relating to our capital adequacy have the meanings set forth below, unless otherwise indicated.

“*Capital Conservation Buffer*” refers to a minimum capital conservation buffer required to be maintained and comprised of Fundamental Capital (as defined below), which as of the date hereof is equivalent to 2.5% of total risk weighted assets, pursuant to Section III a) of Article 2 Bis 5 of the General Rules Applicable to Mexican Banks.

“*Capital Ratios*” refers to each of the ratios of (i) (a) the Total Net Capital, (b) Tier 1 Capital or (c) Fundamental Capital *plus* any Capital Supplement thereto required under the Mexican Capitalization Requirements to (ii) risk weighted assets, market risks and operational risks, calculated in accordance with the methodology established from time to time by the CNBV pursuant to the Mexican Banking Law and the Mexican Capitalization Requirements.

“*Capital Supplement*” means the Countercyclical Capital Supplement, the Systemically Important Bank Capital Supplement and the Net Capital Supplement, together with any other applicable additional capital conservation buffer or loss

absorbency capital that banks may be required to hold pursuant to the Mexican Banking Law (*Ley de Instituciones de Crédito*) (the “Mexican Banking Law”) and the Mexican Capitalization Requirements.

“*Countercyclical Capital Supplement*” means any applicable additional countercyclical amount of capital that banks may be required to hold, as determined by the CNBV from time to time pursuant to the Mexican Banking Law and the Mexican Capitalization Requirements.

“*D-SIBs*” means any Mexican systemically important bank, as determined by the CNBV annually pursuant to the Mexican Banking Law and the Mexican Capitalization Requirements.

“*G-7 Mexican Banks*” means the seven largest banks in Mexico by total assets, according to the CNBV, which are Banorte, Banco Nacional de México, S.A., integrante del Grupo Financiero Banamex (“Banamex”), BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México (“BBVA México”), Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México (“Santander”), Scotiabank Inverlat, S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat (“Scotiabank”), HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC (“HSBC”), and Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa (“Inbursa”).

“*General Rules Applicable to Mexican Banks*” means the General Rules Applicable to Mexican Banks (*Disposiciones de Carácter General Aplicables a las Instituciones de Crédito*) published by the CNBV, and as such regulations may be amended or superseded.

“*Fundamental Capital*” (*capital básico fundamental*) or “*Core Equity Tier 1 Capital*” or “*CET1*” means the amount of core capital of Tier 1 Capital, as such term is used in, and determined pursuant to, the Mexican Capitalization Requirements, principally including, but not limited to, common equity and surplus, contributions for future capital increases, retained earnings and capital reserves, as such determination may be amended from time to time.

“*Mexican Banking GAAP*” means the Criterios de contabilidad para las instituciones de crédito (accounting criteria established to Mexican banks), contained in the General Rules Applicable to Mexican Banks issued by the CNBV, as amended.

“*Mexican Capitalization Requirements*” means the capitalization requirements for commercial banks set forth under the Mexican Banking Law and the General Rules Applicable to Mexican Banks, as such laws and regulations may be replaced, amended or superseded.

“*Minimum Regulatory Capital Ratios*” means the following minimum capital ratios generally applicable to Mexican banks to be classified as Class I pursuant to the Mexican Capitalization Requirements (i) 10.5% (ten point five percent) in the case of Total Net Capital (*capital neto*), (ii) 8.5% (eight point five percent) in the case of Tier 1 Capital (*capital básico*) and (iii) 7.0% (seven point zero percent) in the case of Fundamental Capital (*capital básico fundamental*), in all cases, including the Capital Conservation Buffer, plus any applicable Capital Supplement.

“*Net Capital Supplement*” (*suplemento al capital neto*) means an additional capital supplement required to be held by D-SIBs under the TLAC Requirements, which supplement may be comprised of Fundamental Capital or capital instruments (*instrumentos de capital*), pursuant to the Mexican Banking Law and the Mexican Capitalization Requirements.

“*Non-Fundamental Capital*” (*capital básico no fundamental*) or “*Non-Core Tier 1 Capital*” or “*Additional Tier 1 Capital*” means the amount of non-core capital of Tier 1 Capital, as such term is used in, and determined pursuant to, the Mexican Capitalization Requirements, principally including, but not limited to, perpetual and convertible subordinated non-preferred indebtedness, as such determination may be amended from time to time.

“*Systemically Important Bank Capital Supplement*” means the additional loss absorbency capital supplement required to be held by D-SIBs to reflect the greater risk that they pose to the Mexican financial system, as determined by the CNBV pursuant to the Mexican Banking Law and the Mexican Capitalization Requirements.

“*Tier 1 Capital*” refers to the basic capital (*capital básico*) portion of the Total Net Capital, as such term is used in, and determined pursuant to, the Mexican Capitalization Requirements, also known as Fundamental Capital *plus* Non-Fundamental Capital, as such determination may be amended from time to time.

“*Tier 2 Capital*” refers to the additional capital (*capital complementario*) portion of the Total Net Capital, as such term is used in, and determined pursuant to, the Mexican Capitalization Requirements, principally including, but not limited to, subordinated preferred indebtedness, as such determination may be amended from time to time.

“*TLAC Requirements*” means the minimum requirements for total loss-absorbing capacity and restoration of capital imposed by the CNBV on D-SIBs.

“*Total Net Capital*” refers to the net capital (*capital neto*), as such term is used in, and determined pursuant to, the Mexican Banking Law and the Mexican Capitalization Requirements, also known as Tier 1 Capital *plus* Tier 2 Capital, as such determination may be amended from time to time.

Market Share and Ranking Information

Unless otherwise indicated, the market share and ranking information included in this offering memorandum is derived from statistics available through the CNBV, the Mexican Central Bank, the SHCP, the Mexican Bankers’ Association (*Asociación de Bancos de México, A.C.*) (the “ABM”) or Controladora Prosa, S.A. de C.V. (“Prosa”), a Mexican clearing agency for automated teller machines (“ATMs”), and credit cards. The most recently available market share and ranking information in certain cases is as of August 31, 2024 and September 30, 2024.

Net Income Information

Unless otherwise indicated, the information in this offering memorandum related to our net income is provided on the basis of net income attributable to controlling interest.

SUMMARY

This summary highlights selected information from this offering memorandum and may not contain all the information that is important to you. For a more complete understanding of us, our business and this offering, you should read this entire offering memorandum, including, without limitation, the sections entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Selected Statistical Information,” and our Financial Statements and notes thereto, appearing elsewhere in this offering memorandum.

We are a multiple purpose bank (*institución de banca múltiple*) incorporated as a limited liability corporation (*sociedad anónima*) in accordance with the laws of Mexico and licensed by the SHCP to operate as a commercial bank. We are the largest bank in Mexico in terms of total assets, deposits and stockholders’ equity, that is not controlled by or affiliated to a non-Mexican financial institution. As of September 30, 2024, we ranked second among all Mexican banks in terms of loan portfolio, second in core deposits (a combination of demand deposits and time deposits), and third in terms of total assets, in each case, according to information published by the CNBV. With more than 120 years of operation as a financial entity in the Mexican banking sector, we have developed an extensive experience and in-depth knowledge of the Mexican market, providing a full range of banking services to over 12.6 million customers in Mexico as of September 30, 2024.

We are the banking subsidiary of GFNorte, the second largest financial services holding company in Mexico in terms of total assets as of August 31, 2024, according to the latest information published by the CNBV. Through us and its other subsidiaries, GFNorte provides financial and related services primarily in Mexico, including banking products; annuities and insurance products; retirement savings funds; mutual funds; leasing and factoring; warehousing; and a wide array of broker-dealer services, including securities trading, offering and underwriting. We are GFNorte’s most significant subsidiary, representing 73.4% of GFNorte’s total assets and 60.3% of its total stockholders’ equity, as of September 30, 2024.

As of September 30, 2024, we had total assets of Ps. 1,775 billion, total liabilities of Ps. 1,622 billion (including total deposits of Ps. 1,142 billion) and stockholders’ equity of Ps. 153 billion. In the nine-month period ended September 30, 2024, we generated net income of Ps. 33,960 million (Controlling) and had a return on average equity (“ROAE”) of 29.0% and a return on average total assets (“ROAA”) of 2.5%. In 2023, we generated net income of Ps. 41,946 million (Controlling) and had a ROAE of 27.6% and a ROAA of 2.5%. In 2022, we had a ROAE of 24.7% and a ROAA of 2.2%.

Our Capital Ratios were 19.23% for Total Net Capital, 19.00% for Tier 1 Capital and 13.87% for Core Equity Tier 1 Capital as of September 30, 2024, exceeding the Minimum Regulatory Capital Ratios. These Capital Ratios are inclusive of the Systemically Important Bank Capital Supplement. Given our status as a grade II domestic systemically important bank in Mexico, we are required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90%.

Over the years, we have successfully expanded our banking operations through strategic mergers and acquisitions, as well as consistent organic growth. This expansion has allowed us to increase our market share, especially in loans and deposits, as well as expand our geographic coverage and enhance the diversity and quality of our customer base. We have created a multi-channel network to provide a wide range of commercial and retail banking services, consisting of a network of 1,177 branches, 11,027 ATMs (61.1% of which are located outside of our branches) and 220,337 points of sale (“POSs”), in each case, as of September 30, 2024. Our branch network extends throughout Mexico, with a particular focus on the areas with the highest concentration of economic activity, including the Northeast of Mexico and Mexico City. We have processed approximately 543 million transactions in ATMs and digital banking for the nine-month period ended September 30, 2024. We had 28,084 employees as of September 30, 2024.

The following tables present certain of our financial and operating data as of and for the years indicated:

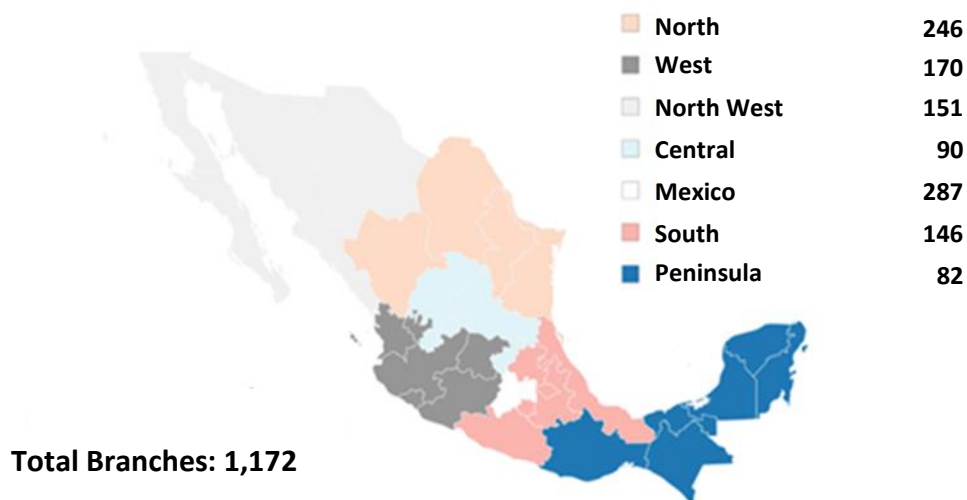
	As of or for the nine-month period ended September 30,		As of or for the year ended December 31,		
	2024	2024	2023	2023	2022
	(U.S.\$ millions, except percentages) ⁽¹⁾	(Ps. millions, except percentages)	(U.S.\$ millions, except percentages) ⁽¹⁾	(Ps. millions, except percentages)	(Ps. millions, except percentages)
Total loan portfolio	56,109	1,104,898	59,947	1,017,105	905,914
Total assets	90,144	1,775,125	99,165	1,682,493	1,552,253
Total deposits	58,012	1,142,380	63,250	1,073,131	918,969
Total liabilities	82,392	1,622,462	90,267	1,531,527	1,407,576
Total stockholders' equity	7,752	152,663	8,898	150,966	144,677
Net income (Controlling) LTM	2,245	44,212	2,472	41,946	34,549
Return on average total assets (ROAA) ⁽²⁾	2.5%	2.5%	2.5%	2.5%	2.2%
Return on average equity (ROAE) ⁽³⁾	29.0%	29.0%	27.6%	27.6%	24.7%
Net interest margin ⁽⁴⁾	6.5%	6.5%	6.4%	6.4%	5.9%

- (1) Solely for the convenience of the reader, Peso amounts as of September 30, 2024 have been translated into U.S. dollars at the exchange rate of Ps. 19.6921 per U.S.\$1.00 and as of December 31, 2023 at the exchange rate of Ps. 16.9666 per U.S.\$1.00. See "Exchange Rates and Currency."
- (2) For Return on average assets, Net income (Controlling) of the last 12 months divided by the average of total assets, based on end-of-month balances, for the last 12 months.
- (3) For Return on average equity, Net income (Controlling) of the last 12 months divided by the average of stockholders' equity, based on end-of-month balances (excluding minority interests), for the last 12 months.
- (4) For Net interest margin, Net interest income of the last 12 months divided by the average of total interest-earning assets, based on end-of-month balances, for the last 12 months.

	As of or for the year ended December 31, 2021
	(Ps. millions, except percentages)
Total loan portfolio	810,697
Total assets	1,236,490
Total deposits	806,213
Total liabilities	1,091,855
Total stockholders' equity	144,635
Net income (Controlling) LTM	26,086
Return on average total assets (ROAA) ⁽¹⁾	2.1%
Return on average equity (ROAE) ⁽²⁾	18.6%
Net interest margin ⁽³⁾	5.8%

- (1) For Return on average assets, Net income of the last 12 months divided by the average of total assets, based on end-of-month balances, for the last 12 months.
- (2) For Return on average equity, Net income of the last 12 months divided by the average of stockholders' equity, based on end-of-month balances (excluding minority interests), for the last 12 months.
- (3) For Net interest margin, Net interest income of the last 12 months divided by the average of total interest-earning assets, based on end-of-month balances, for the last 12 months.

The following map shows our network of branches in Mexico as of August 31, 2024, according with information published by the CNBV.



The following table sets forth our current market share in each region of Mexico in terms of the criteria specified below as of August 31, 2024.

	Banorte's Market Share						
	North	Central	West	Northwest	Mexico City	Peninsula	South
Branches	15.4%	12.8%	8.2%	10.0%	9.9%	8.4%	7.1%
ATMs	24.3%	24.3%	14.2%	19.7%	14.1%	14.8%	12.8%
Bank employees.....	30.2%	12.3%	8.3%	11.1%	8.2%	9.2%	6.8%
							National
							9.9%
							17.2%
							11.7%

Source: CNBV

Our Lines of Business

Our business is organized in two main segments: Retail Banking and Wholesale Banking. As of September 30, 2024, our Retail Banking loan portfolio was Ps. 470,020 million and Wholesale Banking was Ps. 634,879 million, representing 42.5% and 57.5% of our total loan portfolio, respectively.

- **Retail Banking.** This segment serves clients through our branches, ATM network, alternate channels (POSs, third-party correspondents and online, telephone and mobile banking) and our contact center. The Retail Banking segment offers services to individuals, small- and medium-size enterprises (“SME”), as well as state and municipal governments. Products and services offered through this segment include checking and deposit accounts, credit and debit cards, mortgages, car loans, payroll and personal loans, payroll dispersion accounts, as well as car, home and life insurance offered through a cross-selling agreement with our affiliate Seguros Banorte, S.A. de C.V., Grupo Financiero Banorte (“Seguros Banorte”).
 - **Consumer Banking:** We offer financial products and services for individuals through a multi-channel approach. Our investments in systems and technology over the past four years allow us to better target our products and services and to focus on the most profitable clients. The main products that we offer in this segment include mortgages, payroll loans, credit cards and automobile loans. As of September 30, 2024, our mortgage loan portfolio was Ps. 268,807 million, our payroll loan portfolio was Ps. 84,346 million, our credit card portfolio was Ps. 66,780 million and our automobile loan portfolio was Ps. 50,086 million, representing 57.2%, 17.9%, 14.2% and 10.7% of our total consumer loan portfolio, respectively.

- *SME Banking:* We offer financial products and services for SMEs or individuals with business activities. We service our more than 444,719 clients in this segment through a specialized team of executives distributed through a network of 1,177 service centers in Mexico as of September 30, 2024. We provide, among others, the following main solutions: savings and investment, financing, and business insurance offered through a cross-selling agreement with Seguros Banorte. One of our main products is Crediactivo, a loan product targeted towards SMEs and issued in amounts of Ps. 55,845 million. As of September 30, 2024, our total SME loan portfolio was Ps. 57,402 million, representing 5.2% of our total loan portfolio.
- *State and Municipal Governments:* We offer products and services for Mexican state and municipal governments, including checking accounts, financing (short and long-term loans frequently secured by federal contributions (*aportaciones federales*)), cash management and payroll payment services. As of September 30, 2024, our total state and municipal government loan portfolio, which is a subset of our government portfolio, was Ps. 114,921 million, representing 10.4% of our total loan portfolio.
- Wholesale Banking. Our Wholesale Banking segment comprises Corporate and Enterprise Banking, Transactional Banking, Federal Government Banking and International Banking.
 - *Corporate and Enterprise Banking:* Through this segment we specialize in comprehensive financial solutions for corporate and enterprise clients through several forms of specialized financing, including structured loans, syndicated loans, financing for acquisitions and investment plans. We also offer cash management, collections, trust services, payroll payment, checking accounts, lines of credit, and loans such as *CrediActivo Empresarial* (a product partially guaranteed by a Mexican development bank *Nacional Financiera, S.N.C., Institución de Banca de Desarrollo* (“**NAFIN**”)). Our clients in this segment generally consist of multi-national companies, large Mexican corporations and midsize enterprises operating in a wide range of sectors. We offer a client-oriented banking model, which establishes the role of the relationship managers as the central axis to attend all of our customers’ financial needs. As of September 30, 2024, our total corporate and enterprise banking loan portfolio was Ps. 411,636 million, representing 37.3% of our total loan portfolio.
 - *Transactional Banking:* Through our transactional banking division, we offer corporate and enterprise clients a comprehensive model of cash management solutions and online banking, encompassing sale, implementation and post-sale service, aiming to increase cross-selling levels. We launched a consolidated business model in 2014, which has resulted in a higher cross-selling ratio, better service and stronger ties with our clients.
 - *Federal Government Banking:* Through this segment we provide financial services to the federal government, productive state enterprises, decentralized entities (such as social security institutions and public trusts) and other entities at the federal level. Products and services offered include checking accounts, loans, cash management and payroll payment services. We also offer comprehensive advisory services on public finance to increase tax collections and control and manage expenses, and we prepare financial diagnoses to design adequate profiles for debt payment through a solid financial and legal structure, aiming to strengthen our clients’ financial condition and credit quality. Serving these institutions also allows us to cross-sell checking accounts, credit card services and loan products. As of September 30, 2024, our total federal government loan portfolio was Ps. 50,920 million, representing 4.6% of our total loan portfolio.
 - *International Banking:* Through this segment we offer products and services to our corporate and enterprise banking and SME clients to assist them with international trade needs, as well as providing correspondent banking services to foreign financial institutions. We have strategic agreements with financial institutions abroad, which allow us to offer highly competitive solutions and financial services to our clients, both locally and globally. Among the products and services offered to our import and export clients and to those with international or risk mitigation needs are letters of credit, documentary collections, banking guarantees, stand-by letters of credit, letters of credit financing, cross-border financing for import and export transactions, and international transfer services. We also provide specialized local banking services to foreign-based companies with operations in Mexico.

Our History

We were founded in 1899 as Banco Mercantil de Monterrey, with a strong regional presence in Northeastern Mexico, particularly in the metropolitan area of Monterrey, Nuevo León, one of the country's most important industrial centers.

Together with other Mexican commercial banks, Banco Mercantil de Monterrey was nationalized by the Mexican government in 1982. In 1986, Banco Mercantil de Monterrey merged with Banco Regional del Norte, another financial institution with headquarters in Monterrey, and became Banco Mercantil del Norte, *Sociedad Nacional de Crédito*. In 1987, under a Mexican government privatization initiative, the government sold approximately 34% of our capital stock to the Mexican public. In 1990, the Mexican Constitution was amended to allow the total privatization of Mexican commercial banks, and the government enacted the Mexican Banking Law, which provided for private ownership of Mexican commercial banks. The privatization of Mexican commercial banks began in 1991.

GFNorte, our parent company, was incorporated in 1992 under the name "Grupo Financiero AFIN, S.A. de C.V." ("AFIN") as part of the privatization process of the Mexican banking system. In 1993, our shareholders acquired AFIN through a stock-for-stock exchange. As a result of this exchange, we became a subsidiary of AFIN and AFIN changed its name to "Grupo Financiero Banorte, S.A. de C.V." GFNorte's common shares are publicly traded in the Mexican Stock Exchange (*Bolsa Mexicana de Valores, S.A.B. de C.V.*) and the Institutional Stock Exchange (*Bolsa Institucional de Valores, S.A. de C.V.*) under the ticker symbol "GFNORTEO."

The 1995 Mexican Peso crisis and the entrance of foreign institutions in Mexico prompted a consolidation of the Mexican banking system which resulted in the absorption of many smaller Mexican banks into larger institutions. In September 1997, we acquired Banco del Centro, S.A., Institución de Banca Múltiple ("Bancentro"), increasing our market share in the Central and Western regions of Mexico and adding 195 branches. In August 1997, GFNorte acquired 81% of the shares of Banpaís, S.A., Institución de Banca Múltiple ("Banpaís"), and in January 2000, we merged with Banpaís consolidating the banking activities of GFNorte under Banorte and enabling further expansion of our client base, geographical position and national coverage through the addition of 161 branches. In December 2001, GFNorte acquired Bancrecer, S.A., Institución de Banca Múltiple ("Bancrecer") and in September 2002 we merged with and into Bancrecer. The surviving entity was renamed "Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte."

In 2006, we expanded our operations into the United States, through the acquisition of Inter National Bank ("INB"), a regional bank based in Texas with primary presence in the Rio Grande Valley and headquartered in McAllen, Texas. We sold our equity interest in INB in March 2017. Also in 2006, we acquired UniTeller, a New Jersey-based remittances company, and in 2007 we acquired Motran, a money transfer company based in California.

In 2011, GFNorte merged with IXE Grupo Financiero, S.A.B. de C.V. ("IXE") in a stock-for-stock transaction. IXE conducted its business through its own subsidiaries, the largest one being Ixe Banco, S.A., Institución de Banca Múltiple, IXE Grupo Financiero ("IXE Banco"), a commercial bank in Mexico focusing on middle- and upper-income customers. In 2012, GFNorte expanded its pension fund manager joint venture, first through a merger with Afore XXI, S.A. de C.V. ("Afore XXI"), and later in 2013, with the acquisition of Administradora de Fondos para el Retiro Bancomer, S.A. de C.V. ("Afore Bancomer"), resulting in the largest pension fund manager in Mexico. On April 15, 2013 and May 7, 2013, IXE Banco and Fincasa Hipotecaria, S.A. de C.V., *Sociedad Financiera de Objeto Múltiple, Entidad Regulada* ("Fincasa"), IXE's specialized mortgage lender, received the authorization from the CNBV to be merged with and into us, with Banorte as the surviving entity. On May 2, 2017, we consolidated our credit card operations by merging our wholly-owned subsidiary Banorte-Ixe Tarjetas, S.A. de C.V., SOFOM, E.R. with and into the Bank.

On January 25, 2018, the Board of Directors of the Bank approved the spin-off of Banorte USA Corporation ("Banorte USA") and the subsequent investment of Banorte USA's assets, including the total shareholders' equity of INB Financial Corporation ("INBFC") and the total shareholders' equity of Uniteller Financial Services ("Uniteller FS") in Banorte Financial Services ("Banorte FS"). The spin-off and the transfer of these assets occurred in December 2018. This spin-off did not have any effect on our financial statements because the Bank consolidated both Banorte USA and Banorte FS as of December 31, 2018. Subsequent to the transfer of Uniteller FS and INBFC's assets to Banorte FS, on January 14, 2019, Banorte USA was liquidated.

On July 13, 2018, the merger of GFInter into our parent company, GFNorte, became effective. Subsequently, on the same date, Banco Interacciones, the banking subsidiary of GFInter, merged into the Bank. As a result of the Interacciones Merger, at the time we consolidated our position as the fourth largest bank in Mexico in terms of total assets, performing loans and core deposits, according to information published by the CNBV, and we strengthened our government lending business.

On September 1, 2020, Inmobiliaria Interdiseño, S.A. de C.V., Inmobiliaria Mobinter, S.A. de C.V., Inmobiliaria Interorbe, S.A. de C.V. and Inmobiliaria Interin, S.A. de C.V. were merged with and into the Bank, with the Bank as the surviving entity.

In 2024, GFNorte significantly expanded its global footprint and cross-border product capabilities through the acquisition of MORE, a leading cross-border payment provider based in Uruguay, with operations in eight other countries across South America, Europe, and Africa.

Market Opportunity

We believe that the credit market in Mexico offers potential for growth given the relatively low levels of access to banking services among the Mexican population, coupled with the country's young population, low levels of credit to the private sector and expected economic recovery.

The Mexican economy was the second largest in Latin America and the Caribbean in terms of GDP in 2023. The Mexican economy showed resiliency in spite of geopolitical tensions and a complex global environment, posting real GDP growth rates of 3.2% and 3.7% in 2023 and 2022, respectively.

In the second quarter of 2024, on a year over year basis, industrial production increased by 0.6%, the unemployment rate increased from 2.7% in the first quarter of 2024 to 2.8% in the second quarter. The Mexican Institute of Statistics and Geography (*Instituto Nacional de Estadística y Geografía*) ("**INEGI**") released its early estimate of quarterly GDP for the second quarter of 2024, providing for a positive rate of 0.2% (2.2% annualized) in comparison to the immediate previous quarter.

The combination of a low unemployment rate (2.8% in seasonally adjusted terms, as of August 31, 2024), an average increase of 3.7% in salaries in real terms during the year ended December 31, 2023 and core inflation (5.1% inflation rate, for the year ended December 31, 2023) has provided support to the economy through domestic demand. Mexico's favorable demographics further support the growth prospects in the financial sector. Mexico has the second largest population in Latin America and the Caribbean, and its young, economically active population is expected to expand considerably through 2030, further supporting the transition from the informal economy to the formal sector. According to INEGI, the informal economy represented 54.2% of the total employment as of the second quarter of 2024. Additionally, according to the World Bank, as of 2023, the domestic credit to private sector as a percentage of GDP in Mexico reached 33.3%, compared to 109.5% in Chile, 71.6% in Brazil and 194.9% in the United States. Mexico's low credit penetration represents a clear opportunity that has been reinforced by the government's efforts to increase access to bank lending and financial services in general in Mexico through the financial reform enacted in 2013.

Such stable macroeconomic environment and favorable country demographics, coupled with low credit penetration, has resulted in a healthy and consistent growth trend for the banking sector in Mexico in the last several years. According to CNBV data, Mexico's banking system has experienced loan growth of 5.9% compounded annual growth rate for the last four years from December 31, 2019 to December 31, 2023, with stable non-performing and Stage 3 loan ratios oscillating between 2.2% and 2.1%. The growth rate of total loans in the country has been supported by consistent growth in the deposit base, growing at 6.8% compounded annual growth rate from September 30, 2020 to September 30, 2024, allowing for a sound liquidity of the banking sector with loans-to-deposits ratios at 86.5% on average during this period. Such combination of loans and deposits growth has led to sustained attractive returns for the Mexican banking system, with an average ROAE of 18.6% and persistently above 3.1% from September 30, 2020 to September 30, 2024. The G-7 Mexican Banks represent over 81% of the average total loan portfolio and also over 80.5% of the average total deposits from September 30, 2020 to September 30, 2024. The ROAE for the G-7 Mexican Banks has been 16.5% on average from September 30, 2020 to September 30, 2024, and the average Total Net Capital for the same group has been at or above 18.8% from September 30, 2020 to August 31, 2024 (according to the CNBV and to the quarterly earnings release of each of these banks).

Mexico has been at the forefront in the implementation of a strong regulatory banking framework, which results in capitalization requirements, and alerts relating to such requirements, that are consistent with global standards. Mexico was one of the first countries in the world to implement Basel III rules. Unlike other countries that implemented or are in the process of implementing Basel III capitalization rules over the course of several years, the Mexican government took advantage of the strong capitalization levels of the Mexican banking system and required that all banks operating in Mexico adopt Basel III capitalization rules beginning in 2013. Moreover, in May 2016, the CNBV imposed additional capital requirements to certain D-SIBs, including us, and mandated the constitution of a Countercyclical Capital Supplement to further shield the Mexican banking system. Although Mexican banks were required to constitute and comply with these additional capital requirements over a period of four years, to be constituted in four equal parts in December of each year, on a cumulative basis, commencing on December 31, 2016, many of the banks, including Banorte, already fully complied with such capital requirements given their high capitalization levels. Mexican banks determined as D-SIBs under the TLAC Requirements must also comply with

minimum requirements for total loss-absorbing capacity and restoration of capital by December 2025, which may be comprised of Fundamental Capital or capital instruments (*instrumentos de capital*) pursuant to the Mexican Banking Law and the Mexican Capitalization Requirements, plus any other instruments that could be authorized in the future by Mexican Regulators under Mexican Law.

In June 2021, modifications to the capitalization rules were published, which require that D-SIBs must maintain a supplement (Net Capital Supplement) to the Total Net Capital, which must be additional capital necessary to comply with the Minimum Regulatory Capital Ratios, this in accordance with article 2 Bis 117 ñ of the General Rules Applicable to Mexican Banks. It is necessary for the Bank to implement this supplement to the Total Net Capital in four annual equal parts, beginning on December 31, 2022 and ending on December 31, 2025.

Currently, the minimum Capital Ratios to be classified as Class I (and, as a result, not Class II or below) generally applicable to any Mexican bank are the Minimum Regulatory Capital Ratios.

Competitive Strengths

We believe the following competitive strengths differentiate us from our competitors:

Deep Knowledge of the Mexican Market and Strong Brand Recognition

We are part of GFNorte, which was the second largest financial group in Mexico as of August 31, 2024 in terms of assets and loan portfolio, according to CNBV data. GFNorte has operated in the Mexican financial industry for 38 years under the “Banorte” brand name. We believe GFNorte’s long standing history in the Mexican market is recognized by our customers and the public, who associate GFNorte with quality and social responsibility within the Mexican financial industry, based on the various awards received by GFNorte.

From 2022 to 2024, GFNorte was recognized by Institutional Investor as “Most Honored Company in Mexico” and “Most Honored Company in Latin America (excluding Brazil).” GFNorte was also awarded Best CEO, Best CFO, Best IRO, Best IR Team, Best IR Program, Best ESG, and Best Company Board of Directors in 2023 and 2024. In addition, GFNorte was granted the “Best Corporate Governance in Mexico” award from 2021 to 2024 and the “Best Pension Fund in Mexico” award from 2021 to 2023 by World Finance. Euromoney awarded the “Best Service-Domestic, Trade Finance in Mexico” award to GFNorte in 2024.

Banorte was recognized by World Finance as “Best Retail Bank in Mexico” from 2021 to 2024 as well as “Best SME Bank” and “Best Bank in Mexico” by Global Finance from 2022 to 2025 and in 2024, respectively. The Banker granted us the “Bank of the Year Mexico” award in 2022 and we were also named “Mexico’s Best Bank for SME’s” by Euromoney in 2024. In addition, we were awarded “Best Mobile Banking App” and “Best Consumer Digital Bank” in Mexico in 2023 by World Finance and “Most Innovative Bank in Latin America” in 2024 by The Banker, highlighting our digital transformation efforts.

GFNorte has an in-depth knowledge of the Mexican market and local efficient decision-making processes that allow us to provide timely, specialized and comprehensive responses to our clients’ requests and rapidly adapt to changes in the Mexican banking sector. For instance, during the global financial crisis of 2008, while international groups retrenched to shore up capital, GFNorte seized the opportunity and filled the void by expanding its presence in Mexico. GFNorte focuses on providing comprehensive services to our clients through a multi-product, multi-entity strategy that seeks to meet all of its clients’ banking, insurance, retirement saving and brokerage needs.

GFNorte has consolidated itself as a leading player in commercial banking, asset management, insurance and annuities, and brokerage services in Mexico. We are able to do this as a fully integrated financial group. As of August 31, 2024, GFNorte had the largest retirement fund manager (*administradora de fondos para el retiro*) (“Afore”) in Mexico in terms of assets under management, with a market share of 19.3% of the pension system managed by Afores.

Leading Market Presence Across Core Businesses

We believe that our leadership position across our core businesses in Mexico allows us to offer a comprehensive suite of financial products and services to our customers, with access to a customer base of over 2,975 corporate clients and over 12.4 million individual customers as of September 30, 2024. This creates important synergies and efficiencies, as well as cross-selling opportunities.

Through the implementation of our organic growth strategy and acquisitions, we have transformed ourselves from being a regional bank with a 2.3% market share in terms of performing loans in 1992 to becoming the second largest bank in Mexico in terms of total assets, and the second largest in terms of performing loans (Stage 1 and Stage 2 loans for 2024) and

total deposits, with nationwide presence and a 14.7% market share of total loans as of September 30, 2024, according to the CNBV.

We are the second largest operator of POSs in Mexico (representing a market share of 15.7%), the second in ATMs (representing a market share of 17.2%) and the fifth in branches (representing a market share of 9.9%), according to the CNBV, as of August 31, 2024. As of the same date, we had a 22.9% market share of the government banking sector, the second largest in the Mexican banking system. As of the same date, we had a market share of 19.1% and 14.2% of mortgage loans and commercial loans, both of which represent the second largest share in the Mexican banking system.

Profitable Business Platform Supported by Prudent Risk-Management Practices

We believe that the successful implementation of our business strategy has allowed us to become one of the most profitable banks in Mexico. We have maintained solid financial performance, evidenced by the consistent net income yearly growth we have experienced in 43 out of 51 operating quarters (considering the period from January 2010 through September 2024). During the same period, we maintained a strong capitalization profile and continue to benefit from prudent risk management practices. We serve our customers through an extensive network of branches and ATMs, alternate channels and a contact center with differentiated products and services. Clearly identifiable customer segments in our Retail Banking operations allows us to offer services according to customer-specific profiles and usage channels. This has allowed us to develop and strengthen our banking relationship with our clients, as well as increase our profitability by improving efficiency and following a value-oriented approach.

The positive trend in our financial performance continued in 2023, as our net income (Controlling) increased by 21.4% as compared to 2022, while our ROAE and ROAA increased to 27.6% and 2.5%, respectively, in 2023 compared to 24.7% and 2.2%, respectively, in 2022. Our efficiency ratio decreased year-over-year from 41.1% in 2022 to 38.2% in 2023. As of December 31, 2023, we had Stage 3 loans to total loans ratio of 0.98% and a coverage ratio, defined as allowance for loan losses divided by total Stage 3 loans, of 187.4%. Recurring net income totaled Ps. 33,960 million (Controlling) in the nine-month period ended September 30, 2024, reflecting an increase when compared to the nine-month period ended September 30, 2023. In the third quarter of 2024, our ROAE increased to 29.0% and ROAA remained at 2.5% respectively. Our efficiency ratio 36.1% as compared to 35.8% for the corresponding period in 2023. As of September 30, 2024, we had Stage 3 loans to total loans ratio of 0.9% and a coverage ratio, defined as allowance for loan losses divided by total Stage 3 loans, of 181.8%.

We believe these ratios reflect our prudent risk management practices. We plan to maintain a balanced growth profile, emphasizing an efficient use of capital, prudent financial and operational risk management and efficient operations.

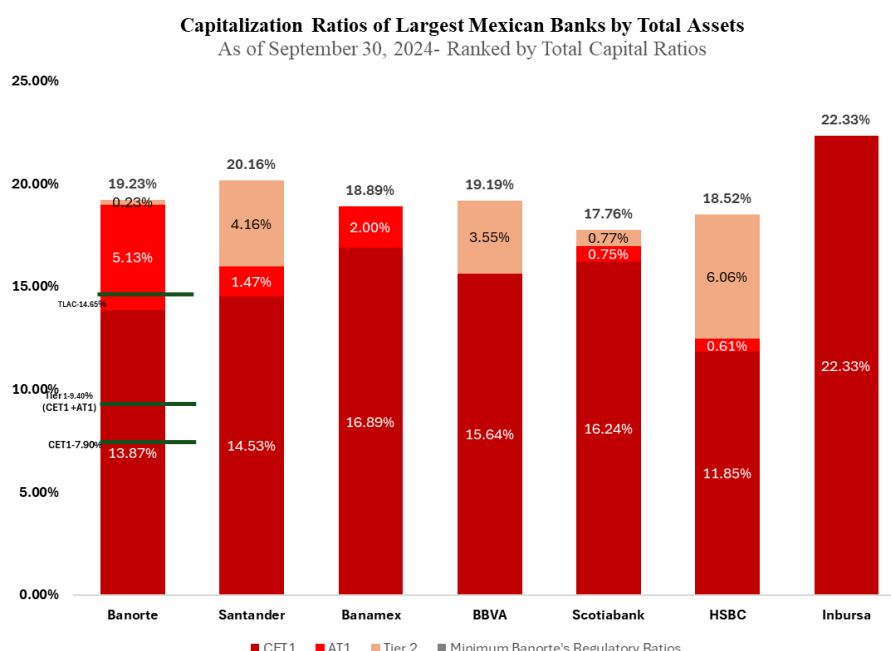
Strong Capital Base and Capitalization Ratios

We believe our capital base is strong, as shown by our Capital Ratios, which compare favorably to our peers in both capitalization levels and capital composition. As of September 30, 2024, our Fundamental Capital ratio was 13.87%, Additional Tier 1 Capital was 5.13%, and Total Net Capital ratio was 19.23%. As of August 31, 2024, our Fundamental Capital ratio ranked fourth, Additional Tier 1 Capital ranked highest, and Total Net Capital ratio ranked third among the G-7 Mexican banks, based on CNBV data.

Our Tier 1 Capital ratio was 19.00% as of September 30, 2024 and exceeded by 9.60% the 9.40% minimum required by Mexican banking regulations to be classified as a grade II D-SIB. In May 2016, given our status as a grade II D-SIB in Mexico, we were required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90%. We were required to implement and comply with these Capital Supplements in four equal parts in December of each year, on a cumulative basis, from December 31, 2016 through December 31, 2019. In May 2024, the CNBV ratified this requirement, confirmed the Bank as a grade II D-SIB and required us to implement an additional Countercyclical Capital Supplement, which we have estimated would correspond to 0.004%. Given our strong capital base, our Capital Ratios as of September 30, 2024 are well above such Capital Supplement requirements.

On June 18, 2021, an amendment to the banking regulation was published in the Official Gazette, which sets forth that D-SIBs shall maintain an additional Net Capital Supplement that must be in addition to the minimum required Total Net Capital ratio and Capital Conservation Buffer. The new Net Capital Supplement will correspond to the greater of 6.5% of the total risk weighted assets and 3.75% of the adjusted assets, calculated according to the leverage ratio. The supplement will have a deferred implementation over a period of four years considering 25% of the total supplement per year, starting on December 2022 and ending with 100% of the total supplement by December 2025. As of the date of this offering memorandum, 50% of the Net Capital Supplement is required. For purposes of this offering memorandum, we have assumed that the applicable Net Capital Supplement of the Bank will be calculated based on the 6.5% of the total risk weighted assets as of each of December 31, 2024 and December 31, 2025.

The chart below presents the Capital Ratios for our main competitors by total assets as of September 30, 2024, ranked by Total Capital Ratio.



Source: Each bank's quarterly release

The tables below set forth the liquidity ratios and leverage ratios of the largest Mexican Banks as of September 30, 2024, as reported by these institutions in their quarterly earnings releases. For Banorte, as of September 30, 2024, the liquidity ratio was 156% and leverage ratio was 10.40%:

	Minimum Ratios	As of September 30, 2024					
		Banorte	Santander	BBVA	Banamex	HSBC	Scotiabank
Liquidity Ratios:							
Liquidity Coefficient Ratio (average)	100%	156%	176%	141%	220%	147%	171%

Source: Each bank's quarterly release

	Minimum Ratios	As of September 30, 2024					
		Banorte	Santander	BBVA	Banamex	HSBC	Scotiabank
Leverage Ratios:							
Leverage Ratio.....	3%	10.40%	8.08%	10.60%	9.92%	7.61%	8.88%

Source: Each bank's quarterly release

As of September 30, 2024, we reported a Net Stable Funding Ratio of 132%, calculated as total available stable funding divided by the total required stable funding a result that is above the minimum regulatory requirement of 100%.

Expanding Business Platform with a Focus on Customer-Oriented Multi-Channel Banking

We have made significant investments to develop what we believe is one of the broadest integrated financial services platforms in Mexico. Between January 1, 2013, and August 31, 2024, we increased the number of ATMs and POSs by 68.3% and 124.1%, respectively, reaching a total of 10,968 ATMs and 218,024 POSs, ranking second in number of ATMs and in number of POSs in the Mexican banking system. During the same period, we implemented a series of branch consolidations to improve efficiency, ranking third in terms of market share for number of branches. In addition, we have developed electronic distribution channels, such as *Banorte por Internet* and *Banorte Móvil*, which we believe are more cost-effective than traditional physical banking channels and provide a high degree of flexibility and convenience to our customers. As of September 30, 2024, we had approximately 7.0 million active internet banking customers and around 6.5 million of our customers utilized *Banorte Móvil*. We also consider ourselves to be pioneers in offering banking services through third parties in Mexico, reaching a total of 19,500 additional contact points as of September 30, 2024.

Over the years, we have moved from a product-oriented to a customer-oriented business approach. We believe our new focus provides us with more value by generating opportunities and providing our clients with more customized services. In 2013, we entered into a strategic agreement with IBM de México, Comercialización y Servicios, S.A. de C.V. (“IBM”), which allows us to further align our information systems with our customer-oriented business philosophy and benefit from increased cross-selling opportunities and a better overall experience for our customers.

Organic Growth and Successful Integration of Acquisitions

Our organic growth has been complemented with focused strategic and transformational acquisitions that have strengthened our market position across our different lines of business. Since 1996, we have consummated over 15 mergers and acquisitions, which have expanded our geographic reach and complemented our product portfolio and the quality of our professionals. We believe this demonstrates our track record of successfully integrating acquisitions into our platforms and our expertise in deriving important scale and efficiency benefits from acquired assets and businesses. Our acquisition strategy has traditionally been centered on:

- assets and businesses that are aligned with our business model and growth strategy;
- transactions that are accretive to earnings;
- operations that offer potential for significant synergies; and
- transactions with limited integration risk and disruption to our business.

Track Record of Product Innovation

We have a history of innovation and new product development that has been instrumental to our growth and competitive position. We have been leaders in the development of the banking sector in Mexico through new product launches. For instance, we introduced a 100% digital mortgage product, providing customers and collaborators full visibility of each stage of the process. Our Banorte mobile app offers streamlined authorization for auto loans, and we have further expanded our digital offerings with highly user-friendly products that can be accessed entirely online within minutes. These include checking accounts, credit cards, payroll loans, and investment funds, allowing customers to select funds based on their risk profiles. Additionally, we provide a wide range of life, protection, and medical insurance options, enabling customers to customize their protection level and additional coverages.

In June 2019, we finalized an agreement with Payclip, Inc. to strengthen our existing business alliance and continue to work together on our digital strategy and technology innovation. Through this alliance, we seek to bring important payment method innovations to the Mexican market and offer our customers easy-to-use, personalized and cutting-edge products.

Among our innovations has been the replacement of the debit card outside the branch through bank correspondents 365 days a year and the withdrawal of cash without a card not only in the Banorte ATM network but also with the bank correspondents.

In 2023, we generated the first hyper-personalized offers using automation of analytical and risk models and the generation of images and messages through AI. This has allowed us to generate personalized offers for each customer in real time and in a contextual way, generating a greater bond with the customer.

Our recent investments in artificial intelligence and automation are driving substantial improvements in customer experience and operational efficiency. For example, we believe that “Maya”, our virtual assistant that serves more than two million messages per month, strengthens our position as a leader in AI and significantly improves the customer experience.

In 2024, Banorte has continued to implement AI-based technology that automates the review of foreign trade documents, reduces processing times and human errors, improves operational efficiency and our response capacity in international trade operations.

At the beginning of 2024 Bineo started its pilot-operation as a 100% owned subsidiary of Grupo Financiero Banorte, becoming the second licensed bank within the financial group, along with Banorte. It is aimed to become the first 100% digital, branchless, and cloud-based bank in Mexico oriented to young professionals, freelancers and unbanked individuals looking for digital financial services. Bineo’s digital focus caters to evolving consumer preferences, providing a seamless and user-friendly banking experience and tailored financial solutions. We believe that this initiative will expand GFNorte’s customer base, as well as enhance customer loyalty by addressing their needs in the digital age.

Experienced Leadership and Effective Governance

Our operations are supported by an experienced management team. Our senior management team has, on average, 19 years of experience with us and more than 27 years of experience in the financial services industry. In recent years, our management team has integrated multiple large-scale acquisitions and improved our competitive position, including throughout the global financial crisis, to become the third largest bank in Mexico in terms of total assets, generating significant profitability while maintaining effective risk management and a merit-based corporate culture that permeates all levels of our organization. As a consequence of these acquisitions, key employees of acquired companies have remained with our organization, adding to our team's knowledge and expertise. We are also focused on attracting, developing and maintaining highly qualified personnel.

In addition, our Board of Directors is composed of a majority of independent directors (currently 61.5%), which ensures collegial decision-making for the benefit of our stakeholders. We also have several supporting committees, including an audit committee and a risk policies committee, each chaired by directors with recognized experience, the chairman of the audit committee being independent. The board composition also seeks to align with ESG standards, striving towards adequate gender diversity which currently stands at 15%. Similarly, our Board of Directors must constantly line up with GFNorte's strategy. Our corporate governance model not only complies with applicable standards but seeks to apply best practices used in world-class organizations. Over the last several years, we have taken important steps to further improve leadership and governance at all levels of our organization.

Strategy

As part of our short- to medium-term strategy, we intend to:

Selectively Increase Our Market Share

We have been able to increase our market share in banking products in a competitive environment. Our market share in total loans and deposits has increased from 7.7% and 6.6%, respectively, as of December 31, 2000, to 14.7% and 14.1%, respectively, as of September 30, 2024. We intend to focus on increasing our market share in certain targeted segments through the following initiatives:

Expand Our Payroll Loan Business

We are enhancing the use of distribution channels, such as ATMs, mobile devices and internet banking to increase the origination of payroll loans in Mexico. As of September 30, 2024, we had a 20.9% market share of payroll loans in Mexico according to the CNBV. We also intend to continue to develop specialized sales forces, telemarketing efforts and *Banorte Visita*, through which we have more direct contact with companies in order to increase the channels through which we originate payroll loans. We intend to focus on cross-selling and same-time origination by encouraging customers to open payroll accounts when they request a loan and vice-versa. We intend to leverage our central customer repository ("CCR") database to better target our potential payroll loan customer base. Finally, we intend to continue to determine fees and pricing for our payroll loans based on thorough risk assessment models in order to maximize profitability.

Expand Our Credit Card Business

We have enhanced our fees and risk-based pricing strategy, improved our underwriting standards, implemented cross-selling initiatives in response to market demand and developed new sales channels to increase credit card issuance. We believe we have an opportunity to increase our market share in this segment through further product penetration of our existing banking customers.

We issue personal credit cards (associated with both MasterCard and Visa) and offer the following products to our customers depending on their needs: *Banorte Básica*; *Banorte Fácil*; *Banorte Clásica*; *Banorte Oro*; *Tarjeta de Crédito Mujer Banorte*; *Banorte Pachuca*; *Banorte Platinum*; *Banorte Infinite*; *Banorte Empresarial*; *Tarjeta 40*; *Ixe Clásica*; *Ixe Oro*; *Ixe Platino*; *Ixe Infinite* and *Banorte Por Ti*. We also have two credit cards which are co-branded with United Airlines, the Platinum and Universe – Infinite. In addition, we offer various rewards programs for our credit card holders.

Our market share in the Mexican credit card segment was 10.2% as of September 30, 2024, according to the CNBV. As of September 30, 2024, we had 2,566,059 credit cards outstanding, an increase of 565,979 or 28.3% from 2,000,080 from September 30, 2022, with a Stage 3 loan ratio of 4.7% and 4.1%. We believe we can increase our credit card market share in the medium-term while maintaining prudent underwriting practices and monitoring our credit quality ratio through more active marketing and promotions to current customers. We believe we could increase our market share in the credit card segment to a level consistent with our market share in other products such as Stage 1 and Stage 2 loans and deposits.

Expand Our Car Loan Business

We are expanding our car loan business to customers with lower credit risk by increasing our presence at car dealerships and expanding our business partnerships with automobile manufacturers and distributors in Mexico. As of September 30, 2024, our market share on car loans was 18.0% according to the CNBV, excluding financings by automobile manufacturers against whom we compete in this business. We also believe that, given the expected contraction in GDP in Mexico, the automobile sector, and consequently the automobile loan business will not experience growth in the coming years.

Increase Our Mortgage Originations

We offer long-term mortgage financing for individuals and families acquiring houses or apartments. Such financings are generally secured by the purchased property and are denominated in Pesos with fixed interest rates for the entire life of the mortgage. The term of a mortgage ranges from five to twenty years for financing of up to 90% of loan-to-value. We offer financings exclusively for residential mortgages. Other products we offer include home equity; home improvement; construction; land acquisition; and construction and land acquisition. For the nine-month period ended September 30, 2024, we originated 14,745 mortgages, and the aggregate outstanding balance due from our mortgage loan portfolio at the end of such period was Ps. 268,807 million. For the year ended December 31, 2023, we originated 22,724 mortgages, and the aggregate outstanding balance due from our mortgage loan portfolio at the end of such year was Ps. 255,315 million, compared to Ps. 228,797 million for the year ended December 31, 2022.

The current average of the initial amounts of our mortgage loans is Ps. 2.6 million. We also have the lowest delinquency rate among the G-7 Mexican Banks with 0.76% as of September 30, 2024. We plan to continue to attract customers from these segments by providing high-quality service and quick approval response times, offering financings for purchases, refinancing and real estate improvements.

Strengthen Our Relationships with Government Entities and Their Employees

We intend to strengthen our relationship with Mexican federal, state and municipal governmental entities, which, as of September 30, 2024, together comprised 15.0% of our total loan portfolio. We see an opportunity to cross-sell other products and services to government employees, whose low levels of staff turnover minimize the risk of non-payment. This opportunity to cross-sell was enhanced by the merger with Banco Interacciones, whose government lending business complemented our successful federal government banking operation. The suite of products and services we offer to government entities includes checking and payroll deposit accounts for employees, cash management services, payment of money orders, trust services, financings, investments and tax bill collection services, which are available through all of our branches as well as through our websites and ATMs. In addition, we believe that developing our relationships with government entities will provide us with access to a broader customer base to whom we can market our retail products and services, such as credit cards, payroll loans and mortgage products. We believe that this sector provides us with cross-selling and attractive return on equity opportunities.

Emphasize Multi-Channel Distribution Capabilities

Our customer-oriented business model emphasizes a multi-channel banking strategy aimed at more effectively reaching our target customer segments. We seek to implement this strategy by understanding the channels used by our diverse customer base and by leveraging each channel effectively to generate cost efficiencies. For example, for our broader customer base, we expect to leverage internet and mobile banking as well as our correspondent banking through different initiatives. The use of the internet to research and apply for personal loans, car loans, mortgage loans and credit cards is commonplace today. Our emphasis on multi-channel distribution is aligned with our paperless initiative, which was fully implemented by the end of 2019. In the last years the number of mobile banking transactions has increased.

For instance, Banorte Go is an add-on to Banorte Móvil, our mobile banking platform. Banorte Go allows our customers to check their account balances, transfer funds and make payments among users of Banorte Móvil through social media mobile applications or any mobile application where an alphanumeric keyboard is used without the need to login to the Banorte Móvil mobile application. This allows users to enjoy the benefits of our mobile banking capabilities without having to exit their favorite mobile application.

We intend to continue to develop new specialized sales forces and telemarketing efforts, and to use “*Banorte Visita*” in order to increase the channels through which we originate payroll loans. In addition, we have steadily increased the number of our ATMs, which has resulted in a 17.2% market share as of August 31, 2024, according to the CNBV.

Enhance Our Customer-Oriented Business Model

We seek to strengthen our customer-oriented organizational model, focusing on customer segments instead of product segments, optimizing and consolidating processes per business instead of per product and investing in information technology (“IT”) infrastructure. We intend to stay connected with our customers and devote resources to learning more about their needs and expectations through banking relationships. Our strategic agreement with IBM is aimed at helping us increase our knowledge of our customers by creating a CCR database that consolidates all available customer information, enabling us to gain deeper insight into ways to build more loyal and profitable customer relationships. Our strategic agreement with IBM has redesigned business processes and applications around customer segments instead of around products and developed IT infrastructure to support these new processes.

We intend to improve our customers’ experience through the implementation of internal working groups known as “Cells”. This method of organization allows us to streamline connectivity between individuals within our internal structure and focus on the needs of our clients.

We believe this IT platform, which will allow us to manage large transaction volumes, will further improve the quality of service and segmentation as well as cross-selling, which will drive revenue increases, higher loyalty, cost efficiencies and increased profitability.

In June 2021, we also entered into a multi-annual strategic agreement with Google Cloud that we believe will accelerate the digital transformation of our business. The key initiatives that we expect to implement through this strategic partnership include the following:

- Modernization of Banorte’s IT environment, leveraging Google’s cloud technology to improve applications, infrastructure, and databases, thus gradually driving towards cost efficiency with the well-known flexibility and scalability offered by Google’s operation.
- Cybersecurity centered on threat detection.
- Intensive use of data analysis together with Artificial Intelligence, which we expect will enable hyper-personalized experiences, as it will deepen our understanding of our customers’ needs.
- Open Banking app development and new digital services.
- Knowledge sharing and strengthening of innovative culture. We expect that collaboration between Banorte and Google will offer continued learning and development opportunities to our employees and GFNorte’s employees and will promote innovative solutions aimed at creating the best customer experience.

Expand Our Digital Presence and Promote Financial Inclusion and Bancarization

We are committed to continuing our digital transformation and have paved the way for the digitalization and personalization of our product offerings in recent years. During 2021, we entered into a strategic alliance with Google Cloud as a streamlining tool, which we believe will benefit our clients with a personalized design featuring the next generation of products and services, accelerating the offering of highly customized banking solutions. We believe that data-driven services, leveraged by social networks and a broad-range of technology offerings will allow us to create and maintain long-lasting relationships through a value-added proposition focused on our clients’ specific needs and priorities.

We aim to consolidate our position as a digital player in the financial services industry with a fully digital offering, which we believe is fundamental to the bancarization process in Mexico. For instance, in our efforts to provide access to individuals in underserved markets and promote financial inclusion across Mexico, we partnered with CLIP in 2019, a leading digital payments and commerce platform in Mexico, to allow SMEs to access banking products. Through this partnership we aim to bring significant payment innovations to the Mexican market, while offering our clients friendlier, customized and cutting-edge products.

GFNorte made equity investments in Tarjetas del Futuro, S.A.P.I de C.V. (“Tarjetas del Futuro”) for a total amount of Ps. 1,135 million, which represents a 4.99% equity interest in its capital stock, the acquisition generated goodwill of Ps. 146 million, and through this acquisition it obtained control of Tarjetas del Futuro, and as of December 2023 it consolidates its financial statements with those of GFNorte. Tarjetas del Futuro is the company that issues and markets the RappiCard credit card product.

Alignment with Environmental, Social, Governance (ESG) Principles

The sustainability committee meets three times a year. Banorte has a series of principles, procedures, policies and standards that establish guidelines to be followed in regard to ESG matters. In addition, beginning in 2022, the Sustainability Committee has met semiannually. The committee is made up of twelve C-suite executives and a representative of our internal audit department. Its functions include the development of GFNorte's sustainability strategy and action plan, as well as consistent monitoring of ESG performance. Governance, sustainability projects for the financial group are executed through four cells or multidisciplinary working groups, ensuring their follow-up and implementation.

Banorte's sustainability strategy is based on a model that incorporates Environmental, Social and Corporate Governance pillars, and a central pillar called Sustainable Finance, which aims to synergize ESG principles with the overall business strategy. Each one contemplates a range of topics that are prioritized according to a materiality matrix, which is upgraded every two years. Topics include:

- Environmental: Environmental Awareness, Operational Efficiency and Climate Change. We also deal with Nature & Biodiversity topics.
- Social: Human Rights, Diversity and Inclusion, Gender Equality, Education and Financial Inclusion, Corporate Citizenship and Human Capital.
- Governance: Corporate Governance, Stakeholders, Ethics and Accountability, Risk Management, Information Security Technology and Innovation.
- Sustainable Finance: Socio-Environmental Risk Management in Lending Portfolios, Responsible Investment, Sustainable Insurance and Sustainable Financial Products.

The Bank is also aligned with different national and international initiatives that together form a framework representing the best global sustainability practices. Some of the key initiatives in the financial sector to which Banorte is a signatory include the Equator Principles (2012), the Principles for Responsible Investment (2017), the Principles of Responsible Banking (2019), and the Net-Zero Banking Alliance (commitment to decarbonize our loan portfolio by 2050), in which it is also a member of the Steering Group. Moreover, Banorte is part of the Steering Group of the Taskforce on Nature-related Financial Disclosures ("TNFD") and we are committed to starting reporting under TNFD guidelines from 2025 onwards.

The Bank is dedicated to adopting and implementing global best practices in sustainability, drawing on frameworks and standards from the Global Initiative Report, the UN Global Compact, the Carbon Disclosure Project, IPC Sustentable, Empresa Socialmente Responsable, the Natural Capital Declaration, and the Equator Principles. Additional commitments include participation in the GEI2 Programme Mexico, the UNEP Finance Initiative, the Dow Jones Sustainability Index MILA, the Sustainability and Corporate Social Responsibility Committees of the Mexican Banks Association, the STOXX ESG Leaders Index, the Euronext Vigeo Emerging Markets 70, the FTSE4Good Emerging Index, the Bloomberg Gender Equity Index, and the Principles for Responsible Investment, among others.

Banorte has decarbonizations targets for eleven sectors of its loan portfolio and offers sustainable products such as a green auto loan for hybrid or electric vehicles, as well as a green mortgage for EDGE or LEED certified buildings.

In addition to these initiatives, Banorte provides financial education programs and workshops for its clients and was recognized for Best Corporate Governance by World Finance in June 2024. As part of its dedication to global best practices, the Bank offers loans for SME-led women entrepreneurs.

Increase Wallet-Share Penetration with Corporate and SME Customers

We have developed a role as a "relationship banker" for our corporate and SME customers by offering a variety of transactional banking and investment banking products through our network of regional service centers dedicated to these customers. Our transactional banking team intends to offer liability management solutions in the foreign exchange markets as well as cash management services to support our customers' international operations. Our investment banking team intends to offer a full range of services in advisory and capital markets transactions.

Continue to Increase Our Profitability

We intend to continue increasing profitability based on the following initiatives:

Improve the Profitability of Our Branches and Optimize Cost Efficiencies

We seek to improve the profitability of our branches by:

- increasing loan origination, particularly in the areas of consumer loans, mortgage loans and credit cards;
- diversifying deposit base by increasing the volume of core deposits in order to achieve a lower cost of funding, based on our wide network of branches;
- increasing non-interest income through the offering of services and using cross-selling efforts;
- implementing continuous cost reduction initiatives, such as streamlining our senior management structure as well as headcount reduction; and
- channeling less value-added transactions to online and mobile services.

We will continue to review the profitability of our branch network in order to determine its optimal size and identify non-profitable units.

A central strategy to improving our cost efficiencies is to lower our IT and operational costs as a result of our customer-oriented business model. Another source of efficiency is to reduce personnel and administrative costs, as a result of rationalization efforts that are continuously implemented. For the nine-month period ended September 30, 2024, our efficiency ratio was 36.1%, as compared to 35.8% for the corresponding period in 2023, 38.2% for the year ended December 31, 2023 and 41.1% for the year ended December 31, 2022.

Promote Synergies Within the GFNorte Group

We intend to increase our market share and profitability by increasing cross-selling of services and products among our customers and customers of GFNorte's other subsidiaries. We have introduced processes that facilitate our ability to offer additional financial services to our customers and those of GFNorte's other subsidiaries, with an emphasis on service and innovation. We cross-sell consumer loan products, credit cards and mortgages to our checking and savings account customers and to GFNorte's insurance and pension fund customers. We also plan to continue improving synergies and efficiencies within GFNorte's other subsidiaries.

Increase Our Non-Interest Income

Our non-interest income is comprised primarily of commissions and fees, income from trading and foreign exchange activities, income from advisory activities, income from trust activities and income from recovery bank activities. Increasing fee income is a central component of our business strategy. Subject to applicable law and to prevailing market conditions, we seek to increase our fee income by:

- continuously reviewing the fees associated with our products and services in order to find new opportunities or to adjust to market conditions and practices;
- increasing our cross-selling efforts within the GFNorte group;
- promoting the use of technological and electronic payment methods, as well as mobile and internet banking;
- establishing new relationships with businesses generating high volume point-of-sale transactions; and
- optimizing customer profitability by increasing fees and reducing transactional costs to low-value customers and increasing cross-selling within the affluent customer base.

Increase Our Efficiency

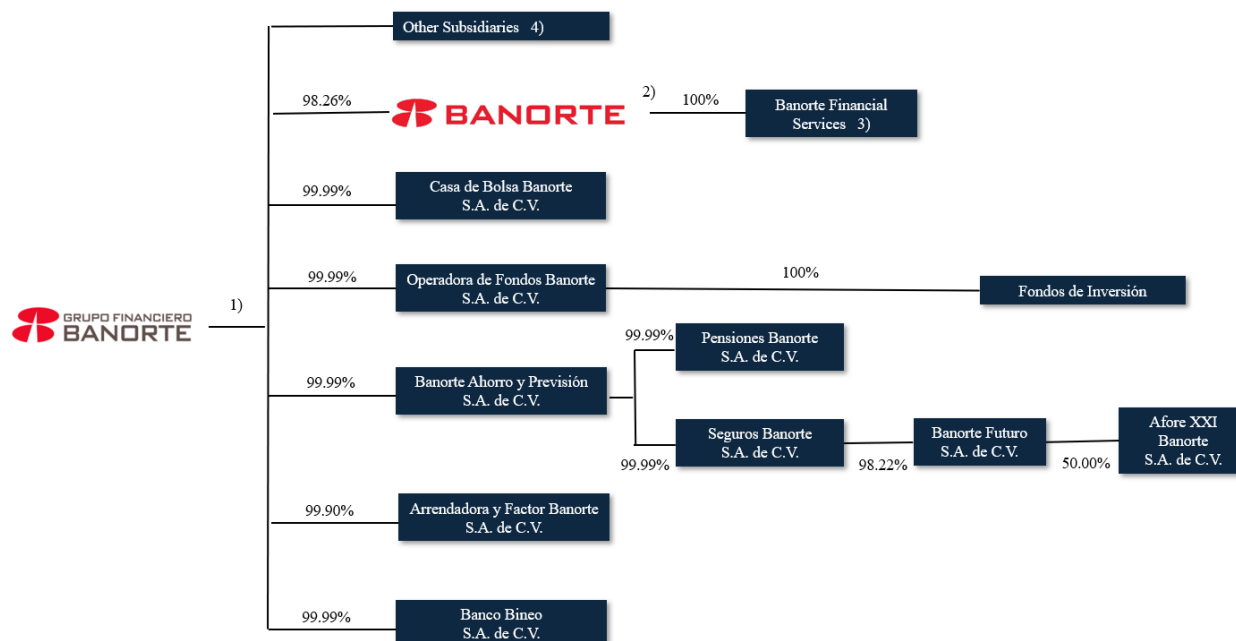
We expect that our strategic mergers contribute to streamline our corporate government and management processes. The statutory merger between Sólida Administradora de Portafolios, S.A. de C.V., SOFOM, E.R., Grupo Financiero Banorte, as merging and subsisting entity and Arrendadora y Factor Banorte, S.A. de C.V., as merged entity became effective on July 1, 2020. The merging entity changed its name to that of the merged entity. This structure has improved the expense management, costs of funding and use of capital.

Principal Offices

Our registered office is located at Avenida Revolución 3000, Colonia Primavera, Monterrey, Nuevo León, México 64830, and the telephone number at this office is +52 (81) 83-19-65-00. Our corporate headquarters are located at Prolongación Paseo de la Reforma 1230, Cruz Manca, Santa Fe, Cuajimalpa, 05349, Mexico City, Mexico.

Our Ownership Structure

The following chart presents our ownership structure, indicating our principal shareholder, affiliates and our principal subsidiaries as of the date of this offering memorandum.



(1) Grupo Financiero Banorte, S.A.B. de C.V. (Market Capitalization of Ps.402 billion).

(2) The Notes will be issued by Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, acting through its Cayman Islands Branch.

(3) Subsidiaries of Banorte FS include UniTeller FS (which includes UniTeller México, S.A. de C.V., UniTeller Filipino Inc., UniTeller Card Services Inc., UniTeller Canada ULC, Servicio UniTeller, Inc. UniTeller Guatemala, S.A. and Cronion, S.A., Giros Uruguay, More Uruguay, More USA, More Paraguay; More España; More Chile; More Argentina, MMT USA; More Brasil, More Senegal, MOMY Holdings, Xcard, MGPE and MPECC) and INBFC.

(4) "Other Subsidiaries" includes Almacenedora Banorte, S.A. de C.V., and Fundación Banorte, A.B.P.

As of September 30, 2024, GFNorte's main subsidiaries contributed to its Net Income Controlling as follows:

- We contributed 78.6% of GFNorte's Net Income Controlling;
- Operadora de Fondos Banorte, S.A. de C.V., Sociedad Operadora de Fondos de Inversión, Grupo Financiero Banorte, contributed 1.5% of GFNorte's Net Income Controlling;
- Seguros Banorte, S.A. de C.V. together with Pensiones Banorte, S.A. de C.V. contributed 15.1% of GFNorte's Net Income Controlling;
- Arrendadora y Factor Banorte, S.A. de C.V. contributed 1.4% of GFNorte's Net Income Controlling, and
- Afore XXI Banorte, S.A. de C.V. represented 2.3% of GFNorte's Net Income Controlling.

Recent Developments

Multi Securities Program and Recent Issuances of Indebtedness

On December 2023 we obtained the authorization from the CNBV to establish a multi securities shelf registration for a total amount of Ps. 70 billion, under which we may from time to time issue long term notes denominated in any currency. The Notes to be issued under such program may comprise (i) debt certificates (*certificados bursátiles bancarios*), (ii) structured debt certificates (*certificados bursátiles bancarios estructurados*), (iii) bank bonds (*bonos bancarios*), (iv) structured bank

bonds (*bonos bancarios estructurados*), and (v) certificates of deposit (*certificados de depósito bancario de dinero a plazo*). The notes are admitted to trading on the Mexican Stock Exchange (*Bolsa Mexicana de Valores, S.A.B. de C.V.*).

On February 19, 2024, we issued three tranches of green and social debt certificates in the form of *certificados bursátiles* in the local market in an aggregate principal amount of Ps. 13.1 billion. Under the terms of the offering, which was the first issuance under the multi securities program, the first tranche's issuance, Banorte 24X, was for an aggregate amount of Ps. 4.2 billion at a floating interest rate (*TIIE de Fondeo*), plus a spread of 33 basis points, due in February 2028; the issuance of the second tranche, Banorte 24-2X, was for an aggregate amount of Ps. 3.6 billion at a fixed rate of 9.74 percent, due in February 2031; and Banorte 24UX, was for an aggregate amount of Ps. 5.2 billion, at a fixed real rate of 4.90 percent, due in February 2034.

Funding TIIE (TIIE de Fondeo)

On April 13, 2023, the Mexican Central Bank published in the Official Gazette (i) Official Letter 3/2023 (*Circular 3/2023*) addressed to Credit Institutions and regulated multiple purpose financial institutions, related to the amendments to Official Letter 14/2007 (*Circular 14/2007*) and (ii) Official Letter 4/2023 (*Circular 4/2023*) addressed to Credit Institutions, regulated multiple purpose financial institutions that maintain equity links with Credit Institutions and the Rural Financing Public Institution (*Financiera Nacional de Desarrollo Agropecuario, Rural, Forestal y Pesquero*), regarding the amendments to Official Letter 3/2012 (*Circular 3/2012*), in order to consider the recommendations of the Financial Stability Board, the Basel Committee on Banking Supervision and the International Organization of Securities Commissions, by establishing the transition from the TIIE for terms exceeding one banking business day to the Funding TIIE (*TIIE de Fondeo* - i.e., to the TIIE for terms of one banking business day), as well as the dates as of which the use of the TIIE in local currency for terms exceeding one banking business day will be restricted as a reference for new transactions.

As per the second and third transitory articles of the Official Communication 3/2023, respectively, (i) as of January 1, 2024, financial institutions that enter into new financing agreements shall refrain from using as reference interest rate TIIE for 91 and 182-day terms; however, financial institutions may continue using 91-day and 182-day term TIIE as published by the Mexican Central Bank only for such loans granted before January 1, 2024 up until the maturity of such loans, and (ii) from January 1, 2025, financial institutions that enter into new loans or similar financing agreements shall refrain from using as reference interest rate TIIE for 28-day terms; however, financial institutions may continue using 28-day term TIIE as published by the Mexican Central Bank only for such loans granted before January 1, 2025 up until the maturity of such loans. For this purpose, Mexican Central Bank will continue to publish the TIIE at 28, 91 and 182 days, but these rates will be determined based on a new methodology, which will no longer be based on a survey.

Amendments to the General Rules Applicable to Mexican Banks

On April 17, 2023 the General Rules Applicable to Mexican Banks were amended in order to, among others, (a) strengthen the provisions that limit the maximum loss to a counterparty or group of interconnected counterparties that, due to their size, could jeopardize the solvency and continued operation of credit institutions and, therefore, avoid the possible dispersion between local or global systemically important banking institutions, (b) establish measures that allow credit institutions to identify and control the levels of concentration of exposures to counterparties or group of counterparties that could be related to each other to assess and limit the maximum loss that such institutions could have in case of insolvency of the respective counterparties or group of counterparties, (c) consolidate exposures for common risk groups that include those assumed for the financial subsidiaries of the debtors, by establishing new maximum funding limits, including a specific limit for risk groups associated with local or global systemically important banking institutions (see "*Supervision and Regulation—Lending Limits.*"), and (d) regulate a standardized and homogeneous treatment in the deduction of regulatory capital for computation purposes, in terms of international best practices, providing entries for prepayments and deferred charges with a term of more than, or equal to, twelve months.

THE OFFERING

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the Notes of each series, see “Description of the NC6.5 Notes” and “Description of the NC10.5 Notes” in this offering memorandum.

Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, acting through its Cayman Islands Branch.
Notes	NC6.5 Notes: 8.375% Perpetual 6.5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes; and NC10.5 Notes: 8.750% Perpetual 10.5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes.
Principal Amount	NC6.5 Notes: U.S.\$750,000,000; and NC10.5 Notes: U.S.\$750,000,000.
Interest	NC6.5 Notes: Interest on the NC6.5 Notes will be due and payable at the Bank’s sole discretion and the Bank shall have sole and absolute discretion at all times and for any reason to cancel any interest payment (in whole or in part) that would otherwise be payable on any Interest Payment Date. See “— <i>Interest Payments Discretionary and Non-Cumulative</i> ” below. Subject to a prior redemption and/or one or more Write-Downs (as defined below), the NC6.5 Notes will bear interest on the then Current Principal Amount (as defined below) from time to time outstanding from and including the Issue Date, to (but excluding) the NC6.5 First Call Date, at an initial fixed rate <i>per annum</i> equal to 8.375%. Interest, to the extent paid, shall be paid from amounts maintained in the Bank’s net retained earnings (<i>utilidades netas acumuladas</i>) account. Subject to a prior redemption and/or one or more Write-Downs, the NC6.5 Notes will bear interest on the then Current Principal Amount from time to time outstanding from and including each NC6.5 Reset Date, including the NC6.5 First Call Date, to (but excluding) the next succeeding NC6.5 Reset Date, at a fixed rate <i>per annum</i> equal to the sum of (a) the Treasury Yield (as defined in “ <i>Description of the NC6.5 Notes —Interest</i> ”) and (b) 407.2 basis points (rounded to two decimal places, with any value equal to or lesser than 0.005 being rounded down). NC10.5 Notes: Interest on the NC10.5 Notes will be due and payable at the Bank’s sole discretion and the Bank shall have sole and absolute discretion at all times and for any reason to cancel any interest payment (in whole or in part) that would otherwise be payable on any Interest Payment Date. See “— <i>Interest Payments Discretionary and Non-Cumulative</i> ” below. Subject to a prior redemption and/or one or more Write-Downs (as defined below), the NC10.5 Notes will bear interest on the then Current Principal Amount (as defined below) from time to time outstanding from and including the Issue Date, to (but excluding) the NC10.5 First Call Date, at an initial fixed rate <i>per annum</i> equal to 8.750%. Interest, to the extent paid, shall

be paid from amounts maintained in the Bank's net retained earnings (*utilidades netas acumuladas*) account.

Subject to a prior redemption and/or one or more Write-Downs, the NC10.5 Notes will bear interest on the then Current Principal Amount from time to time outstanding from and including each NC10.5 Reset Date, including the NC10.5 First Call Date, to (but excluding) the next succeeding NC10.5 Reset Date, at a fixed rate *per annum* equal to the sum of (a) the Treasury Yield (as defined in "*Description of the NC10.5 Notes —Interest*") and (b) 429.9 basis points (rounded to two decimal places, with any value equal to or lesser than 0.005 being rounded down).

Upon the occurrence of a Write-Down, any holder of the Notes of each series will be deemed to have irrevocably waived its right to claim or receive the Written Down Principal (as defined below) of such series of Notes or any interest with respect thereto (or Additional Amounts (as defined below)), including any and all unpaid interest.

Issue Price..... NC6.5 Notes: 100% of the principal amount, plus accrued and unpaid and not canceled interest, if any, from and including November 20, 2024; and

NC10.5 Notes: 100% of the principal amount, plus accrued and unpaid and not canceled interest, if any, from and including November 20, 2024.

Issue Date November 20, 2024.

First Call Date..... NC6.5 Notes: May 20, 2031 and

NC10.5 Notes: May 20, 2035.

Reset Date..... NC6.5 Notes: The NC6.5 First Call Date and every fifth anniversary thereafter; and

NC10.5 Notes: The NC10.5 First Call Date and every tenth anniversary thereafter.

Reset Determination Date NC6.5 Notes: With respect to any NC6.5 Reset Date, the second Business Day immediately preceding such NC6.5 Reset Date; and

NC10.5 Notes: With respect to any NC10.5 Reset Date, the second Business Day immediately preceding such NC10.5 Reset Date.

Interest Payments Discretionary and Non-Cumulative Interest on the Notes of each series will be due and payable at the Bank's sole discretion and the Bank shall have sole and absolute discretion at all times and for any reason to cancel any interest payment (in whole or in part) that would otherwise be payable on any Interest Payment Date. Subject to the limitations set forth under "*Other Restrictions on Certain Payments*" below, the Bank may use the funds corresponding to such canceled payments to meet the Bank's other obligations as they become due or to be maintained by it to satisfy capitalization requirements under the Mexican Capitalization Requirements or for any other reason.

If the Bank elects not to make an interest payment on the relevant Interest Payment Date, or if the Bank elects to make a payment of a portion, but not all, of such interest payment, such non-payment shall evidence its exercise of discretion to cancel such interest payment, or the portion of such interest payment not paid, and accordingly such interest payment, or portion thereof, shall be canceled and shall not be or become due and payable. For the avoidance of doubt, if the Bank provides notice to cancel a portion, but not all, of an interest payment in respect of a series of Notes, and the Bank subsequently does not make a payment of the remaining portion of such interest payment on the relevant Interest Payment Date, such non-payment will evidence the Bank's exercise of its discretion to cancel such remaining portion of such interest payment, and accordingly such remaining portion of the interest payment will also not be due and payable.

Such canceled interest shall not accumulate or be due and payable at any time thereafter and the holders and the beneficial owners of the Notes of each series shall not have any right to or claim against the Bank with respect to such unpaid interest amount. Any such cancellation of any interest payment shall not constitute a default or an Enforcement Event (as defined below) under the terms of the Notes of each series or the respective indentures and the holders and beneficial owners of such series of Notes shall have no rights thereto or to receive any additional interest or amounts, penalty or compensation as a result of such cancellation.

Mandatory Cancellation of Interest Payments

Interest due on the Notes of each series from the Bank will be automatically canceled if **(A)** the Bank is classified as Class II or below pursuant to Articles 121 and 122 of the Mexican Banking Law and the regulations thereunder, which specify capitalization requirements, or **(B)** as a result of the applicable payment of interest, the Bank would be classified as Class II or below (an "Interest Cancellation Event"). As of the date hereof, the minimum capital ratios to be classified as Class I (and as result, not Class II or below) generally applicable to any Mexican bank are the Minimum Regulatory Capital Ratios.

Restrictions on Certain Payments

With respect to each series of Notes, unless the most recent payable interest and any Additional Amounts payable in connection therewith on such series of Notes have been paid, the Bank shall not:

- (1) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of its capital stock; or
- (2) make any payment of premium, principal or interest on or repay, repurchase or redeem any other Subordinated Non-Preferred Indebtedness of the Bank.

Current Principal Amount

In respect of each Note of any series, at any time, the outstanding principal amount of such Note, being the Original Principal Amount (as defined below) of such Note, as such amount may be reduced, on one or more occasions, as a result of a Write-Down or a redemption of the relevant series of Notes

as permitted under the respective indentures, as the case may be.

Original Principal Amount	In respect of each Note of any series, the amount of the denomination of such Note on the Issue Date.
Indentures	<p>NC6.5 Notes: The NC6.5 Notes will be issued under an indenture, dated as of among us and the Trustee therefor, and executed by an officer of the CNBV; and</p> <p>NC10.5 Notes: The NC10.5 Notes will be issued under an indenture, dated as of among us and the Trustee therefor, and executed by an officer of the CNBV.</p>
Unsecured; Not Guaranteed	The Notes of each series will be unsecured and not guaranteed, or otherwise eligible for reimbursement, by the IPAB or any other Mexican governmental agency, any United States governmental agency, GFNorte or by any of its subsidiaries (other than the Bank), and neither series of Notes are convertible, by their terms, into any of our debt securities, shares or any of our equity capital or any debt securities, shares or equity capital of any of our subsidiaries or affiliates.
Trigger Event	<p>A Trigger Event will be deemed to have occurred if:</p> <ul style="list-style-type: none">• the CNBV publishes a determination, in its official publication of capitalization levels for Mexican banks, that the Bank's Fundamental Capital Ratio, as calculated pursuant to the applicable Mexican Capitalization Requirements, is equal to or below 5.125%; or• both <u>(A)</u> the CNBV notifies the Bank that it has made a determination, pursuant to Article 29 Bis of the Mexican Banking Law, that a cause for revocation of the Bank's license has occurred resulting from <u>(x)</u> the Bank's assets being insufficient to satisfy its liabilities, <u>(y)</u> the Bank's non-compliance with corrective measures imposed by the CNBV pursuant to the Mexican Banking Law, or <u>(z)</u> the Bank's non-compliance with the capitalization requirements set forth in the Mexican Capitalization Requirements and <u>(B)</u> the Bank has not cured such cause for revocation, by <u>(a)</u> complying with such corrective measures, or <u>(b)(1)</u> submitting a capital restoration plan to, and receiving approval of such plan by, the CNBV, <u>(2)</u> not being classified in Class III, IV or V and <u>(3)</u> transferring at least 75% of its shares to an irrevocable trust, or (c) remedying any capital deficiency, in each case, on or before the third (in the case of (A)(x)) or the seventh (in the case of (A)(y) and (A)(z)) business day in Mexico, as applicable, following the date on which the CNBV notifies the Bank of such determination.
Write-Down	If a Trigger Event occurs, the following write-downs (each, a "Write-Down") shall be deemed to have occurred on the Write-Down Date (as defined below), automatically and without any additional action by the Bank, the applicable Trustee or the holders of any series of Notes: <u>(i)</u> the then Current Principal Amount of each series of Notes will automatically be reduced

by one or more Write-Downs by each applicable Write-Down Amount and any such Write-Down shall not constitute a default or an Enforcement Event; and (ii) any holder of any series of Notes will automatically be deemed to have irrevocably waived its right to claim or receive, and will not have any rights against the Bank or the applicable Trustee with respect to, repayment of, the Written Down Principal of each series of Notes or any interest with respect thereto (or Additional Amounts payable in connection therewith), including any and all unpaid interest with respect to such Written Down Principal as of the Write-Down Date, irrespective of whether such amounts have become due and payable prior to the date on which the Trigger Event shall have occurred.

“Write-Down Amount” means an (i) amount of the then Current Principal Amount of the Notes of each series that would be sufficient, together with any concurrent *pro rata* write down or conversion of any other Subordinated Non-Preferred Indebtedness issued by the Bank and then outstanding, to return the Fundamental Capital ratio of the Bank to the level of the then-applicable Fundamental Capital ratio required by the CNBV in accordance with Section IV, c), 1 iii) of Annex 1-R of the General Rules Applicable to Mexican Banks or any successor regulation, which as of the date of this offering memorandum is 7% (which includes the Capital Conservation Buffer) plus the amount required to restore any Countercyclical Capital Supplement and any Systemically Important Bank Capital Supplement to the minimum amounts required under the Mexican Capitalization Requirements on such Write-Down Date, which as of the date of this offering memorandum is 0.90% for a grade II bank, or (ii) if any Write-Down of the Current Principal Amount, together with any concurrent *pro rata* write down or conversion of any Subordinated Non-Preferred Indebtedness, would be insufficient to return the Fundamental Capital ratio of the Bank to the aforementioned amount, then the amount necessary to reduce the Current Principal Amount of each outstanding Note to zero.

“Write-Down Date” means the date on which a Write-Down will be deemed to take effect, which shall be the next Business Day succeeding the date of the Trigger Event.

As required under the Mexican Capitalization Requirements and in accordance to the CNBV request, a full Write-Down (whereby the principal amount of the Notes has been written down to zero) shall be completed before any public funds are contributed or any public assistance is provided to the Bank in the terms of Article 148, Section II, Subsections (A) and (B) of the Mexican Banking Law, including, among others, in the form of (i) subscription of shares, (ii) receiving of loans (iii) payment of liabilities of the Bank, (iv) granting of collateral and (v) the transfer of assets and liabilities.

Subordination.....

The Notes of each series constitute Subordinated Non-Preferred Indebtedness and will rank (i) subordinate and junior in right of payment and in liquidation to all of the Bank’s present and future Senior Indebtedness and Subordinated Preferred Indebtedness (ii) *pari passu* without preference among themselves and with all other present or future unsecured Subordinated Non-Preferred Indebtedness of the

Bank and **(iii)** senior only to all classes of the Bank's present and future equity or capital stock.

Redemption	The Bank may not redeem the Notes of any series, in whole or in part, other than as described below under “ <i>Optional Redemption</i> ,” “ <i>Withholding Tax Redemption</i> ” and “ <i>Special Event Redemption</i> .”
Optional Redemption	<p>NC6.5 Notes: The Bank has the option, but no obligation, under the respective indenture to redeem the NC6.5 Notes on the NC6.5 First Call Date and on any Interest Payment Date thereafter, in whole (up to the then Current Principal Amount) or in part, at par plus accrued and unpaid (and not canceled) interest due on, or with respect to, the NC6.5 Notes, plus Additional Amounts, if any, up to (but excluding) the date of redemption; and</p> <p>NC10.5 Notes: The Bank has the option, but no obligation, under the respective indenture to redeem the NC10.5 Notes on the NC10.5 First Call Date and on any Interest Payment Date thereafter, in whole (up to the then Current Principal Amount) or in part, at par plus accrued and unpaid (and not canceled) interest due on, or with respect to, the NC10.5 Notes, plus Additional Amounts, if any, up to (but excluding) the date of redemption.</p>
Special Event Redemption	The Bank has the option, but no obligation, under each indenture to redeem each series of Notes at any time, in whole (up to the then Current Principal Amount) but not in part, at par plus accrued and unpaid (and not canceled) interest due on, or with respect to, such series of Notes, plus Additional Amounts, if any, up to but excluding the date of redemption, upon the occurrence of a Special Event affecting such series of Notes. A “ <i>Special Event</i> ” is the occurrence of certain changes in the treatment of each series of Notes under the Mexican Capitalization Requirements or tax deductibility of interest payments under the Notes of each series.
Withholding Tax Redemption	The Bank has the option, but no obligation, under each indenture to redeem each series of Notes at any time, in whole (up to the then Current Principal Amount) but not in part, at par plus accrued and unpaid (and not canceled) interest due on, or with respect to, such series of Notes, plus Additional Amounts, if any, up to, but excluding, the date of redemption, upon the occurrence of a Withholding Tax Event affecting such series of Notes. A “ <i>Withholding Tax Event</i> ” is defined in each indenture to mean (i) the receipt by the Bank and the delivery to the applicable Trustee of an opinion of a nationally recognized law firm experienced in such matters to the effect that certain changes in applicable law affecting the payment of Additional Amounts under the respective series of Notes have occurred and (ii) the delivery to the applicable Trustee of an officer's certificate stating that the requirement to pay such Additional Amounts cannot be avoided by taking reasonable measures available to the Bank.
Enforcement Events and Remedies	There are no events of default under the Notes of any series. In addition, under the terms of each indenture, any Write-Down or cancellation of interest will not constitute an Enforcement Event.

Each of the following events is an “Enforcement Event”:

- (1) certain events involving the insolvency (*resolución*) or liquidation (*liquidación*) of the Bank;
- (2) a Principal Non-Payment Event (as defined below); or
- (3) breach of a Performance Obligation (as defined below).

(1) If a insolvency (*resolución*) or liquidation (*liquidación*) of the Bank occurs, the Current Principal Amount of the Notes of each series, without any accrued and unpaid interest to the date of such occurrence, shall become immediately due and payable and neither the applicable Trustee nor the holders of such series of Notes are required to declare such amount to be due and payable. In that event, holders of such series of Notes may not be able to collect the full amount payable under the respective series of Notes and laws applicable to an insolvency (*resolución*) or liquidation (*liquidación*) may affect the timing or amount paid to holders of such series of Notes.

(2) In the event of any redemption of the Notes of any series, if the Bank does not make payment of principal in respect of the Notes of such series for a period of fourteen (14) calendar days or more after the date on which such payment is due (a “Principal Non-Payment Event”), then the applicable Trustee, on behalf of the holders and beneficial owners of the Notes of such series, may, at its discretion, or shall at the direction of holders of 25% or more of the aggregate principal amount of outstanding Notes of such series, subject to any applicable laws, institute proceedings for the Bank’s declaration of insolvency (*resolución*) or liquidation (*liquidación*).

In such event, whether or not instituted by the applicable Trustee, such Trustee may prove the claims of the holders and beneficial owners of the Notes of such series and the Trustee.

(3) In the event of a breach of any term, obligation or condition binding on the Bank under the Notes of any series or the respective indenture (other than any of the Bank’s payment obligations under or arising from the Notes of each series or the respective indenture, including payment of any principal or interest, including any damages awarded for breach of any obligation) (such obligation, a “Performance Obligation”), the applicable Trustee may without further notice institute such proceedings against the Bank as it may deem fit to enforce the Performance Obligation; *provided* that the Bank shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise (including any damages) earlier than the same would otherwise have been payable under the Notes of such series or the respective indenture, if any.

Other than the limited remedies specified above, no remedy against the Bank shall be available to the applicable Trustee (acting on behalf of the holders of the Notes of any series) or to the holders and beneficial owners of the Notes of any series.

The Notes of each series are perpetual securities in respect of which there is no fixed redemption date or maturity date.

	<p>Holders and beneficial owners of each series of Notes may not request redemption of the Notes of any series at any time.</p>
Use of Proceeds	<p>We expect to use the net proceeds from the offering of the Notes for general corporate purposes.</p>
Payment of Additional Amounts	<p>All payments made by or on our behalf in respect of the Notes of each series will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of Mexico, the Cayman Islands, or any other jurisdiction through which payments are made (each a “<u>Relevant Jurisdiction</u>”) or any authority or agency therein or thereof having power to tax (collectively, “<u>Relevant Tax</u>”), unless the withholding or deduction of such Relevant Tax is required by law. In that event, subject to certain exceptions and limitations as described in “<i>Description of the NC6.5 Notes—Payment of Additional Amounts</i>” and “<i>Description of the NC10.5 Notes—Payment of Additional Amounts</i>,” we will pay as further distributions of interest and principal such additional amounts (“<u>Additional Amounts</u>”) as may be necessary so that the net amounts received by the holders or beneficial owners of each series of Notes or their nominees (the term “holders” only refers to registered holders) after such withholding or deduction, will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction, to the extent described in this offering memorandum in “<i>Description of the NC6.5 Notes—Payment of Additional Amounts</i>” and “<i>Description of the NC10.5 Notes—Payment of Additional Amounts</i>.”</p> <p>We will also pay any stamp, administrative, court, documentary, excise or similar taxes arising in a Relevant Jurisdiction in connection with the issuance of the Notes and will indemnify the holders for any such taxes paid by the holders</p>
Book-Entry Issuance, Settlement and Clearance.....	<p>The Notes of each series will be represented by one or more fully global notes registered in the name of a nominee of DTC. Investors will hold beneficial interests in the Notes through DTC and its direct and indirect participants, including Euroclear and Clearstream, and DTC and its direct and indirect participants will record your beneficial interest on their books. We will not issue certificated notes except as described in this offering memorandum. Settlement of the Notes will occur through DTC. For information on DTC’s book-entry system, see “<i>Form of Notes, Clearing and Settlement</i>.”</p>
Listing	<p>Application will be made to list the Notes of each series on the Singapore Exchange Securities Trading Limited — SGX-ST. No assurance can be given that the Notes will be approved for listing on the Singapore Exchange Securities Trading Limited — SGX-ST.</p>
Governing Law	<p>Each of the indentures and the Notes will be governed by, and construed in accordance with, the law of the State of New York. Whether a Trigger Event (leading to a Write-Down) or an Interest Cancellation Event (leading to a Cancellation of Interest) has occurred is based upon a determination by the</p>

applicable Mexican regulator, as set forth in this offering memorandum, in accordance with Mexican law (as amended from time to time). Whether a Withholding Tax Event or a Tax Event has occurred is based upon a determination in accordance with Mexican law (or other applicable law in the case of a Withholding Tax Event involving a jurisdiction other than Mexico), as amended from time to time, evidenced by an opinion of a nationally recognized law firm and, if required, a certification by the Bank. Whether a Capital Event (as defined below) has occurred is determined by the Bank, as set forth in this offering memorandum, in accordance with Mexican law (as amended from time to time). The ranking and subordination of the Notes, will be governed by, and construed in accordance with, Mexican law (as amended from time to time). Any proceedings in respect of the Bank's insolvency (*resolución*) or liquidation (*liquidación*) will be conducted in accordance with the Mexican Banking Law, and any merger or consolidation shall be subject to applicable approvals under the Mexican Banking Law and any other applicable Mexican laws, as amended from time to time.

Form and Denomination

The Notes will be issued in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof and the Notes will initially be represented by global notes.

Transfer Restrictions

The Notes have not been registered under the Securities Act. As a result, the Notes are subject to limitations on transferability and resale.

The Notes are not intended to be offered, sold or otherwise made available and should not be offered, sold or otherwise made available to retail clients in the EEA, as defined in the rules set out in MiFID II. The Notes are also not intended to be offered, sold or otherwise made available and should not be offered, sold or otherwise made available to retail clients in the UK, as defined in point (8) of Article 2 of Regulation (EU) No. 2017/565 as it forms part of the domestic law in the UK by virtue of the EUWA. See “*Transfer Restrictions*” and “*Plan of Distribution*.”

The Notes have not been and will not be registered with the RNV and may not be offered or sold publicly in Mexico. The Notes may be offered to investors in Mexico, on a private placement basis, if such investors qualify as institutional investors (*inversionistas institucionales*) or accredited investors (*inversionistas calificados*) pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law.

Trustee and Paying Agent for NC6.5 Notes.....

The Bank of New York Mellon.

Trustee and Paying Agent for NC10.5 Notes.....

The Bank of New York Mellon.

Risk Factors.....

You should carefully consider all of the information in this offering memorandum. See “*Risk Factors*” for a description of the principal risks involved in making an investment in the Notes of either or both series.

SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA

The summary consolidated financial and operating data presented in this section is derived from our accounting records or from our Financial Statements and relates only to us and our consolidated subsidiaries. This information should be read in conjunction with “*Presentation of Financial and Other Information*,” “*Selected Consolidated Financial Information*,” “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and our Financial Statements and the notes thereto included elsewhere in this offering memorandum.

Pursuant to publications in the Official Gazette dated March 13, 2020, December 4, 2020 and December 30, 2021, the CNBV announced the obligation, effective January 1, 2022, for Mexican banks and other financial institutions in Mexico to adopt new accounting standards. In addition, pursuant to the transitory articles of the General Rules Applicable to Mexican Banks, and as a practical solution, Mexican banks may recognize as of the date of initial application, which is January 1, 2022, the cumulative effect of the accounting changes and shall not present retrospectively the effects of such accounting changes in financial statements for prior periods. The aim of these new accounting standards is to adopt new standards applicable to the classification and measurement of our financial assets and liabilities, including our total non-performing loans in order to reduce the differences between Mexican Banking GAAP and International Financial Reporting Standards. For more information regarding new accounting criteria, see Note 3 to our Audited Consolidated Financial Statements as of December 31, 2022 and for the year ended December 31, 2022.

As a result, financial information as of December 31, 2023 and 2022, and for the years then ended, presented in this offering memorandum is not comparable with any prior historical financial period. For this reason, financial information as of December 31, 2021 and for the year then ended is presented in this offering memorandum on a stand-alone basis. See “Risk Factors—Risks Relating to Our Business—As a result of the implementation of new accounting criteria for credit institutions in Mexico established by the CNBV, financial information as of and for the years ended December 31, 2023 and December 31, 2022 is not comparable with financial information for prior years.”

Our Financial Statements have been prepared in accordance with Mexican Banking GAAP, which differs in certain important respects from U.S. GAAP. For a summary of the differences between Mexican Banking GAAP and U.S. GAAP, see “*Annex A – Significant Differences Between Mexican Banking GAAP and U.S. GAAP*.”

Summary Statement of Income Data:	For the nine-month period ended September 30,			For the Year ended December 31,		
	2024	2024	2023	2023 ⁽²⁾	2023	2022
	(U.S.\$ millions) ⁽¹⁾	(Ps. millions)		(U.S.\$ millions) ⁽¹⁾	(Ps. millions)	
Interest income	12,904	254,103	244,318	19,311	327,638	226,642
Interest expense	(8,812)	(173,517)	(169,758)	(13,365)	(226,763)	(141,399)
Net interest income	4,092	80,586	74,560	5,946	100,875	85,243
Allowance for loan losses	(718)	(14,142)	(12,223)	(930)	(15,782)	(11,722)
Net interest income after allowance for loan losses	3,374	66,444	62,337	5,015	85,093	73,521
Commission and fee income	1,514	29,808	25,543	2,062	34,985	31,163
Commission and fee expense	(753)	(14,831)	(12,786)	(1,048)	(17,780)	(14,975)
Brokerage revenues	71	1,404	1,735	134	2,276	2,931
Other operating expense	(145)	(2,855)	(3,271)	(236)	(4,002)	(4,831)
Non-interest expense	(1,727)	(34,013)	(30,687)	(2,617)	(44,406)	(40,942)
	(1,040)	(20,487)	(19,466)	(1,705)	(28,927)	(26,654)
Operating income	2,334	45,957	42,871	3,310	56,166	46,867
Equity in earnings of unconsolidated subsidiaries and associated companies	17	334	138	10	175	168
Income before income tax	2,351	46,291	43,009	3,321	56,341	47,035
Income (Losses) taxes	(652)	(12,843)	(11,315)	(850)	(14,425)	(12,486)
Income before Discontinued operations	1,699	33,448	31,694	2,471	41,916	34,549
Noncontrolling interest	(26)	(512)	1	(2)	(30)	-
Net income (Controlling)	1,725	33,960	31,693	2,472	41,946	34,549

- (1) Solely for the convenience of the reader, Peso amounts as of September 30, 2024 have been translated into U.S. dollars at the exchange rate of Ps. 19.6921 per U.S.\$1.00 and as of December 31, 2023 at the exchange rate of Ps. 16.9666 per U.S.\$1.00. See “*Exchange Rates and Currency*.”
- (2) Changes in the presentation of financial information as of and for the years ended December 31, 2023 and December 31, 2022 are the result of the incorporation of new accounting criteria as described above and therefore such financial information is not comparable with any prior historical financial period. See “Risk Factors—Risks Relating to Our Business—As a result of the implementation of new accounting criteria for credit institutions in Mexico established by the CNBV, financial information as of and for the years ended December 31, 2023 and December 31, 2022 is not comparable with financial information for prior year”.

	For the Year ended December 31, 2021
Summary Statement of Income Data:	
Interest income	104,870
Interest expense	(36,919)
Net interest income	67,951
Allowance for loan losses	(11,107)
Net interest income after allowance for loan losses	56,844
Commission and fee income	26,486
Commission and fee expense	(12,212)
Intermediation income	4,192
Other operating income	499
Non-interest expense	(41,935)
	(22,970)
Operating income	33,874
Equity in earnings of unconsolidated subsidiaries and associated companies	327
Income before income tax	34,201
Current income tax	(5,573)
Deferred income tax	(2,542)
Net income	26,086

Balance Sheet Data:	As of September 30,		As of December 31,		
	2024	2024	2023	2023 ⁽²⁾	2022
	(U.S.\$ millions) ⁽¹⁾	(Ps. millions)	(U.S.\$ millions) ⁽¹⁾	(Ps. millions)	
Assets:					
Cash and cash equivalents	5,061	99,660	5,901	100,128	107,581
Margin securities	200	3,935	290	4,918	5,478
Investment in securities					
Trading Financial Instrument	7,482	147,335	6,432	109,121	134,685
Financial Instruments to Collect or sell	7,651	150,674	9,492	161,049	114,771
Financial instruments to collect principal and interest	4,817	94,864	5,577	94,624	88,050
	19,951	392,873	21,501	364,794	337,506
Debtor balances under repurchase and resale agreements	2,330	45,890	4,898	83,103	74,371
Derivatives financial instruments					
For trading purposes.....	881	17,351	1,697	28,791	35,576
For hedging purposes	148	2,907	262	4,442	1,854
	1,029	20,258	1,959	33,233	37,430
Loan Portfolio with Credit Risk Stage					
Commercial loans					
Business loans	20,662	406,873	21,806	369,978	328,895
Financial institutions' loans	2,831	55,744	2,561	43,454	29,690
Government loans	8,422	165,839	9,668	164,035	165,940
Consumer loans	9,826	193,490	10,157	172,325	142,071
Mortgage loans					
Medium and Residential	13,292	261,751	14,632	248,257	221,771
Low-income housing	-	1	-	2	2
Loans acquired from INFONAVIT or FOVISSTE.....	73	1,443	95	1,618	1,932
Total Loan Portfolio with Credit Risk Stage 1.....	55,105	1,085,141	58,920	999,669	890,301
Commercial loans					
Business loans	132	2,602	73	1,233	966
Government Loans	-	-	-	-	-
Consumer loans	160	3,155	173	2,935	2,277
Mortgage loans					
Medium and residential.....	178	3,501	188	3,193	3,130
Low-income housing	-	-	-	-	-
Loans acquired from INFONAVIT or FOVISSTE.....	4	74	4	69	97
Total loan portfolio with Credit Risk Stage 2.	474	9,332	438	7,430	6,470
Commercial loans.....					
Business loans	187	3,689	170	2,883	3,750
Financial institutions' loans	7	130	7	119	-
Government loans	-	2	-	7	-
Consumer loans	232	4,567	284	4,820	3,528
Mortgage loans					
Medium and residential.....	86	1,694	108	1,831	1,553
Loans acquired from INFONAVIT or FOVISSTE.....	17	343	20	346	312
Total Loan Portfolio with Credit Risk Stage 3.....	529	10,425	590	10,006	9,143
Loan Portfolio	56,109	1,104,898	59,947	1,017,105	905,914
(Plus/Minus) Deferred Items	153	3,005	144	2,436	2,058
(Minus) Allowance for Loan Losses	(962)	(18,950)	(1,105)	(18,749)	(16,961)
Loan Portfolio, Net	55,299	1,088,953	58,986	1,000,792	891,011
Acquired Collection Rights, Net	43	843	64	1,094	654
Total Loan Portfolio, Net	55,342	1,089,796	59,050	1,001,886	891,665
Other accounts receivable, net	3,322	65,417	2,260	38,352	36,343
Foreclosed assets, net	248	4,892	282	4,792	2,844
Advance payments and other assets, net	211	4,161	292	4,959	8,614
Property, Furniture and Equipment, net	1,338	26,341	1,510	25,623	24,538

Balance Sheet Data:	As of September 30,		As of December 31,		
	2024	2024	2023	2023 ⁽²⁾	2022
	(U.S.\$ millions) ⁽¹⁾	(Ps. millions)	(U.S.\$ millions) ⁽¹⁾	(Ps. millions)	
Assets for Rights of Use of Property,					
Furniture and Equipment, net	213	4,195	224	3,795	6,951
Permanent Stock Investments	76	1,502	93	1,570	1,461
Deferred Income Tax Assets	91	1,785	-	-	565
Intangible Assets, net	598	11,771	816	13,843	15,493
Goodwill	135	2,649	88	1,497	1,413
Total Assets	90,144	1,775,125	99,165	1,682,493	1,552,253
Liabilities:					
Deposits					
Demand deposits	36,117	711,211	40,407	685,561	619,559
Time deposits	-	-	-	-	-
General public	18,869	371,569	19,574	332,098	274,201
Money market	198	3,905	477	8,098	4,954
Global account of deposits without movements	199	3,923	215	3,656	3,253
Senior debt issued	2,629	51,772	2,577	43,718	17,002
	58,012	1,142,380	63,250	1,073,131	918,969
Interbank and other loans					
Demand loans	95	1,877	-	-	-
Short-term loans	198	3,895	326	5,525	7,181
Long-term loans	362	7,120	270	4,584	7,641
	655	12,892	596	10,109	14,822
Creditor balances under repurchase and resale agreements	12,882	253,674	12,143	206,018	218,928
Collateral sold or pledged					
Repurchase or resale agreements (creditor balance)	2,330	45,890	4,898	83,098	72,429
Derivatives financial instruments					
For trading purposes	927	18,249	1,266	21,488	29,116
For hedging purposes	95	1,866	133	2,259	3,956
	1,021	20,115	1,400	23,747	33,072
LEASE LIABILITY	223	4,386	226	3,835	6,606
Other account payables					
Creditors from settlements of transactions	2,003	39,445	558	9,465	7,116
Creditors from cash collateral	518	10,200	1,164	19,747	20,643
Contributions payable	81	1,603	90	1,519	1,025
Sundry creditors and other payables	1,093	21,522	1,854	31,450	30,685
	3,695	72,770	3,665	62,181	59,469
FINANCIAL INSTRUMENTS THAT QUALIFY AS LIABILITY					
Subordinated debentures	2,667	52,513	3,266	55,421	65,981
Income Tax Liabilities	349	6,864	147	2,501	7,380
Employee Benefit Liability	503	9,897	610	10,346	8,797
Deferred Credits and Advanced Collections	55	1,081	67	1,140	1,123
Total liabilities	82,392	1,622,462	90,267	1,531,527	1,407,576
Stockholders' equity					
Paid-in capital					
Common stock	954	18,795	1,108	18,795	18,795
Additional paid-in capital	274	5,390	265	4,500	4,651
	1,228	24,185	1,373	23,295	23,446
Other capital					
Capital reserves	963	18,959	1,117	18,959	18,959
Retained earnings from prior years	4,113	80,993	4,306	73,054	73,577
Result from valuation of securities available to collect or sell	(41)	(806)	(57)	(969)	(2,326)
Result from valuation of instruments for cash flow hedging	39	762	11	183	(1,572)
Defined remeasurements for employee benefits	(98)	(1,934)	(117)	(1,993)	(1,924)

Balance Sheet Data:	As of September 30,		As of December 31,		
	2024	2024	2023	2023 ⁽²⁾	2022
	(U.S.\$ millions) ⁽¹⁾	(Ps. millions)	(U.S.\$ millions) ⁽¹⁾	(Ps. millions)	
Cumulative Translation Adjustment	10	191	(11)	(191)	(37)
Net income (Controlling)	1,725	33,960	2,472	41,946	34,549
	6,710	132,125	7,720	130,989	121,226
Noncontrolling interest.....	(185)	(3,647)	(196)	(3,318)	5
Total stockholders' equity.....	7,752	152,663	8,898	150,966	144,677
Total liabilities and stockholders' equity.....	90,144	1,775,125	99,165	1,682,493	1,552,253

- (1) Solely for the convenience of the reader, Peso amounts as of September 30, 2024 have been translated into U.S. dollars at the exchange rate of Ps. 19.6921 per U.S.\$1.00 and as of December 31, 2023 at the exchange rate of Ps. 16.9666 per U.S.\$1.00. See “Exchange Rates and Currency.”
- (2) Changes in the presentation of financial information as of and for the years ended December 31, 2023 and December 31, 2022 are the result of the incorporation of new accounting criteria as described above and therefore such financial information is not comparable with any prior historical financial period. See “Risk Factors—Risks Relating to Our Business—As a result of the implementation of new accounting criteria for credit institutions in Mexico established by the CNBV, financial information as of and for the years ended December 31, 2023 and December 31, 2022 is not comparable with financial information for prior years”.

Balance Sheet Data:	As of December 31, 2021 (Ps. millions)
Assets:	
Cash and cash equivalents	98,302
Margin securities	7,999
Investment in securities	
Trading Financial Instrument	32,263
Securities available for sale	136,172
Securities held to maturity	60,200
	228,635
Debtor balances under repurchase and resale agreements	3,037
Derivatives financial instruments	
For trading purposes	26,865
For hedging purposes	1,054
Valuation Adjustments for Financial Assets Hedging	40
Performing Loan Portfolio	
Commercial loans	
Business loans	304,111
Financial institutions' loans	28,686
Government loans	147,734
Consumer loans	121,870
Mortgage loans	
Medium and Residential	198,057
Low-income housing	3
Loans acquired from INFONAVIT or FOVISSTE	2,400
Total Loan Performing Loan Portfolio	802,861
Past-due Loan Portfolio	
Commercial loans	
Business loans	2,588
Government Loans	154
Consumer loans	3,017
Mortgage loans	
Medium and residential	1,802
Low-income housing	-
Mortgage loans	275
Total Past-Due Loan Portfolio	7,836
Loan Portfolio	810,697
(Minus) Allowance for Loan Losses	(15,744)
Loan Portfolio, Net	794,953
Acquired Collection Rights	1,036
Total Loan Portfolio, Net	795,989
Other accounts receivable, net	31,140
Foreclosed assets, net	1,717
Property, Furniture and Equipment, net	17,662
Permanent Stock Investments	524
Other Assets, net	-
Deferred charges, advance payments and intangibles	23,176
Other short-term and long-term assets	350
Goodwill	-
Total Assets	1,236,490
Liabilities:	
Deposits	
Demand deposits	535,201
Time deposits	240,089
General public	100
Money market	27,800
Senior debt issued	3,023
Global account of deposits without movements	806,213
Interbank and other loans	

Balance Sheet Data:	As of December 31, 2021 (Ps. millions)
Short-term loans	7,809
Short-term loans	7,330
Long-term loans	6,422
	21,561
Creditor balances under repurchase and resale agreements	108,591
Collateral sold or pledged	
Repurchase or resale agreements (creditor balance)	31
Derivatives financial instruments	
For trading purposes	22,487
For hedging purposes	6,571
	29,058
Other account payables	
Income Taxes	568
Employee Profit Sharing	1,354
Creditors from settlements of transactions	2,458
Creditors from cash collateral	10,006
Sundry creditors and other payables	29,181
	43,567
FINANCIAL INSTRUMENTS THAT QUALIFY AS LIABILITY	
Subordinated debentures	80,574
Deferred taxes and profit sharing, net	1,122
Deferred Credits and Advanced Collections	1,138
Total liabilities	1,091,855
Stockholders' equity	
Paid-in capital	
Common stock	18,795
Additional paid-in capital	3,851
Other capital	
Capital reserves	18,959
Retained earnings from prior years	79,931
Result from valuation of securities available to collect or sell	1,720
Result from valuation of instruments for cash flow hedging	(2,709)
Cumulative translation adjustment	34
Defined remeasurement for employees benefits	(2,036)
Net income	26,086
	121,985
Noncontrolling interest	4
Total stockholders' equity	144,635
Total liabilities and stockholders' equity	1,236,490

	As of or for the nine-month period ended September 30,		As of or for the year ended December 31,		
	2024	2024	2023	2023	2022
	(U.S.\$ millions, except percentages) (1)	(Ps. millions, except percentages)	(U.S.\$ millions, except percentages) (1)	(Ps. millions, except percentages)	
Profitability and Efficiency:					
Return on average total assets ⁽²⁾	2.5%	2.5%	2.5%	2.5%	2.2%
Return on average equity ⁽³⁾	29.0%	29.0%	27.6%	27.6%	24.7%
Net interest margin ⁽⁴⁾	6.5%	6.5%	6.4%	6.4%	5.9%
Efficiency ratio ⁽⁵⁾	36.1%	36.1%	38.2%	38.2%	41.1%
Credit Quality Data:					
Total Stage 1 and Stage 2 Loans	55,579	1,094,473	59,358	1,007,099	896,771
Total Stage 3 Loans	529	10,425	590	10,006	9,143
Total loans	56,109	1,104,898	59,947	1,017,105	905,914
Loans graded “C,” “D” and “E” ⁽⁶⁾	2,392	47,099	2,762	46,856	35,163
Allowance for loan losses.....	962	18,950	1,105	18,749	16,961
Credit Quality Ratios:					
Allowance for loan losses as a percentage of total loans	1.7%	1.7%	1.8%	1.8%	1.9%
Allowance for loan losses as a percentage of total Stage 3 loans ⁽⁷⁾	181.8%	181.8%	187.4%	187.4%	185.5%
Allowance for loan losses as a percentage of loans graded “C,” “D” and “E” ⁽⁶⁾	40.2%	40.2%	40.0%	40.0%	48.2%
Total Stage 3 loans as a percentage of total loans Net Stage 3 loans (total Stage 3 loans less allowance for loan losses) as a percentage of net total loans (total Stage 1 and Stage 2 loans plus net Stage 3 loans)	0.9%	0.9%	1.0%	1.0%	1.0%
Net Stage 3 loans (total Stage 3 loans less allowance for loan losses) as a percentage of stockholders’ equity	(0.8%)	(0.8%)	(0.9%)	(0.9%)	(0.9%)
Loans graded “C,” “D” and “E” as a percentage of total loans ⁽⁶⁾	(5.6%)	(5.6%)	(5.8%)	(5.8%)	(5.4%)
	4.3%	4.3%	4.6%	4.6%	3.9%

- (1) Solely for the convenience of the reader, Peso amounts as of and for the nine-month period ended September 30, 2024 have been translated into U.S. dollars at the exchange rate of Ps. 19.6921 per U.S.\$1.00, respectively, and as of and for the year ended December 31, 2023 at the exchange rate of Ps. 16.9666 per U.S.\$1.00, respectively. See "Exchange Rates and Currency."
- (2) For Return on average assets, Net income (Controlling) of the last 12 months divided by the average of total assets, based on end-of-month balances, for the last 12 months.
- (3) For Return on average equity, Net income (Controlling) of the last 12 months divided by the average of stockholders' equity, based on end-of-month balances (excluding minority interests), for the last 12 months.
- (4) For Net interest margin, Net interest income of the last 12 months divided by the average of total interest-earning assets, based on end-of-month balances, for the last 12 months.
- (5) Efficiency ratio is equal to non-interest expense divided by the aggregate of net interest income and non-interest income (commissions and fees, intermediation revenues and other operating income). For this purpose, net interest income is calculated before allowance for loan losses.
- (6) Refers to our loan portfolio classified pursuant to the General Rules Applicable to Mexican Banks. Under applicable regulations, such classification is determined by reference to our loan portfolio at the end of the preceding quarter. See "Selected Statistical Information—Grading of Loan Portfolio."
- (7) Corresponds to end-of-year balance, which is different from guidelines prescribed by the CNBV regarding calculation of required additional reserves. See "Selected Statistical Information—Allowance for Loan Losses."

**As of or for the
year ended
December 31,
2021**
*(Ps. millions,
except
percentages)*

Profitability and Efficiency:

Return on average total assets ⁽²⁾	2.1%
Return on average equity ⁽³⁾	18.6%
Net interest margin ⁽⁴⁾	5.8%
Efficiency ratio ⁽⁵⁾	48.2%

Credit Quality Data:

Total performing loans	802,861
Total non-performing loans	7,836
Total loans	810,697
Loans graded "C," "D" and "E" ⁽⁶⁾	35,937
Allowance for loan losses	15,744

Credit Quality Ratios:

Allowance for loan losses as a percentage of total loans	1.9%
Allowance for loan losses as a percentage of total non-performing loans ⁽⁷⁾	200.9%
Allowance for loan losses as a percentage of loans graded "C," "D" and "E" ⁽⁶⁾	43.8%
Total non-performing loans as a percentage of total loans	1.0%
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of net total loans (total performing loans plus net non-performing loans)	(1.0%)
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of stockholders' equity	(5.5%)
Loans graded "C," "D" and "E" as a percentage of total loans ⁽⁶⁾	4.4%

- (1) Solely for the convenience of the reader, Peso amounts as of and for the nine-month period ended September 30, 2024 have been translated into U.S. dollars at the exchange rate of Ps. 19.6921 per U.S.\$1.00, respectively, and as of and for the year ended December 31, 2023 at the exchange rate of Ps. 16.9666 per U.S.\$1.00, respectively. See "Exchange Rates and Currency."
- (2) For Return on average assets, Net income of the last 12 months divided by the average of total assets, based on end-of-month balances, for the last 12 months.
- (3) For Return on average equity, Net income of the last 12 months divided by the average of stockholders' equity, based on end-of-month balances (excluding minority interests), for the last 12 months.
- (4) For Net interest margin, Net interest income of the last 12 months divided by the average of total interest-earning assets, based on end-of-month balances, for the last 12 months.
- (5) Efficiency ratio is equal to non-interest expense divided by the aggregate of net interest income and non-interest income (commissions and fees, intermediation revenues and other operating income). For this purpose, net interest income is calculated before allowance for loan losses.
- (6) Refers to our loan portfolio classified pursuant to the General Rules Applicable to Mexican Banks. Under applicable regulations, such classification is determined by reference to our loan portfolio at the end of the preceding quarter. See "Selected Statistical Information—Grading of Loan Portfolio."
- (7) Corresponds to end-of-year balance, which is different from guidelines prescribed by the CNBV regarding calculation of required additional reserves. See "Selected Statistical Information—Allowance for Loan Losses."

Capital Ratios

The table below presents our risk-weighted assets and Capital Ratios for the periods indicated.

	As of September 30,		As of December 31,			
	2024	2024	2023	2023	2022	2021
	(U.S. millions, except for percentages) ⁽¹⁾	(Ps. millions, except for percentages)	(U.S.\$ millions, except for percentages) ⁽¹⁾	(Ps. millions, except for percentages)		
Capital:						
Common Equity Tier 1 Capital (CET1).....	7,025	138,340	8,210	139,297	129,145	131,693
Additional Tier 1 Capital.....	2,600	51,199	3,200	54,293	64,428	72,802
Tier 2 Capital.....	112	2,211	131	2,229	3,349	7,800
Total Net Capital.....	9,737	191,750	11,541	195,819	194,923	212,295
Risk-Weighted Assets:						
Credit risk.....	34,817	685,617	39,508	670,310	629,486	609,709
Market risk.....	9,167	180,525	8,864	150,393	143,368	174,738
Operational risk.....	6,663	131,209	7,293	123,734	80,369	75,386
Total Risk-Weighted Assets.....	50,647	997,350	55,664	944,437	853,223	859,833
Capital Ratios (credit, market and operational risk):						
Fundamental Capital (CET1) to risk-weighted assets.....	13.87%	13.87%	14.73%	14.73%	15.14%	15.32%
Tier 1 Capital to risk-weighted assets.....	19.00%	19.00%	20.48%	20.48%	22.45%	23.78%
Tier 2 Capital to risk-weighted assets.....	0.23%	0.23%	0.24%	0.24%	0.39%	0.91%
Total Net Capital to Total Risk-Weighted Assets.....	19.23%	19.23%	20.72%	20.72%	22.85%	24.69%

(1) Solely for the convenience of the reader, Peso amounts as of September 30, 2024 have been translated into U.S. dollars at the exchange rate of Ps. 19.6921 per U.S.\$1.00 and as of December 31, 2023 at the exchange rate of Ps. 16.9666 per U.S.\$1.00. See “Exchange Rates and Currency.”

RISK FACTORS

Before making a decision to invest in the Notes, you should carefully consider the risks described below as well as the other information contained in this offering memorandum. Our business, financial condition and results of operations could be materially adversely affected by any of these risks. The risks described below are not the only ones we or prospective investors in the Notes in general face and the importance of the risk that we attribute to it today may change in the future. Additional risks and uncertainties not currently known to us or that we currently consider immaterial may also materially adversely affect our ability to make payments on the Notes.

Risks Relating to Our Business

Our results of operations have been, and may continue to be, adversely affected by U.S. and international financial market and economic conditions.

Since 2008, financial systems worldwide have experienced periods and events of difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, loss of confidence in the financial sector, declining interest rates, currency devaluations, restrictions on the convertibility of funds and erosion of consumer confidence. Global economic conditions deteriorated significantly between 2007 and 2009, and many countries, including the United States, fell into recession. Although macroeconomic conditions have generally improved since 2012, uncertainty in global economic growth, a high volatility environment resulting from widespread illnesses or epidemics and diverging monetary policies around the world have exacerbated global imbalances and risks. Many major financial institutions, including some of the world's largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies, have experienced, from time to time, significant difficulties. Around the world there have also been runs on deposits at several financial institutions, numerous institutions have sought additional capital or have been assisted or taken over by governments, and many lenders and institutional investors have reduced or ceased providing funding to borrowers (including to other financial institutions). In addition, normalization of U.S. monetary policy and different monetary policies around the world, might also have a negative impact on the Mexican economy and adversely affect our business and results of operations.

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

- an economic downturn or insufficient recovery of the economy generally and the financial markets and any adverse social or political developments for any reason, including epidemics, which could result in reduced demand for financial products and services and may adversely impact our business, financial condition and results of operations;
- increased regulation of the financial industry. Compliance with such regulation will continue to increase our costs, may require us to increase our capital or reserves, may affect the pricing of our products and services, and may limit our ability to grow our loan portfolio or pursue business opportunities;
- trade disputes and barriers occurring around the globe;
- inability of corporate and individual borrowers to timely or fully comply with their existing obligations;
- the methodology we use to estimate losses inherent in our credit exposure requires complex judgments, including forecasts of economic conditions and factors 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, including volatility and liquidity affecting those instruments, could impact financial systems and the solvency of their participants; and
- the value and liquidity of our portfolio of investment securities may be adversely affected.

Uncertainty remains concerning the future economic environment in the United States, Mexico and the international markets. There can be no assurance that local or global economic conditions as a whole will improve significantly. Such economic uncertainty could have a negative impact on our business and results of operations. Global investor confidence remains cautious. A slowing or failing of the economy in the U.S., or fluctuations in crude oil prices, and uncertainty of the U.S. monetary policy would likely aggravate the adverse effects of these difficult economic and market conditions on us and on others in the financial services industry. Increased volatility and uncertainty in the global financial markets could have a

material adverse effect on us, including our ability to access funding, capital and liquidity on financial terms acceptable to us, if at all. If capital markets financing ceases to become available, or becomes excessively expensive, we may be forced to raise the rates we pay on deposits to attract more customers and/or become unable to maintain certain liability maturities. Any such increase in capital markets funding costs or deposit rates could have a material adverse effect on our interest margins and liquidity.

If all or some of the foregoing risks were to materialize, this could have a material adverse effect on our financial condition and our results from operations.

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

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

- our net interest income;
- our cost of funding;
- the value of our capital;
- the volume of loans we originate;
- the market value of our financial assets and liabilities; and
- our gains and losses from the sale of loans and securities.

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. We monitor our interest rate risk using the Net Interest Margin (“NIM”) sensitivity, which is the difference between the return on assets and the financial cost of our financial liabilities based on a one-year time frame and a parallel movement of 100 basis points (1%) in market interest rates (local and foreign currency). As of September 30, 2024, the 1% NIM sensitivities were Ps. 36 million and Ps. 531 million for local and foreign currency, respectively.

If interest rates decrease, although this is likely to decrease our funding costs, it is likely to adversely impact the income we receive arising from our investments in securities as well as loans with similar maturities, which could in turn adversely affect our net interest income. In addition, we may also experience increased delinquencies in a low interest rate environment when such an environment is accompanied by high unemployment and recessionary conditions.

This year, an easing cycle has begun in both Mexico and the United States. In Mexico, the Mexican Central Bank has reduced rates by 75 basis points from their peak, bringing the rate down to 10.50%. As of the date of this offering memorandum, the market anticipates an additional 26 basis points of easing this year and approximately 94 basis points more in 2025. Conversely, in the U.S., the easing cycle just started with an accumulated 75-basis-point cut in September and November. The market expects around 25 basis points for the next meeting and approximately 125 basis points of cuts in 2025, which would place the 2025 upper bound on the fed funds rate near 3.25%, aligning with the Fed’s median dot projections.

The market value of a security with a fixed interest rate generally decreases when interest rates rise, which may have an adverse effect on our earnings and financial position. In addition, we may incur costs (which, in turn, will impact our results) as we implement strategies to reduce future interest rate exposure. The market value of an obligation with an adjustable interest rate can be adversely affected when interest rates increase, due to a lag in the determination of a new interest rate and in the implementation of repricing terms.

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.

Furthermore, we are exposed to equity price risk in connection with our trading investments in equity securities and equity derivatives. The performance of financial markets may cause adverse changes in the value of our investment and trading portfolios. The volatility of world equity markets due to the continued economic uncertainty has had a particularly strong impact on the financial sector. Continued volatility may affect the value and liquidity of our investments in entities in this sector and, depending on their fair value and recovery expectations, could become a permanent impairment, which would be subject to write-offs against our results. To the extent any of these risks materialize, our net interest income or the market value of our assets and liabilities could be adversely affected.

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

Our 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 low 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. To date, prepayment activity in our loan portfolio has not had a significant effect on our financial results, but if such 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 and collateralized mortgage loans, since prepayments could shorten the weighted average life of these portfolios, which would negatively impact our business, financial condition and results of operation. Prepayment risk is inherent to our commercial activity and an increase in prepayments could have a material adverse effect on us.

We engage in transactions with our parent GFNorte and its subsidiaries or affiliates that may not be on an arm's-length basis.

No assurance can be given that transactions between us and our parent GFNorte or any of its subsidiaries or affiliates have been or will be conducted on a basis as favorable to us as could be obtained by us from unaffiliated parties. For example, we have also entered into certain service agreements with our affiliates Casa de Bolsa Banorte, S.A. de C.V., Grupo Financiero Banorte ("Casa de Bolsa Banorte"), Operadora de Fondos Banorte, S.A. de C.V., Sociedad Operadora de Fondos de Inversión, Grupo Financiero Banorte, Seguros Banorte and Pensiones Banorte, S.A. de C.V., to allow these companies to offer their products and services within our branch network in consideration for certain fees. In addition, we, GFNorte and other subsidiaries or affiliates have entered into several agreements providing for the sharing of revenues or expenses in connection with the performance of certain activities, including loan recovery.

Mexican law applicable to publicly traded companies and financial groups and institutions, as well as our bylaws, provide for several procedures designed to ensure that the transactions entered into with or among companies in our financial group are carried out on an arm's-length basis, including the requirement that our Board of Directors approve such transactions and that transactions with affiliates do not exceed certain thresholds.

We are likely to continue to engage in transactions with our parent and any of its subsidiaries or affiliates, and no assurance can be given that we will do so on an arm's-length basis. In addition, future conflicts of interest between us and GFNorte or any of its subsidiaries or affiliates may arise, which conflicts are not required to be and may not be resolved in our favor. See "*Related Party Transactions*."

While in the past the CNBV has not disagreed with our determinations that the terms of these transactions are "substantially on market conditions," we can provide no assurances that the CNBV will agree with any of our future determinations. There can be no assurance that future transactions involving GFNorte or any of its subsidiaries or affiliates will not have an adverse effect on our financial position.

Resources could be diverted, or our business or business opportunities could be diverted, to other entities within the financial group controlled by GFNorte, or operations of other subsidiaries of GFNorte may be transferred to us.

We are part of a financial group controlled by GFNorte. Other entities within the group include, among others, Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, E.R. ("Arrendadora y Factor Banorte"), which maintains some Stage 3 loan portfolios, and Casa de Bolsa Banorte, which maintains trading positions. GFNorte could, at any time, devote more resources or divert our business or business opportunities to other subsidiaries of GFNorte that directly or indirectly compete with us, as well as transfer certain operations of other subsidiaries of GFNorte to us, on grounds of capital efficiency, regulatory constraints or other criteria. Arrendadora y Factor Banorte generated Ps. 583 million in gains for the nine-month period ended September 30, 2024, Ps. 665 million in gains for the year ended December 31, 2023 and Ps. 598 million in losses for the year

ended December 31, 2022. Casa de Bolsa Banorte contributed 0.67% of GFNorte's net income for the nine-month period ended September 30, 2024, and 1.43% of GFNorte's net income in 2023. Arrendadora y Factor Banorte currently has no employees of its own and primarily relies upon Banorte to conduct its business. Should more of our resources be diverted, or our business or business opportunities be diverted, to other subsidiaries of GFNorte, or if unprofitable operations of other subsidiaries of GFNorte are transferred to us, our financial position and results of operations could be adversely affected.

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.

As a commercial bank, one of the principal types of risks we face is credit risk. Our credit risk management system may not effectively identify and quantify our credit risk exposure. For example, an important part of our credit risk management system is to employ an internal credit rating system to assess the particular risk profile of a customer. As this process involves detailed analyses of the customer or credit risk, taking into account both quantitative and qualitative factors, it involves judgments by our management team and employees and, therefore, is subject to human error. In exercising their judgment, our employees may not always be able to assign an accurate credit rating to a customer or credit risk or to effectively identify the risks relating to the business, industry or region where a customer operates, which may result in a higher credit risk exposure for us than indicated by our risk rating system. In addition, we have been trying to refine our credit policies and guidelines to address potential risks associated with particular industries or types of customers, such as affiliated entities and group customers. However, we may not be able to timely detect these risks before related losses occur, or due to limited resources or tools available to us, our employees may not be able to effectively implement them, which may increase our credit risk. As a result, our failure to effectively implement, consistently follow or continuously refine our credit risk management system may result in a higher risk exposure for us, 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.

The credit card industry is highly competitive and entails significant risks, including the possibility of over-indebtedness of customers.

The credit card industry in Mexico is dominated by institutions that may possess greater financial resources and broader coverage in this market than we do. There is no assurance that we will be able to effectively compete for and retain customers in this competitive segment. Moreover, our credit card business is subject to a number of risks and uncertainties, including the possibility of over-indebtedness of our 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, which could have a material adverse effect on us.

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. 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.

We may be unable to effectively control the level of non-performing, Stage 3, or low credit quality loans in our loan portfolios and our loan loss reserves may be insufficient to cover actual loan losses.

Non-performing, Stage 3 or low credit quality loans can negatively impact our results of operations. We cannot assure you that we will be able to effectively collect impaired loans or control and reduce the level of the impaired loans in our loan portfolio. In particular, the amount of our reported non-performing loans or Stage 3 loans may increase in the future as a result of growth in our loan portfolio or factors beyond our control, such as the impact of a global financial crisis and macroeconomic trends and political events affecting Mexico or events affecting certain industries to which we lend.

As of September 30, 2024, December 31, 2023, December 31, 2022 and December 31, 2021, the aggregate outstanding principal amount and accrued interest of loans to our 15 largest clients (including loans to a single commercial group or to the Mexican government) represented 9.0%, 8.3%, 8.2% and 8.5%, respectively, of our total loan portfolio (on an unconsolidated

basis). If the financial well-being of any of these clients were to be negatively impacted by political, economic or industry-related developments or any other factor, it could lead to an increase in our non-performing, Stage 3, or low credit quality loans.

Notwithstanding any actions implemented by the Bank, our loan loss reserves may still not be adequate to cover an increase in the amount of non-performing or Stage 3 loans or any future deterioration in the overall credit quality of our total loan portfolio. Our loan loss reserves, which are calculated in accordance with CNBV regulations and under internal models in the case of credit card and enterprise portfolios, 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, there is no precise method for predicting loan and credit losses, and we cannot assure you that our loan loss reserves are or will be sufficient to cover actual losses.

If our assessment of, and expectations concerning, the above-mentioned factors differ from actual developments; if the quality of our total loan portfolio deteriorates, for any reason, including an increase in lending to individuals and SMEs, an increase in our credit card portfolio and our introduction of new products; or if future actual losses exceed our estimates of incurred losses, we may be required to increase our provisions and allowance for loan losses, which may adversely affect us. If we are unable to control or reduce the level of our non-performing, Stage 3 or low credit quality loans, or to adequately reserve such loans, our financial position and results of operations could be materially and adversely affected.

We have experienced asset quality problems, including with respect to collateral, and have reported relatively large loan loss provisions.

The asset quality of our loan portfolio, including with respect to collateral, was negatively affected by the unfavorable financial and economic conditions prevailing in Mexico following the global financial crisis that commenced in 2008. Mexican regulatory authorities and the banking system responded to this situation in several ways, including making revisions to Mexican Banking GAAP, including allowing for the reclassification of certain "available for sale securities" to "held to maturity securities" and broadening the class of securities available for repurchase. Other regulatory responses included imposing more stringent loan loss reserve requirements and capitalization standards, as well as adopting a number of programs designed to provide relief to Mexican borrowers in connection with the granting and restructuring of outstanding loans. Such reserve requirements could have a direct adverse impact on our financial results. 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. See "*Selected Statistical Information—Non-Performing and Stage 3 Loan Portfolio.*" We also believe that recoveries from those non-performing or Stage 3 loans as a percentage of the non-performing and Stage 3 loan portfolio are likely to decline over time as a consequence of the aging of the non-performing and Stage 3 loan portfolio, as well as the decreased value of the collateral supporting these loans.

Moreover, in Mexico, foreclosure procedures are generally subject to delays and procedural uncertainties and administrative requirements that may result in lower levels of recovery on collateral compared to its value. In addition, other factors such as defects in the perfection of our security interests, fraudulent transfers by borrowers, attachments by other creditors obtaining priority over collateral, a reduction in the value or liquidity of the collateral or the still uncertain effects of the Mexican judicial reform may impair our ability to recover on our collateral. Accordingly, there can be no assurance that we will be able to realize the full value of our collateral.

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.

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

In an effort to conform its regulations to the recommendations issued by the Basel Committee on Banking Supervision (the "Basel Committee"), since 2009, the Mexican government has implemented new rules regarding the methodology that Mexican banks must use to classify loans and to determine loan loss provisions. The new regulatory framework shifted away from an accrued losses methodology to an expected losses methodology. This new methodology has been implemented in phases, as follows:

- in 2009, for credit card loans;
- in 2011, for consumer, mortgage and government loans;

- in 2013, for commercial loans;
- in 2014, for loans to financial institutions;
- in 2015, for revolving consumer loan portfolio;
- in 2017, for term loans and mortgages, as well as to accounting for loan losses and write-offs; and
- in 2018, for reserves and capital related to our credit card loan portfolio.
- in 2020, for the adoption of IFRS 9; and
- in 2021, for loans granted to women borrowers.

In addition, in 2015, the CNBV adjusted the rating methodology for non-revolving consumer and mortgage loan portfolios, which remains based on expected losses and incorporates new factors based on recent information on the industry's performance. In addition to taking into consideration the borrower's experience with the financial institution granting the loan, the most significant change introduced by the new methodology is that it considers information provided by credit information companies about the credit behavior of the borrower with other financial institutions. The new methodology for revolving consumer loan portfolios became effective on June 1, 2017.

In January 2018, the CNBV approved Banorte's adoption of an advanced internal rating-based model to estimate the provisions and capital requirements for credit risk of revolving consumer loans. This new methodology is calibrated with the borrower's historic credit relationship with Banorte and other institutions.

In addition, in the first quarter of 2019, the CNBV approved Banorte's adoption of a basic internal model for commercial loans to estimate the provisions and capital requirements for corporations (other than states, municipalities and financial entities), and individuals (sole proprietorships), both with annual sales equal to or higher than 14 million UDIs.

The CNBV updated the accounting framework applicable to credit institutions to converge with the latest changes in international financial reporting standards regarding the classification and measurement of financial instruments, update the current revenue recognition standard, the leasing standard, as well as the adoption of a new Mexican standard relating to the determination of fair value and its disclosure. These new standards became effective on January 1, 2022. The aim of these new accounting standards is to adopt new standards applicable to the classification and measurement of our financial assets and liabilities, including our total Stage 3 loans in order to reduce the differences between Mexican Banking GAAP and International Financial Reporting Standards.

In the future, the CNBV could modify the accounting rules applicable to loan loss allowances, and further modify the methodology to measure credit risk or the requirements for loans loss provisions of other portfolios. Any such modifications could require us to increase our allowance for loan losses and, therefore, adversely affect our results of operations and financial position.

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 grow our retail loan portfolio. The recoverability of our existing retail loan portfolio, our ability to increase our loans outstanding and, in general, our results of operations and financial condition, 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.

Furthermore, demand for the loan products we offer depends on economic conditions, including GDP growth rates, inflation, unemployment, the cost of energy and other supplies, the ability of consumer credit, interest rates, consumer confidence, retail trends and exchange rates. These economic conditions are beyond our control. If economic conditions worsen, demand for our products, including our consumer products, could decline. A decline in demand for consumer goods would also reduce demand for our durable goods loans and would also likely reduce demand for our payroll loans, to the extent those loans are used to finance consumer purchases. As a result, our loan portfolio may become increasingly vulnerable to macroeconomic situations that could negatively impact the household income of our retail customers and result in increased loan losses.

Additionally, because the penetration of bank lending products in the Mexican retail sector historically has been low, there is little basis on which to evaluate how the retail sector will perform 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.

Natural disasters and weather conditions may adversely affect us.

Our operations and those of our customers could be located in areas subject to natural disasters and severe weather conditions. Natural disasters or severe weather conditions could increase our operating costs or the operating costs of our customers. Moreover, if our insurance or our clients' insurance does not fully cover the losses resulting from these events, our income, liquidity or capital resources could be adversely affected. Some experts believe that climate change resulting from global warming could lead to an increase in the frequency and intensity of natural disasters in the future. Our operations have insurance that covers damage caused by natural disasters, accidents and other similar events. However, we cannot assure you that the losses caused by damages to our operations or to the operations of our clients will not exceed the limits established in the corresponding insurance policies.

We maintain lower levels of capital or reserves in connection with our loans to Mexican federal, state and municipal governments.

The Mexican Capitalization Requirements and the rules governing the creation of reserves for loan losses applicable to credit institutions generally require significantly lower capitalization levels or reserves (if any) in connection with loans made to Mexican federal, state or municipal governments (together, the "Government Loans"). As of September 30, 2024, our Government Loans amounted to Ps. 165,841 million, or 15.0% of our total gross loan portfolio. Although as of September 30, 2024, we had only Ps. 2.34 million in Government Loans categorized as Stage 3 loans, an additional deterioration in the credit quality of our Government Loans could result in an adverse impact on our financial position and results of operations. The magnitude of this impact would be a function of the size of our exposures to the relevant government entities, the extent of the deterioration in their internal credit ratings assigned by our risk management area according to the methodology approved by the CNBV and the guarantees of these loans, among other factors.

Some of our loans to Mexican states and municipalities may be renegotiated.

The Mexican government and commercial banks, including us, have from time to time agreed to modify the terms of Government Loans. Such modifications have included maturity extensions, amendments to collateral received, reductions in interest rates and the inclusion of prepayment features and/or options. As of September 30, 2024, Ps. 114,921 million of these loans, or 10.4% of our total state and municipal government loan portfolio, have been renegotiated. There can be no assurance that these or other Government Loans will not be similarly renegotiated in the future in a way that could reduce our margins in this line of business, which could adversely affect our results of operations.

We can provide no assurance that in the event that borrowers in our state and municipal government segment or our federal government segment implement any plan to reduce their cost of funding, the loans that we have granted to such borrowers will not be renegotiated on terms favorable to us or early repaid. Any such renegotiation or early repayment could adversely affect our business, financial condition, and results of operations.

Many of our loans to Mexican states and municipalities are secured by cash flows from the Mexican federal government.

Most of our loans to Mexican states and municipalities are secured by such entities' right to receive their corresponding allocation of *participaciones federales*. Any changes to Mexican laws and regulations regarding the use of *participaciones federales* as source of payment for these types of loans or defects in the perfection of such collateral, may require amendments to our credit facilities and may impact the credit risk of such facilities or the manner in which we conduct business with Mexican states and municipal governments, which in turn could affect our results of operations and financial position.

Furthermore, as *participaciones federales* are subject to the conditions of the Mexican economy and the federal government's tax collections, we cannot give any assurances that the *participaciones federales* will remain at their current funding level or that they will be sufficient for the timely performance of Government Loans. If *participaciones federales* are reduced as a result of changes to Mexican laws and regulations or for any other reason, our results of operations and financial condition could be adversely affected.

Defects in the perfection of our security interests or fraudulent transfers by borrowers may impair our ability to recover on our collateral. Accordingly, there can be no assurance that we will be able to realize the full value of our collateral, or timely realize the full value of our collateral, in connection with financings made to Mexican state and municipal governments. If we

are not able to realize the full value of our collateral, our results of operations and financial condition could be adversely affected.

The future of government sector lending in Mexico is uncertain.

Our business is subject to a continuously evolving regulatory regime of financial service laws, regulations, administrative actions and policies in each Mexican state in which we operate. In particular, due to certain high-profile restructurings of Mexican state and municipal debt, in April 2016, the Mexican Congress approved certain amendments related to government sector lending. As a result, state and municipal governments are now subject to the Law of Financial Discipline for States and Municipalities (*Ley de Disciplina Financiera de las Entidades Federativas y los Municipios*), which seeks to organize and align budgetary and financial instruments of the states, municipalities and their agencies, as to ensure sustainable management of local public finances. This law establishes general principles of financial discipline, including, among others, rules on the incurrence of indebtedness and a registry for such indebtedness applicable to states and municipalities.

Additionally, although state and municipal public debt is regulated by state law in Mexico, there are certain provisions and limitations set forth in the Mexican Federal Constitution and other federal laws (including in the Law of Financial Discipline for States and Municipalities), especially in connection with the use of *participaciones federales* as a source of payment or as a public funding investment. In the past, there have been inconsistencies between state and federal law with respect to these uses of *participaciones federales*, which have been addressed by the Mexican Supreme Court. Some of these judgments have had an adverse effect on the manner in which Government Loans have been granted. We cannot ensure that future judicial interpretations or resolutions, or new policies implemented by the Mexican government (which new administration stepped into office on October 1, 2024), or any constitutional reforms (including but not limited to, the Mexican judicial reform), will not have an adverse effect on our Government Loan portfolio and our results of operations.

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.

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 value. Article 9 of the Fiscal Coordination Law (*Ley de Coordinación Fiscal*) provides that *participaciones federales* used by states or municipalities may not be subject to attachment or liens and, may not be assigned or subject to retention or withholding, except that they may be used to satisfy payment obligations of such states and municipalities, provided they have the authorization of the state's congress and are registered with the SHCP in the Single Public Registry (*Registro Público Único*) created under the Law of Financial Discipline for States and Municipalities.

In addition, Article 4 of the Mexican Federal Code for Civil Procedure (*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. As a result, the ability to enforce judgment against such governments or agencies upon the occurrence of a default may be limited, and this could materially affect our business, financial condition and results of operation. Furthermore, other factors such as defects in the perfection of our security interests, fraudulent transfers by borrowers, a reduction in the value or liquidity of the collateral or the still uncertain effects of the Mexican judicial reform may impair our ability to recover on our collateral. Accordingly, we can give no assurance that we will be able to realize the full value of our collateral or realize it in a timely manner. Furthermore, many secured creditors may compete for collateral granted by state or municipal governments, as *participaciones federales* are available, on a pro rata basis, to secured creditors. As a result, lower recovery rates, asset quality deterioration and decreased value of collateral could have a material and adverse effect on our results of operations and financial position.

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. While we have liquidity management processes designed to mitigate and control these risks, unforeseen systemic market factors make it difficult to completely eliminate these risks. Adverse and continued constraints in our liquidity, including interbank lending, has affected and may materially and adversely affect the cost of funding our business, and extreme liquidity constraints may affect our current operations and our ability to fulfill regulatory liquidity requirements, as well as limit growth possibilities. Disruption and volatility in the global financial markets could also have a material adverse effect on our ability to access capital and liquidity on financial terms acceptable to us.

In the past many Mexican banks have suffered severe liquidity problems as a result of a financial crisis in Mexico, particularly in connection with refinancing short- and medium-term U.S. dollar liabilities in the international capital markets.

No assurance can be given that liquidity problems will not affect the Mexican banking system again or that liquidity constraints will not affect us in the future. While we expect to be able to pay or refinance our projected liabilities, no assurance can be given that we will be able to repay such liabilities or refinance such liabilities on favorable terms.

We rely, and will continue to rely, primarily on customer deposits to fund lending activities. 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.

We anticipate that customers in Mexico will continue in the near future to demand short-term deposits (particularly demand deposits and short-term time deposits) and loans and that we will maintain our reliance on the use of deposits as a source of funding. The short-term nature of this funding source could cause liquidity problems for us in the future if deposits are not made in the volumes we expect or are not renewed. As of September 30, 2024, 96.1% of our local and foreign currency deposits had remaining maturities of one year or less or were payable on demand. In the past, a substantial portion of such customer deposits have been rolled over upon maturity or maintained with us (in the case of deposits payable on demand) and, as a result, such deposits have over time been a stable source of funding. No assurance can be given, however, that customers will continue to roll over or maintain their deposits with us. If a substantial number of our customers fail to roll over their deposits upon maturity or withdraw their deposits, our liquidity position could be adversely affected, and we may be required to seek funding from more expensive sources, affecting our financial condition and results of operations.

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. Peso exchange rates and interest rates in Mexico have been subject to significant fluctuations in recent years. Because of the historical volatility in Peso exchange rates and interest rates in Mexico, the risks associated with such positions may be greater than in certain other countries. Exchange rates and interest rates have experienced considerable volatility in recent years.

As of September 30, 2024, the expected shortfall associated with our financial instruments sensitive to both domestic interest rates and foreign interest rates were U.S.\$7.4 million (Ps. 145.9 million) and U.S.\$3.1 million (Ps. 61.7 million), respectively. 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. See “*Selected Statistical Information—Interest Rate Sensitivity of Assets and Liabilities*” and “*Risk Management*.” 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.

Depreciation of the Peso may have an adverse effect on us by, for example, increasing in Peso terms the amount of our foreign currency-denominated liabilities and the rate of default among our borrowers or affecting our results of operations when measured in U.S. dollar terms. It may also result, as in the past, in the implementation of exchange controls that may impact our ability to convert Pesos into U.S. dollars or to transfer currencies outside of Mexico, which may have a negative impact on our ability to pay our U.S. dollar-denominated liabilities and on our financial condition.

The Peso continues to be affected by uncertainty and volatility in the global markets. The Mexican government has implemented a series of measures to limit the volatility of the Peso. However, we cannot assure you that such measures will be effective or maintained or how such measures will impact the Mexican economy.

This year, an easing cycle has begun in both Mexico and the United States. In Mexico, the Mexican Central Bank has reduced rates by 75 basis points from their peak, bringing the rate down to 10.50%. As of the date of this offering memorandum, the market anticipates an additional 26 basis points of easing this year and approximately 94 basis points more in 2025. Conversely, in the U.S., the easing cycle just started with an accumulated 75-basis-point cut in September and November. The market expects around 25 basis points for the next meeting and approximately 125 basis points of cuts in 2025, which would place the 2025 upper bound on the fed funds rate near 3.25%, aligning with the Fed’s median dot projections.

A sustained increase in interest rates will also raise our funding costs and may reduce our loan demand, especially among consumers. Rising 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. In addition, rising interest rate levels may adversely

affect the Mexican economy and the financial position and repayment ability of our corporate and retail borrowers, including holders of our credit cards, which, in turn, may lead to a deterioration in our asset quality.

In addition, the Mexican economy has suffered balance of payment deficits and shortages in foreign exchange reserves in the past. While the Mexican government, for more than thirty years, has not restricted the ability of Mexican and foreign individuals or entities to convert Pesos to U.S. dollars, we cannot assure you that the Mexican government will not institute restrictive exchange control policies in the future. To the extent that any such restrictive exchange control policies were to be instituted in the future in the event of shortages of foreign currency, our ability to transfer or convert Pesos into U.S. dollars and other currencies to service our foreign currency obligations, including the Notes, would be adversely affected and foreign currency may not be available without substantial additional cost.

Severe devaluation or depreciation of the Peso may also result in government intervention, as has occurred in other countries, or disruption of international foreign exchange markets. While the Mexican government does not currently restrict, and for many years has not restricted, the right or ability of Mexican or foreign persons or entities to convert Pesos into U.S. dollars or to transfer other currencies outside of Mexico, the Mexican government has taken such measures in the past and could institute restrictive exchange control policies in the future. Accordingly, fluctuations in the value of the Peso against the U.S. dollar could have a material adverse effect on us and impair our ability to make payments under the Notes.

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

We enter into financial derivative transactions primarily for hedging purposes and, to a lesser extent, on behalf of our customers. Accordingly, we are subject to market 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 hedge cost) and credit or default risk (the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder).

Mexican courts have limited experience in dealing with issues related to derivative transactions, as most disputes have typically been resolved through negotiations among Mexican financial institutions. As a result, the outcomes of disputes regarding derivatives reaching the Mexican judicial system are not fully predictable. Derivative transactions are usually documented under ISDA master agreements or similar agreements that differ from agreements typically used in the Mexican market, which further increases the unpredictability of their interpretation by Mexican courts. Given that for certain of our financial derivative transactions the derivative market is not yet as developed in Mexico as in other jurisdictions, there are added structuring risks and the risk that our documentation will not incorporate accurately the terms and conditions of such derivative transactions.

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.

We are subject to consumer laws that may limit the activities of Mexican banks.

The Mexican National Commission for the Protection and Defense of Financial Service Users (*Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros*) (the “CONDUSEF”) has broad powers to regulate our activities and activities of other Mexican banks, and is entitled to:

- order amendments to our standard form commercial banking documentation (such as loan and account agreements), if CONDUSEF deems that provisions included in such agreements are detrimental to users;
- order the attachment of our assets for the benefit of our customers; and
- initiate class actions for the benefit of groups of customers.

CONDUSEF has broad and discretionary authority to take this and other similar actions, including the imposition of laws and the publication of information, such as imposing fines that may be detrimental to our business and reputation. Actions taken by CONDUSEF against us, whether on an isolated or recurrent basis, may have a material impact on us.

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

In order to grow, remain competitive, enter into new businesses and meet regulatory capital adequacy requirements, we may require additional capital in the future. Moreover, we may need to raise additional capital in the event of large losses in connection with any of our activities that result in a reduction of our shareholders' 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 necessary government regulatory or corporate approvals;
- public health and economic consequences in Mexico and abroad;
- general market conditions for capital-raising activities by commercial banks and other financial institutions;
- the trading value of our equity or debt securities in the secondary market;
- any reduction in our credit rating or the credit rating of our subsidiaries; and
- social, economic, political and other conditions in Mexico and elsewhere.

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

Downgrades 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. Among other factors, our credit ratings are based on the financial strength, credit quality and concentrations in our loan portfolio, the level and volatility of our earnings, our capital adequacy and leverage, the liquidity of our balance sheet, the availability of a significant base of core retail and commercial deposits, and our ability to access a broad array of wholesale funding sources. Our lenders and counterparties in financial derivative transactions are sensitive to the risk of a ratings downgrade. Changes in our credit ratings 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 roll over maturing debt may be more difficult and expensive. There can be no assurance that rating agencies will maintain our current ratings or outlook.

Our ability to compete successfully in the marketplace for deposits depends on various factors, including our financial stability as reflected by our credit ratings. A downgrade in our credit ratings may adversely affect perception of our financial stability and our ability to raise deposits or obtain other funding, which could significantly affect our business, financial conditions and results of operations.

We are exposed to risks faced by other financial institutions.

We routinely transact with counterparties in the financial services industry, including broker-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 enter into expose us to significant credit risk in the event of default by one of our significant counterparties. These liquidity concerns have had, and may continue to have, an adverse effect on interbank financial transactions in general. 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.

We are subject to significant competition from other banks, financial institutions, non-bank financial institutions and fintech companies in providing financial services.

We face significant competition from a range of banks, financial institutions, non-bank financial entities, and fintech companies, including *sociedades financieras populares* ("Sofipos"), in providing financial services. This competition spans key areas such as loan origination, deposit gathering, and the rapidly evolving digital banking landscape (including money transfers and wallets). Fintech companies like Nubank and Uala have quickly gained market share through digital-first strategies that appeal to consumers, many of which do not have an existing banking relationship. For example, Nubank alone accumulated Ps. 3.3 billion in deposits by the second quarter of 2024, while Mexico's top seven banks collectively hold Ps.

329 billion. Although smaller, Sofipos also play a growing role in reaching underserved markets with simplified financial solutions. These fintech players benefit from a more flexible regulatory environment in Mexico, allowing them to operate with fewer restrictions than traditional banks.

Nevertheless, fintech companies, including Sofipos, face substantial barriers, particularly in obtaining banking licenses and paying interest on money kept at wallets. The approval process for such licenses in Mexico can take up to two years, limiting fintechs' ability to offer comprehensive banking services, such as payroll-based loans. Many fintechs rely on borrowing at rates as high as 20% and offer deposit yields up to 15%, which raises concerns regarding the long-term sustainability of their business models.

Despite these challenges, fintechs are making significant inroads into Mexico's financial services market, especially in digital payments and remittances. Fintech companies now account for 18.4% of the fintech ecosystem in Mexico, with a strong focus on lending services and transfer of funds. As competition continues to intensify, there is growing speculation around potential consolidation within the fintech industry.

An increase in competition or a more aggressive competition strategy by our competitors may force us to decrease the rates at which we lend money or to pay higher interest rates to our creditors and bank depositors, in order to avoid losing clients to banks offering more attractive rates, which would increase our interest expenses and reduce our net interest income and, consequently, adversely impact our financial position or operating results. There is no assurance that we will be able to effectively compete for and retain customers in this competitive industry.

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.

Our ability to maintain our competitive position depends, in part, on the success of new products and services we offer our clients and 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 our ability to continue offering products and services from third parties. However, we cannot guarantee that our new products and services will be responsive to client demands or successful once they are offered to our clients, 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 clients, 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 the experience of 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 are not 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.

Our increasing focus on individuals and small and medium-sized businesses could lead to higher levels of Stage 3 loans and subsequent charge-offs.

42.5% of the value of our total gross loan portfolio as of September 30, 2024 consisted of exposure to individuals, while SMEs comprised 5.2% of the value of the total gross loan portfolio as of September 30, 2024. 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 than large corporations and high-income individuals who have greater resources. Consequently, we may experience higher levels of Stage 3 loans, which could result in higher provisions for loan loss reserves, which in turn would negatively affect us.

There can be no assurance that our levels of Stage 3 loans and subsequent charge-offs will not be materially higher in the future and affect our financial condition and results of operations.

We are subject to substantial regulation and changes to these regulations may further limit and adversely affect us.

As a financial institution, we are subject to extensive laws and regulations regarding our organization, operations, lending and funding activities, capitalization, transactions with related parties, and taxation and other matters, including regulation by the Mexican Central Bank, the CNBV and the SHCP. These laws and regulations impose numerous requirements on us, including the maintenance of minimum credit, market and operating-risk capital levels and allowance for impairment losses, and otherwise regulate prohibited activities. The regulations also place limitations on the fees, commissions and interest rates we charge, our business practices and practices relating to risk-profile and sales of securities, money laundering, derivatives, rates charged, application of required accounting regulations and tax obligations. Statutes, regulations and policies to which we are subject, in particular those relating to the banking sector and financial institutions, may be changed at any time, and the interpretation and the application of those laws and regulations by regulators is also subject to change. Many of the applicable laws and regulations have changed extensively in recent years, with a negative impact on our financial condition.

Moreover, there may be future changes in the legal or regulatory system or in the interpretation and enforcement of the laws and regulations. In addition, the volume, granularity, frequency and scale of regulatory and other reporting requirements necessitate a clear data strategy to enable consistent data aggregation, reporting and management. Inadequate management information systems or processes, including those relating to risk data aggregation and risk reporting, could lead to a failure to meet regulatory reporting requirements or other internal or external information demands, and we may face supervisory measures as a result.

One of the main aspects provided in the Mexican Banking Law consists of the authority granted to the SHCP to conduct evaluations of Mexican banks. 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. The most recent evaluation was conducted in 2024 and we received a positive evaluation, no corrective measures were ordered. 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 laws and 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. The manner in which those laws and related regulations are applied to the operations of financial institutions may evolve over time. 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.

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.

Mexico has been at the forefront in the implementation of a strong regulatory banking framework, which results in capitalization requirements, and alerts relating to such requirements, that are consistent with global standards. Mexico was one of the first countries in the world to implement Basel III rules. Unlike other countries that implemented or are in the process of implementing Basel III capitalization rules over the course of several years, the Mexican government took advantage of the strong capitalization levels of the Mexican banking system and required that all banks operating in Mexico adopt Basel III capitalization rules beginning in 2013. Moreover, in May 2016, the CNBV imposed additional capital requirements to certain D-SIBs, including us, and mandated the constitution of a Countercyclical Capital Supplement to further shield the Mexican banking system. Although Mexican banks were required to constitute and comply with these additional capital requirements over a period of four years, to be constituted in four equal parts in December of each year, on a cumulative basis, commencing on December 31, 2016, many of the banks, including Banorte, already fully complied with such capital requirements given their high capitalization levels. Mexican banks determined as D-SIBs under the TLAC Requirements must also comply with minimum requirements for total loss-absorbing capacity and restoration of capital, which may be comprised of Fundamental Capital or capital instruments (*instrumentos de capital*) pursuant to the Mexican Banking Law and the Mexican Capitalization Requirements.

In June 2021, modifications to the capitalization rules were published, which require that D-SIBs must maintain a supplement (Net Capital Supplement) to the Total Net Capital, which must be additional capital necessary to comply with the Minimum Regulatory Capital Ratios, this in accordance with article 2 Bis 117 ñ of the General Rules Applicable to Mexican Banks. It is necessary for the Bank to implement this supplement to the Total Net Capital in four annual equal parts, beginning on December 31, 2022 and ending on December 31, 2025.

Currently, the minimum Capital Ratios to be classified as Class I (and, as a result, not Class II or below) generally applicable to any Mexican bank are the Minimum Regulatory Capital Ratios.

The Basel Committee could adopt a new accord regarding minimum capitalization requirements that sets conditions that are more restrictive for Tier 1 Capital or that raises the minimum capital ratios even higher.

Changes in laws and regulations issued by the CNBV in connection with the minimum capitalization requirements in compliance with international banking standards may affect our financial condition and results of operations and the treatment of the Notes of each series as part of our Tier 1 Capital.

The effective management of our capital position is important to our ability to operate our business, to continue to grow organically and to pursue our business strategy. However, as these changes to the regulatory capital framework and other changes are implemented, or as future changes are considered or adopted that limit our ability to manage our balance sheet and capital resources effectively or to access funding on commercially acceptable terms, we may experience a material adverse effect on our financial condition and regulatory capital position. In addition, the implementation and maintenance of enhanced liquidity risk management systems may result in significant costs, and more stringent requirements to hold liquid assets may materially affect our lending business as more funds may be required to acquire or maintain a liquidity buffer, thereby reducing future profitability.

Furthermore, we cannot predict the terms that will be included in implementing regulations in connection with requirements to be satisfied in respect of lending activities to certain sectors of the economy. However, if the SHCP determines, after an evaluation, that we have not complied with applicable requirements, we may be forced to lend to certain sectors of the economy or to certain persons that may not meet our credit quality standards, that we may not know or that are not acceptable credit risks, which in turn may impact our financial condition and results of operations and the quality of our assets. Moreover, if we were to fail any evaluation, publicity surrounding such failure may impact our reputation, which in turn may adversely impact our ability to conduct business in Mexico and our financial condition and results of operations.

Any legislative or regulatory actions and any required changes to our business operations resulting from such legislation and regulations could result in significant loss of revenue, limit our ability to pursue business opportunities in which we might otherwise consider engaging, affect the value of assets that we hold, require us to increase our prices and therefore reduce demand for our products, impose additional costs on us or otherwise adversely affect our businesses. Accordingly, there can be no assurance that future changes in regulations or in their interpretation or application will not adversely affect us.

We are subject to regulatory inspections, examinations, inquiries and audits that could result in intervention, sanctions and other penalties by our regulators and supervisors.

We are subject to comprehensive regulation and supervision by U.S. and Mexican regulatory authorities. The Mexican regulatory authorities include the Mexican Central Bank, the CNBV, the IPAB and the SHCP. The new Mexican federal administration that took office in October 2024 could implement new policies or interpretations to existing laws and regulations or propose changes to such regulations that could have an adverse effect on our business, financial condition and results of operations. See “*The Mexican Financial System.*” 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).

Furthermore, 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 “*Supervision and Regulation.*”

As noted above, our business and operations are subject to increasingly significant rules and regulations that are required to conduct banking and financial services business. These apply to our business operations, affect our financial returns, include reserve and reporting requirements, and set forth conduct of business regulations.

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.

Furthermore, pursuant to Mexican case law (*jurisprudencia*), which is binding to tribunals in the first circuit (*tribunales colegiados en el primer circuito*) only in respect of criminal matters in which a banking institution acts as auxiliary authority to immobilize or seize bank accounts, a Mexican banking institution may be deemed as responsible authority (*autoridad responsable*) for purposes of an amparo suit (*juicio de amparo*), which may imply that certain actions taken by a Mexican banking institution may be suspended or revoked by a court in an amparo suit, among other potential results. Even if, pursuant to Mexican law and the aforementioned case law, a Mexican banking institution is only deemed as responsible authority in an amparo suit when (i) such institution acts in a manner equivalent to a governmental authority, (ii) affects rights of individuals, and (iii) its functions are determined by law, such case law allows each court to interpret and decide subjective elements in connection with the determination of a bank as a responsible authority under an amparo suit. The characterization of a Mexican banking institution, under certain circumstances, as responsible authority may subject such institutions to the

provisions of the Mexican *Ley de Amparo*, which effects and consequences are still unknown, and may increase the regulatory charges applicable to, and affect the activities of the Bank. Recent non-binding Mexican judicial criteria (*tesis aisladas*) have set forth that, if a banking institution is acting in its ordinary course of business, it cannot be deemed as a responsible authority under the Mexican *Ley de Amparo*.

We may be subject to future Mexican government restrictions on interest rates, fees and commissions or changes in allowance for loan loss requirements.

A portion of our revenues and operating cash flow is generated by the interest rates, fees and commissions that we charge to our customers, and any limitations or requests for additional information relating to interest rates, fees and commissions that we charge may have a material adverse effect on us. In Mexico, the Law for the Protection and Defense of Financial Services Users (*Ley de Protección y Defensa al Usuario de Servicios Financieros*) does not impose any specific limit on the interest rate that a bank may charge, subject to certain exceptions. 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 that relate to interest rates, fees and commissions. In addition, the Mexican Central Bank has broad authority to issue 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.

While during the past administration there were informal discussions led by the Senate's majority party leader to limit fees and commissions charged by banks, as of the date of this offering memorandum, the Mexican Congress and Mexican regulators (including the Mexican Central Bank) have not formally proposed any specific legislation to limit the interest rates we may charge. Some banks reacted by lowering or eliminating some of their fees. We cannot predict what impact the issuance of any such regulations may have on our business and results of operations, although it is likely to require amendments to the way in which we operate and may adversely impact our financial results.

Our banking license may be revoked by the CNBV.

Under the Mexican Banking Law, the CNBV may revoke our banking license upon the occurrence of certain events, including:

- our failure to comply with any minimum corrective measures ordered by the CNBV;
- our failure to comply with the minimum Capital Ratios required under the Mexican Banking Law and the Mexican Capitalization Requirements;
- our failure to pay certain of our debts or to comply with our obligations with one or more participants in clearing systems or with our depositors; or
- our failure to comply with restrictions on certain types of transactions prohibited by the Mexican Banking Law.

If the CNBV were to revoke our banking license, our business, results of operations and financial condition would be materially and adversely affected. See "*Supervision and Regulation.*"

Allowances for loan losses in Mexico differ from those applicable to banks in the United States and certain other countries and are subject to change from time to time.

Except for Government Loans and loans to certain Mexican development banks guaranteed by the federal government and the Mexican Central Bank, we are required to classify each loan or type of loan according to an assessment of risk based on criteria set forth by Mexican banking regulations, and to establish corresponding reserves. Mexican banking regulations relating to loan classification and determination of allowance for loan losses are generally different than those applicable to banks in other countries, including the United States. The criteria to establish reserves include both qualitative and quantitative factors and involve certain discretionary determinations.

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.

Future mergers or acquisitions of financial institutions could disrupt our operations.

GFNorte acquired Bancentro in 1996, Banpaís in 1997, Bancrecer in December 2001, INB in 2006, UniTeller in 2006, Motran in 2007, IXE in 2011 and GFInter in 2018. The combination of two independent businesses is typically a complex and costly time-consuming process. We faced difficulties and delays in the integration of the banking operations of certain of these entities that affected our performance by diverting our management's attention and human resources. We could face similar problems if we engage in similar transactions in the future. In addition, future acquisitions may require us to operate in markets that are new to us and may subject us to regulatory arrangements in other countries with which we have not had prior experience.

Such transactions and the possibility of a new merger, acquisition or other business combination involving us is likely to entail risks, including diversion of management attention and of human resources, unknown or unforeseen liabilities relating to the counterparty, difficulty in integrating and managing new or combined operations, labor unrest and loss of key personnel.

We depend on our retention of certain key personnel and on our ability to hire additional key personnel and maintain good labor relations.

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

We depend 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.

In addition, as of September 30, 2024, 31.7% of our 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.

We are subject to litigation and other legal, administrative and regulatory proceedings.

We are regularly party to litigation and other legal proceedings relating to claims resulting from our operations in the normal course of business. See “*Business—Litigation and Regulatory Proceedings.*” Litigation is subject to inherent uncertainties, and unfavorable rulings may occur. Furthermore, the increased supervisory focus on enforcement, combined with uncertainty about the evolution of the regulatory regime, may lead to material compliance costs and subject us to regulatory enforcement actions, fines and penalties. See Note 35 to our Audited Consolidated Financial Statements and Note 25 to our Unaudited Condensed Consolidated Interim Financial Statements. Additionally, the effects of the Mexican judicial reform are still uncertain.

We cannot assure you that these or other legal, administrative and regulatory 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.

Our business relies heavily on data collection, processing and storage systems in order for our internal control systems and other operating systems to function properly.

Our business is dependent on our ability to timely collect and process a large volume of financial and other information across numerous and diverse markets and products at our various locations or branches, at a time when transaction processes have become increasingly complex. The proper functioning of our internal control, accounting and data collection and processing systems is critical to our business. A partial or complete failure of any of these systems could materially and adversely affect our decision-making processes and the functioning of 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 depend on information systems to operate our website, provide information to customers, 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 or result in loss of customers, and could materially and adversely affect our financial position and results of operations.

If we fail to adequately protect personal information, our business, financial condition and operating results could be adversely affected.

A wide variety of state, national, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer and other processing of personal data. These data protection and privacy-related laws and regulations are evolving and may result in increasing requirements and public scrutiny and escalating levels of enforcement and potential sanctions for violations. The Federal Law for Protection of Personal Data Held by Private Persons of Mexico (*Ley Federal de Protección de Datos Personales en Posesión de los Particulares*) requires us to ensure the confidentiality of information received from clients. Although we have modified our processes, procedures and systems as required to implement this law, including procedures to supervise our activities thereunder, we can provide no assurances as to how this legislation will be interpreted and how strictly it will be enforced by Mexican authorities. An unfavorable interpretation and enforcement of this legislation could have a material adverse effect on us, including increasing our operating costs and subjecting us to fines and penalties in the event of violations of the provisions of such law.

Like other financial institutions, our operations involve handling proprietary, sensitive, or confidential information, including personal data of customers and employees, as well as managing significant assets. Our success depends on our ability to process numerous transactions efficiently and accurately, relying on advanced digital technologies, computers, email services, software, and networks for secure data storage, transmission, and processing through our own or third-party systems. The integrity and security of our financial controls, accounting, and data processing systems are crucial for maintaining our competitive edge. However, we face risks of data breaches, security incidents, and losses due to potential internal control failures, inadequate personnel, or external disruptions.

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

Our ability to remain competitive in the markets in which we operate depends in part on our ability to upgrade our IT infrastructure on a timely and cost-effective basis, through continuous investment. Our opening of new offices and branches requires us to improve our IT 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 effectively improve or upgrade our IT infrastructure and management information systems in a timely manner and our ability to achieve the expected results from our alliance with IBM's outsourced services 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.

We are subject to the risk of cybersecurity incidents and attacks that could result in a loss of customer data and other sensitive information, financial theft and regulatory penalties.

Cybersecurity incidents against us, our business partners, customers, vendors, or other third parties could result in a loss of customer data and other sensitive information, as well as financial theft. In addition, cyber-attacks could give rise to the disablement of our IT systems, or those of our third-party vendors, used to service our business operations and customers. As attempted attacks continue to evolve in scope and sophistication, we may incur significant costs in our attempt to modify or enhance our protective measures against such attacks, or to investigate or remediate any vulnerability or resulting breach, or in communicating cybersecurity incidents to our customers. Furthermore, remote working has increased our cybersecurity risks, given the greater use of computer networks outside the corporate environment. If we fail to effectively manage our cybersecurity risk, e.g., by failing to update our systems and processes in response to new threats, this could harm our reputation and adversely affect our operating results, financial condition and prospects through the payment of customer compensation, loss of customers, regulatory penalties and fines and/or through the loss of assets.

We have been and continue to be subject to a range of cyber incidents, such as denial of service attacks, intrusion attempts through email malware attachments, ATM hacks, credit card and debit card fraud, attacks via third-party platforms we utilize and phishing.

We cannot assure that cybersecurity incidents and attacks will not cause a material adverse effect in the future.

As a result of the implementation of new accounting criteria for credit institutions in Mexico established by the CNBV, financial information as of and for the years ended December 31, 2023 and December 31, 2022 is not comparable with financial information for prior years.

As a result of the issuance of IFRS 9, the Mexican Board for the Research and Development of Financial Information Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera) published 10 new MFRS that entered into force on January 1, 2018. Since then, the CNBV started the process of adapting the regulations applicable to supervised financial entities, in order to adapt them to the new international framework.

On March 13, 2020, the CNBV published in the Official Gazette a Resolution that amended the General Rules Applicable to Mexican Banks. In this Resolution, the CNBV deemed it was necessary to update the accounting criteria applicable to Mexican banks, in order to make it consistent with national and international financial reporting standards and allow for transparent and comparable financial information with other countries. Therefore, this Resolution incorporated new MFRS issued by the Mexican Board for the Research and Development of Financial Information Standards.

However, since the application of these new rules was complex, the CNBV offered a practical solution to Mexican banks in the fifth transitory provision of the Resolution: quarterly and annual financial statements corresponding to the period ended December 31, 2021 were not to be presented in comparison with each quarter of the year 2020, nor for the period ended on December 31, 2020. Moreover, when applying the new accounting criteria, starting January 1, 2021, Mexican banks could recognize the cumulative effect of accounting changes derived from the Resolution. Therefore, the financial statements of previous periods would not be reformulated.

Initially, these new rules were to be effective as of January 1, 2021; however, due to the COVID-19 pandemic, their effectiveness was postponed until January 1, 2022 (through an Amending Resolution published in the Official Gazette on December 4, 2020).

Therefore, the new accounting criteria started to be applied on January 1, 2022, meaning quarterly and annual financial statements corresponding to the period ended on December 31, 2022 are not to be presented in comparison with any quarter of the year 2021, nor for the period ended on December 31, 2021. Moreover, financial statements for periods prior to 2022 are not to be reformulated.

Pursuant to the above-referenced CNBV requirements, all financial indicators as of December 31, 2023 and 2022 and for the years then ended presented in this offering memorandum were calculated in accordance with the new accounting standards for 2023 and 2022. As a result, financial information as of December 31, 2023 and December 31, 2022, and for the years then ended, presented in this offering memorandum is not comparable with any prior historical financial period and financial information as of December 31, 2021 and for the year then ended is, therefore, presented in this offering memorandum on a stand-alone basis. The lack of comparability with periods prior to the application of the new accounting criteria may make it difficult to gain a full and accurate understanding of our operations and financial condition.

For more information about the new accounting standards, see “Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP” and, for more information regarding new accounting criteria, see Note 3 to our Audited Consolidated Financial Statements as of December 31, 2022 and for the year ended December 31, 2022.

Our Financial Statements have been prepared and are presented in accordance with Mexican Banking GAAP, which is significantly different from U.S. GAAP.

Our Financial Statements included in this offering memorandum have been prepared and are presented in accordance with Mexican Banking GAAP. Significant differences exist between Mexican Banking GAAP and U.S. GAAP which are material to our Financial Statements and other financial information included in this offering memorandum. See “Annex A – Significant Differences Between Mexican Banking GAAP and U.S. GAAP.” We have made no attempt to identify or quantify the impact of those differences in this offering memorandum. In making an investment decision, you must rely upon your own examination of us, the terms of this offering and the financial information included in this offering memorandum. You should consult your own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP and how those differences might affect the financial information included in this offering memorandum.

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 harm our business.

We are required to comply with applicable anti-money laundering and anti-terrorism laws and other regulations in the jurisdictions in which we operate. These laws and regulations have become stricter and 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. Recent rules have been adopted in Mexico restricting the ability of Mexican banks to receive currencies in physical form, in exchange for foreign exchange and other similar transactions. See “*Supervision and Regulation—Money Laundering Regulations*.”

While we have adopted policies and procedures aimed at detecting and preventing the use of our banking network for money laundering activities and by terrorists and terrorist-related organizations and individuals generally, such policies and procedures have in some cases only been adopted recently and may not completely eliminate instances where we may be used by other parties to engage in money laundering and other illegal or improper 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, including the revocation of our license. In addition, our business and reputation could suffer if our infrastructure is used for money laundering or illegal or improper purposes and some of our operations could be suspended by regulatory authorities. 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.

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

In July 2016, a constitutional reform created the National Anticorruption System (*Sistema Nacional Anticorrupción*) (“SNA”), whereby the Mexican Congress approved a group of laws that comprises a legal framework aiming to implement 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 Federal 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*).

There can be no assurance that our internal control policies and procedures will protect us from reckless or criminal acts committed 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.

We may be required to make significant contributions to the IPAB.

Under Mexican law, banks are required to make monthly contributions to support the operations of the 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. The 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 the IPAB for funding.

In the event that the IPAB’s reserves are insufficient to manage the bank savings protection system and provide the necessary financial support granted to troubled banking institutions, the IPAB maintains the discretionary right to require

extraordinary contributions to participants in the system. Any such requirement can be a result of a multitude of circumstances, cannot be predicted and could adversely affect our business, financial condition or results of operations.

Risks Relating to Mexico

Political and economic events in Mexico and Mexican governmental policies, including the recently approved judicial reform, may result in disruptions to, or interferences in, our business operations and financial condition.

We are a Mexican bank and 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. 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. The Mexican government has cut spending since the beginning of the previous administration in 2018, 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.

Presidential, congressional, and other governmental elections were held in Mexico on June 2, 2024, resulting in the election of Ms. Claudia Sheinbaum from the ruling National Regeneration Movement (Movimiento de Regeneración Nacional), or Morena coalition, as president. She assumed office on October 1, 2024. President Sheinbaum, a former mayor of Mexico City and former Secretary of the Environment for the city, is expected to continue the social and economic policies of her predecessor, Mr. López Obrador. The newly elected legislators took office on September 1, 2024, with the Morena coalition holding a qualified two-thirds majority in the Mexican House of Representatives and nearing a qualified majority in the Senate. These majorities grant the Morena coalition considerable authority to enact changes to the Constitution, as well as to Mexican laws, policies, and regulations. The Mexican government could take actions that materially and adversely affect our operations, the manner in which we conduct our business or the manner in which the banking industry generally operates in Mexico.

In February 2024, the Mexican executive branch proposed an amendment to the Mexican Constitution aimed at significantly restructuring the judiciary. This judicial reform was approved in September 2024 by the House of Representatives, the Senate, and a majority of state legislatures, and was subsequently published in the Official Gazette on September 15, 2024, becoming effective on September 16, 2024. Pursuant to this constitutional reform, all federal judges will be elected and the first election of federal judges is expected to take place in 2025. Following this, the Mexican federal and local legislatures have been given 90 and 180 calendar days, respectively, from September 16, 2024, to amend federal and local laws to align with the judicial reform. In addition, a judiciary disciplinary tribunal will be created, taking over the duties of the currently existing Federal Judiciary Council (*Consejo de la Judicatura Federal*). As of the date of this offering memorandum, no assurance can be given regarding the specifics of the final implementing legislation that will be passed by the Mexican federal and local legislatures. For further details on the judicial reform, see “The Mexican Financial System—Judicial Reform.”

In addition, as part of the proposed constitutional amendments submitted in February 2024, it is currently being discussed to disappear certain autonomous governmental bodies, such as the National Institute for Transparency, Access to Information, and Personal Data Protection (INAI), the National Council for the Evaluation of Social Development Policy (Coneval), the Mexican Antitrust Commission, the Federal Telecommunications Institute (IFT), the National Commission for the Continuous Improvement of Education (MEJORADU), the Energy Regulation Commission (CRE), the National Hydrocarbon Commission (CNH) and the National Center of Energy Control (CENACE), and to transfer their functions to Mexican government agencies dependent of the Mexican executive branch.

We cannot predict the impact that these developments will have on us, our business, or Mexico more broadly. No assurance can be given that these reforms, along with the related amendments to federal and local laws, will not materially and adversely impact the Mexican economy, the banking sector, the market value of our Notes, our ability to recover collateral in judicial processes, or our financial results and operations.

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-U.S. dollar exchange rate, price volatility and inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico, over which we have no control. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on us. We cannot assume that such conditions will not return or that such conditions will not have a material adverse effect on our business, financial condition or results of operation.

In 2023, GDP grew 3.2% and inflation was 4.66% on average. During the first eight months of 2024 inflation was 2.75% on average.

Mexico also has, and is expected to continue to have, high real and nominal interest rates relative to the U.S but rate differential may shrink. The interest rates on 28-day Mexican government treasury securities (*Certificados de la Tesorería de la Federación*) (“*Cetes*”), averaged 4.43%, 7.66%, 11.10% and 10.93% for the years ended December 31, 2021, 2022 and 2023, and the for the nine-month period ended September 30, 2024, respectively.

A recession could affect our operations to the extent that we are unable to reduce our costs and expenses in response to falling demand. Similarly, our loan portfolio could deteriorate as a result of higher delinquency rates. These factors could result in a decrease in our loan portfolio, revenues and net income.

Ongoing disputes and volatility in the global financial market may adversely affect our business, financial condition and results of operations.

The global financial markets continue to be uncertain, and it is hard to predict for how long the effects of the global financial stress of recent years will persist and what impact it will have on the global economy. Our future results may be impacted by the uncertainty caused by an economic downturn, volatility or deterioration in the debt and equity capital markets, inflation, deflation or other adverse economic conditions that may negatively affect us or parties with whom we do business resulting in a reduction in our customers’ spending and increased risk of non-payment or inability to perform obligations owed to us.

In recent years certain measures on trade taken by the U.S., which have resulted in retaliatory measures from other countries, the *Brexit*, U.S. monetary policy normalization along with other geopolitical and economic factors have contributed to increase the volatility and uncertainty in several financial markets. Any interruption to the expansion of the developed economies, the impact of said factors in emerging economies or a new economic and/or financial crisis, or a combination of the above, could affect the Mexican economy, and, consequently, materially adversely affect our business.

The persistence or deterioration and volatility of the global economy and the financial markets could adversely affect us, including our ability to raise capital and liquidity on favorable terms or at all. The absence of sources of financing through the capital markets or an excessive increase in the cost of such financing may have the effect of increasing our cost of capital and force us to increase the rates we charge our customers. Any such increase in the cost of financing could have a material adverse effect on our margins. In addition, our financial results are exposed to market risks, including interest rate and exchange rate fluctuations, which can have a material adverse effect on our financial condition and results of operations. In total, the volatility of the global financial markets, both as stemming from inherent risks and as stemming from disputes and retaliation, may adversely affect our business, financial condition and results of operations and financial condition.

Developments in other countries, particularly the United States, could materially affect the Mexican economy and, in turn, our business, financial condition and results of operations.

The Mexican economy remains influenced by the U.S. economy, and therefore, any deterioration of the U.S. economy, disruption of the United States-Mexico-Canada Agreement (“*USMCA*”), or other related events, may impact the Mexican economy. This is due, among others, to the export sector and the direct and indirect effects on tourism, remittances and investment. Specifically, trade integration between the two nations has been going on during the last three decades since the implementation of North American Free Trade Agreement (“*NAFTA*”). In recent years, it has been further strengthened with the renewed USMCA agreement. On June 19, 2019, the Mexican Senate approved this legislation and the agreement entered into force on July 1, 2020.

The benefits of international trade have been mutual for both Mexico and the U.S., with the two nations becoming each other’s most important trading partners since last year. During the first half of 2024, Mexico accounted for 15.7% of the total dollar value of U.S. imports, while 82.7% of Mexico’s exports were directed to the United States. The USMCA includes a sunset clause requiring a review and potential modification every six years, with the agreement set to expire after 16 years unless renegotiated and renewed. The next scheduled review will be in 2026, and changes in political leadership in the United States, Mexico, and Canada could significantly influence both the renegotiation process and the resulting terms.

In terms of the revision clause (Article 34.7), the three countries must confirm in writing by July 1, 2026, whether they intend to continue under the USMCA. If any party opts not to renew, a process will be triggered that could lead to a period of volatility and uncertainty.

For most trade disputes, the USMCA preserves similar settlement mechanisms to its predecessor, NAFTA, but includes new provisions to prevent unilateral actions. Under the USMCA, dispute resolution panels aim to ensure a more transparent and efficient process, promoting operational continuity between countries.

Nevertheless, a few disputes remain unresolved, particularly in the electricity and agricultural sectors, which could play a significant role in the upcoming negotiations.

Any action taken by the current U.S. or Mexico administrations, including changes to the USMCA and/or other U.S. government policies that may be adopted by the U.S. administration, could have a negative impact on the Mexican economy. These include, but are not limited to, reductions in the levels of remittances, lower commercial activity or bilateral trade, and declining foreign direct investment into Mexico. Any sign of tariffs or protectionist measures could potentially lead to lower GDP growth. These economic and political consequences could adversely affect our business, operating results, and financial condition.

Shifts in international trade, alongside evolving global public policies, could drive increased regionalization, potentially benefiting countries like Mexico through relocation or nearshoring opportunities. While risks may arise with the USMCA review in 2026, Mexico's competitive advantages could serve as a positive differentiator. In the short term, there may be uncertainty around the review process, but in the long term, conditions could support deeper trade integration among the three countries within the trade bloc.

As of the date of this offering memorandum, it is difficult to predict the impact of the November 5, 2024, U.S. presidential election on policies important to Mexico's economy, particularly those relating to trade and migration, or the extent of any potential polarization, social unrest, or post-electoral disputes in the United States. Any such political instability could affect U.S.-Mexico relations, potentially impacting our operations.

The global economy currently faces exceptional challenges, including Russia's invasion of Ukraine—the largest military attack on a European state since World War II—which could continue to cause significant disruption, instability, and market volatility. The European Union, United Kingdom, United States, and other governments have imposed substantial sanctions and export controls against Russia and its interests, restricting transit for certain Russian citizens and seizing assets within the EU. Although the full impact of these measures and Russia's possible responses remain uncertain, they could materially and adversely impact our business, financial condition, and operational results.

Moreover, geopolitical and economic risks have increased in recent years due to U.S.-China trade tensions, the rise of populism, and tensions in the Middle East, including the Gaza conflict. Rising trade tensions may contribute to a de-globalizing world economy, increased protectionism, immigration barriers, reduced international trade, and decreased financial market integration. These factors could materially and adversely affect our business, financial condition, and results of operations.

Additionally, economic conditions in Mexico may also be affected by political developments in the United States. We cannot assure that any developments in the U.S. or elsewhere will not materially and adversely affect our business, financial conditions, and results of operations in the future.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy, including controlling inflation.

The Mexican government frequently intervenes in the Mexican economy and occasionally makes significant changes in policies and regulations. The Mexican government's actions to control inflation and other policies and regulations historically have involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency fluctuations, taxation on investment flows, capital controls and limits on imports.

We and the market price of our securities may be adversely affected by changes in policies or regulations involving, among others:

- interest rates;
- exchange rates and controls and restrictions on the movement of capital in or out of Mexico;
- reserve requirements;
- capital requirements;
- funding and lending limits;
- fees and commissions charged;
- inflation;

- liquidity of the domestic capital and lending markets;
- the Mexican judicial reform; and
- tax and regulatory policies.

Mexico has experienced high rates of inflation in the past and has therefore implemented monetary policies that have resulted in high nominal interest rates. The Mexican government's measures to fight inflation, principally through the Mexican Central Bank, have had and may in the future have significant effects on the Mexican economy and our business. Tight monetary policies with high interest rates and high compulsory deposit requirements may have restricted and may continue to restrict Mexico's growth and the availability of credit, reduced our loan volumes and increased our loan loss provisions. Conversely, more lenient government and the Mexican Central Bank policies and interest rate decreases may trigger increases in inflation, and, consequently, growth volatility and the need for sudden and significant interest rate increases, which could negatively affect our interest rate spreads.

Although the Mexican government has implemented what we believe to be sound economic policies over the past few years, uncertainty over whether the current administration will implement changes in policy or regulation in the future may contribute further to economic uncertainty in Mexico and to heightened volatility in the Mexican securities markets and in the securities issued abroad by Mexican issuers. These uncertainties and other developments in the Mexican economy may adversely affect us and the market value of our securities.

Changes in taxes and other fiscal assessments may adversely affect us.

The Mexican government regularly enacts reforms to the tax and other assessment regimes to which we and our customers are subject. Such reforms include changes in the rate of assessments and, occasionally, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. The effects of these changes and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified and there can be no assurance that these reforms will not, once implemented, have an adverse effect on us. Furthermore, such changes may produce uncertainty in the financial system, increasing the cost of borrowing and contributing to the increase in our Stage 3 loan portfolio.

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

Like many other Mexican banks, we invest in debt securities of the Mexican government. As of September 30, 2024, 23.3% of our total assets, and 83.6% of our investment portfolio (excluding investment in equity securities), was comprised of debt securities issued by the Mexican government (including those issued by the Mexican Central Bank). Any failure by the Mexican government to make timely payments under the terms of these securities, or a significant decrease in their market value, will have a material adverse effect on us.

Violence in Mexico has adversely impacted, and may continue to adversely impact, the Mexican economy.

Mexico continues to experience high levels of violence and crime due to, among other factors, the activities of organized crime. Despite the measures adopted by the Mexican government, organized crime (especially drug related crime) continues to exist and operate in Mexico. These activities, their possible escalation and the violence associated with them has had an adverse impact on economic activity throughout Mexico. Also, social instability in Mexico or adverse social or political developments in or affecting Mexico could adversely affect us, our ability to conduct our business and offer our services, and our ability to obtain financing. We cannot assure you that the levels of violent crime 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 and results of operation.

Developments in other countries may affect the market value for our securities and adversely affect our ability to raise additional financing.

The market value of securities of Mexican companies is, to varying degrees, influenced by economic and securities market conditions in other emerging market countries. Although economic conditions are different in each country, investor reaction to developments in one country can have effects on the securities of issuers in other countries, including Mexico, as adverse economic conditions in other emerging market countries may cause an entire region or class of investments to be disfavored by international investors. This could lead to capital flight and, as a consequence, a decrease in the amount of foreign investment in Mexico. We cannot assure you that events elsewhere, especially in emerging markets, will not adversely affect the market value of our securities and in turn adversely affect our ability to raise additional financing.

Risks not contemplated in our insurance policies may affect our results of operation.

We maintain insurance in amounts that we believe to be adequate to cover risks related to our operations including, among others, general banking liability insurance for our business, general professional liability insurance for services we provide, general directors and officers liability insurance for our directors and executives and general liability insurance against fraudulent activity. However, it is possible that the terms and conditions of the insurance policies we have will not cover a specific event or incident or that our insurance will cover only part of the losses that we may incur. If any uninsured events occur with respect to a significant portion of our operations, such lack of coverage could have a material adverse effect on our financial conditions and results from operations. Additionally, if we are unable to renew our insurance policies from time to time or losses or other liabilities occur that are not covered by insurance or that exceed our insurance limits, we could be subject to significant unexpected additional costs which could adversely affect our business.

We are subject to the Total Loss-Absorbing Capacity rules.

On June 18, 2021, the resolution that modifies the General Rules Applicable to Mexican Banks was published in the Official Gazette, in order to include the Total Loss-Absorbing Capacity (“**TLAC**”) rules, which are measures developed by the Banking Stability Committee focused on ensuring that banks classified as globally systemically significant, such as the Bank, have the necessary capacity to absorb losses and recapitalize during a resolution process, without interrupting their critical functions and without the need to resort to taxpayers’ resources.

In order to comply with TLAC rules, the Bank, which is considered a bank of local systemic importance, must have at least a Net Capital Supplement that is the greater of (a) 6.5% of the total risk weighted assets, in addition to regulatory capital and other Capital Supplements, considering the existence of the IPAB, and (b) 3.75% of the adjusted assets used for the calculation of the leverage ratio. A transitional period of compliance is established that began in December 2022, with linear increments over a period of four years, and will end in December 2025, the date on which the requirement must be fully complied with. Accordingly, the Bank must maintain a net capital in relation to credit and operational market risks, which may not be less than the sum of the capital requirements for each type of risk, as well as maintain the aforementioned supplement to the net capital. For purposes of this offering memorandum, we have assumed that the applicable Net Capital Supplement of the Bank will be calculated based on the 6.5% of the total risk weighted assets as of each of December 31, 2024 and December 31, 2025.

While the TLAC rules will help ensure that the banking system has sufficient loss absorbing capacity in times of economic stress, the Bank may need to increase its capital in order to meet the additional capital requirements of the TLAC rules. In addition, future capital distributions (dividends and repurchases) will need to meet the required capital levels associated with the adoption of the TLAC rules.

Due to the recent entry into force and adoption of the TLAC rules, it is currently not possible to predict with certainty the magnitude of the impact that the TLAC rules may have on the Bank’s business, financial condition or results of operations in Mexico.

Risks Relating to the Notes

The Notes have no scheduled maturity and no fixed redemption date and you do not have the right to cause the Notes to be redeemed or otherwise accelerate the repayment of the principal amount of the Notes except in very limited circumstances.

The Notes of each series are perpetual securities and have no fixed maturity date or fixed redemption date and holders and beneficial owners of the Notes of each series may not require any redemption of their Notes at any time. Although under certain circumstances as described under “*Description of the NC6.5 Notes—Redemption*” and “*Description of the NC10.5 Notes—Redemption*” the Bank may redeem the Notes of each series, the Bank is under no obligation to do so and you have no right to call for their redemption. Therefore, you have no ability to cash in your investment except under limited circumstances.

There is no right of acceleration in the case of any non-payment of principal of, or interest on, the Notes of each series or in the case of a failure by us to perform any other covenant under the Notes of each series or under the respective indenture. Accordingly, we are not required to make any repayment of the principal amount of Notes of each series at any time or under any circumstances other than in connection with certain events involving insolvency (*resolución*) or liquidation of the Bank. In connection with such a liquidation, you may receive some of any resulting liquidation proceeds, depending upon the outcome of the proceedings, but only following payment in full of all creditors that are senior to the holders of the Notes of each series.

Interest payments on the Notes will be due and payable in the Bank's sole and absolute discretion and the Bank may (and in certain circumstances must) cancel interest payments, in whole or in part, at any time. Canceled interest shall not be due and shall not accumulate or be payable at any time thereafter and you shall have no rights thereto.

Interest on the Notes of each series will be due and payable only at the Bank's sole discretion and the Bank shall have absolute discretion at all times and for any reason to cancel any interest payment in whole or in part that would otherwise be payable on any Interest Payment Date. Interest will only be due and payable on an Interest Payment Date to the extent it is not canceled in accordance with the terms of the Notes of each series, including as a result of a mandatory cancellation as required under applicable law. Therefore, there can be no assurance that you will receive interest payments in respect of the Notes of each series.

If the Bank elects to cancel any scheduled interest payment or any such interest payment is mandatorily canceled, such interest payment shall not be or become due and shall not accumulate or be payable at any time thereafter and you shall have no rights thereto or claim against it with respect to such interest amount or be able to accelerate the principal of the Notes of each series as a result of such interest cancellation. If the Bank does not make an interest payment on the relevant Interest Payment Date (or if it elects to make a payment of a portion of, but not all of such interest payment) such non-payment shall evidence the exercise of the Bank's discretion to cancel such interest payment, or the portion of such interest payment not paid. Furthermore, no cancellation of interest in accordance with the terms of the respective indenture or the Notes of each series shall constitute a default in payment or otherwise under the terms of the Notes of each series. If practicable, the Bank will provide notice of any cancellation of interest (in whole or in part) to you through DTC (or, if you hold the Notes in definitive form, directly to the address shown in the register for the Notes) and to the applicable Trustee directly on or prior to the relevant Interest Payment Date. However, failure to provide such notice will not have any impact on the effectiveness of, or otherwise invalidate, any such cancellation of interest, or give you any rights as a result of such failure.

Following cancellation of any interest payment, and until it makes a scheduled interest payment in full, the respective indenture will restrict our ability to (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of our capital stock; or (ii) make any payment of premium, principal or interest on or repay, repurchase or redeem any other of our Subordinated Non-Preferred Indebtedness. However, our ability to make payments with respect to securities that rank senior to our Subordinated Non-Preferred Indebtedness will not be in any way limited or restricted. We may therefore cancel (in whole or in part) any interest payment on the Notes at our discretion and may without restriction use funds that could have been applied to make such canceled payments to meet our obligations under securities that rank senior to our Subordinated Non-Preferred Indebtedness as they become due or to meet our other obligations as they become due, regardless of their nature.

In addition to the Bank's right to cancel, in whole or in part, interest payments at any time, the terms of the Notes also restrict the Bank from making interest payments on the Notes in certain circumstances, in which case such interest shall be canceled. Interest that is canceled shall not be due and shall not accumulate or be payable at any time thereafter and you shall have no right to such interest.

In addition to its right to cancel, in whole or in part, interest payments at any time as described above and, subject to the extent permitted in the following paragraphs in respect of partial interest payments, we shall not make an interest payment on the Notes of each series on any Interest Payment Date if an Interest Cancellation Event takes place, and such interest payment shall therefore be automatically canceled and thus shall not be due and payable on such Interest Payment Date. Any Interest Cancellation Event is at the Bank's absolute discretion. Currently, the minimum Capital Ratios to be classified as Class I (and, as a result, not Class II or below) generally applicable to any Mexican bank are the Minimum Regulatory Capital Ratios.

Although we may, at our sole discretion, elect to make a partial interest payment on the Notes on any Interest Payment Date, we may only do so to the extent that such partial interest payment may be made without breaching the restrictions in the preceding paragraphs. In addition, we may elect to make a full or partial interest payment with respect to any security ranking senior to the Notes without making an interest payment on any or all of the Notes on any Interest Payment Date.

We will be responsible for determining compliance with this restriction, and neither the applicable Trustee nor any other agent will be required to monitor such compliance or to perform any calculations in connection therewith.

Any interest canceled on any relevant Interest Payment Date shall not be due and shall not accumulate or be payable at any time thereafter, and you shall have no rights thereto or to receive any additional interest, penalty or compensation as a result of such cancellation. Furthermore, no cancellation of interest in accordance with the terms of the respective indenture or the Notes of each series as described above shall constitute a default in payment or otherwise under the terms of the Notes of

each series. If practicable, we will provide notice of any cancellation of interest (in whole or in part) to you through DTC (or, if you hold the Notes in definitive form, directly to the address shown in the register for the Notes) and to the applicable Trustee directly on or prior to the relevant Interest Payment Date. However, failure to provide such notice will not have any impact on the effectiveness of, or otherwise invalidate, any such cancellation of interest, or give you any rights as a result of such failure.

The Notes may be written down to zero, causing holders of the Notes to irrevocably waive their rights to claim or receive repayment of the principal amount of the Notes.

If our Fundamental Capital equals or falls below 5.125%, or other events described in “Description of the NC6.5 Notes—Trigger Event and Write-Down—Write-Down” and “Description of the NC10.5 Notes—Trigger Event and Write-Down—Write-Down,” as applicable, as Trigger Events occur, interest on the Notes of each series will cease to accrue, any accrued interest will be canceled and the outstanding principal amount of the Notes of each series will be written down in an aggregate amount as described in this offering memorandum without the possibility of any future write-up or reinstatement of principal. The holders of the Notes of each series will automatically be deemed to have irrevocably waived their right to claim or receive repayment of the written down principal amount of the Notes of each series then outstanding, and any unpaid interest and any additional amounts with respect thereto. Holders would not receive any of our shares or the shares of our affiliates or be entitled to any other form of compensation in the event of a Write-Down. As a result, holders would lose all or a portion, as the case may be, of their investment in the Notes and will have no right to repayment by us of the written down amount. See “Description of the NC6.5 Notes —Trigger Event and Write-Down—Write-Down” and “Description of the NC10.5 Notes —Trigger Event and Write-Down—Write-Down.” If a Trigger Event occurs, it is expected that a Write-Down would take place before the determination of the treatment of our remaining indebtedness or other securities without similar write-down features. Our other indebtedness without similar write-down features, including indebtedness that is initially subordinated to the Notes of each series, may remain outstanding after a Write-Down of the Notes.

The circumstances surrounding or triggering a Write-Down are unpredictable and may be caused by factors not fully within our control.

The occurrence of a Trigger Event resulting in a Write-Down is inherently unpredictable and may depend on a number of factors, any of which may be outside of our control. The determination as to whether a Trigger Event has occurred will partially depend on the calculation of our Fundamental Capital and whether such ratio equals or has fallen below 5.125%. Fluctuations in our Fundamental Capital may be caused by changes to Mexican Capitalization Requirements and applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules, among other external factors.

In addition, any disclosure that our Capital Ratios are moving towards the level which would cause the occurrence of a Trigger Event may have an adverse effect on the market price and liquidity of the Notes.

The Notes are novel and complex financial instruments that involve a high degree of risk and may not be a suitable investment for all investors.

The Notes are novel and complex financial instruments that involve a high degree of risk. As a result, an investment in the Notes will involve risks that are not common and are incremental to those applicable in respect of debt securities. Each potential investor of the Notes must determine the suitability (either alone or with the help of a financial adviser) of that investment in light of its own circumstances.

In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes of each series and the information contained in this offering memorandum;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes of each series and the impact such investment will have on its overall investment portfolio and expected income;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments, i.e., U.S. dollars, is different from the currency in which such potential investor’s financial activities are principally denominated and the possibility that the entire principal amount of the Notes be paid in a different currency and could be lost;

- understand thoroughly the terms of the Notes of each series, such as the provisions governing the Write-Down (including, in particular, the calculation of the Fundamental Capital Ratio, as well as under what circumstances a Trigger Event will occur), and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate possible scenarios for economic, banking industry, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Sophisticated investors generally do not purchase complex financial instruments that bear a high degree of risk as stand-alone investments. They purchase such financial instruments as a way to enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes of either or both series unless it has the knowledge and expertise (either alone or with a financial advisor) to evaluate how each series of the Notes will perform under changing conditions, the resulting effects on the likelihood of a Write-Down and the value of such series of the Notes, and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this offering memorandum.

The Notes may be traded with accrued interest, but under certain circumstances described above, such interest may be canceled and not paid on the relevant Interest Payment Date.

The Notes may trade, and/or the prices for the Notes may appear, on the SGX-ST and in other trading systems with accrued interest. If this occurs, purchasers of Notes in the secondary market will pay a price that reflects such accrued interest upon purchase of the Notes. However, if a payment of interest on any Interest Payment Date is canceled (in whole or in part) as described herein and thus is not due and payable, purchasers of such Notes will not be entitled to that interest payment (or if the Bank elects to make a payment of a portion, but not all, of such interest payment, the portion of such interest payment not paid) on the relevant Interest Payment Date. This may affect the value of your investment in the Notes.

The interest rate on the Notes will be reset on each Reset Determination Date, which may affect the market value of the Notes.

From and including the Issue Date to (but excluding) (i) the NC6.5 First Call Date, interest will accrue on the then Current Principal Amount of the NC6.5 Notes at an initial fixed rate equal to 8.375% per annum and (ii) the NC10.5 First Call Date, interest will accrue on the then Current Principal Amount of the NC10.5 Notes at an initial fixed rate equal to 8.750% per annum. From and including the NC6.5 Reset Date, including the NC6.5 First Call Date, to (but excluding) the next succeeding NC6.5 Reset Date, interest will accrue on the then Current Principal Amount of the NC6.5 Notes at a fixed rate per annum equal to the sum of the then-prevailing Treasury Yield on the NC6.5 Reset Determination Date and 407.2 basis points. From and including the NC10.5 Reset Date, including the NC10.5 First Call Date, to (but excluding) the next succeeding NC10.5 Reset Date, interest will accrue on the then Current Principal Amount of the NC10.5 Notes at a fixed rate per annum equal to the sum of the then-prevailing Treasury Yield on the NC10.5 Reset Determination Date and 429.9 basis points. These reset rate following each NC6.5 Reset Date and/or NC10.5 Reset Date, as applicable, could be less than the initial interest rate and/or the interest rate that applies immediately prior to such reset date, which could affect the amount of any interest payments under the Notes of each series and, by extension, could affect the market value of such series of the Notes.

Also, after the NC6.5 First Call Date and the NC10.5 First Call Date, the NC6.5 Notes and the NC10.5 Notes, respectively, will be subject to redemption on each Interest Payment Date following such respective first call date, which may have an effect on the market value of such series of the Notes.

The Notes do not contain events of default and if the Bank does not satisfy its obligations under the Notes, whether due to a Write-Down or otherwise, your remedies will be limited.

The terms of the Notes of each series do not provide for any events of default. You may not at any time demand repayment or redemption of your Notes, although in certain events involving our insolvency (*resolución*) or liquidation you may have a claim. There is no right of acceleration in the case of non-payment of principal or interest on the Notes or of the Bank's failure to perform any of its obligations under or in respect of the Notes.

The sole remedy in the event of any non-payment of principal under the Notes subject to certain conditions as described under "*Description of the NC6.5 Notes—Enforcement Events and Remedies*" and "*Description of the NC10.5 Notes—Enforcement Events and Remedies*" is that the applicable Trustee, on your behalf, may, at its discretion, or shall at the direction of the holders of 25% or more of the aggregate principal amount of the outstanding Notes of each series, subject to any applicable laws, institute proceedings for the Bank's liquidation.

Prior to the occurrence of certain events involving the insolvency (*resolución*) or liquidation of the Bank, the Notes of each series will remain subject to one or more Write-Downs upon a Trigger Event, which does not constitute an Enforcement Event under either indenture. The Bank is entitled to cancel any interest payment as described under “*Description of the NC6.5 Notes—Interest Cancellation*,” and “*Description of the NC10.5 Notes—Interest Cancellation*,” and such cancellation (in whole or in part) will not constitute an Enforcement Event.

The remedies under the Notes of each series are more limited than those typically available to the Bank’s unsubordinated creditors. For further detail regarding the limited remedies of the Trustees and the holders of the Notes of each series, see “*Description of the NC6.5 Notes —Trigger Event and Write-Down—Enforcement Events and Remedies*” and “*Description of the NC10.5 Notes —Trigger Event and Write-Down—Enforcement Events and Remedies*.”

Changes in law may adversely affect your rights under the Notes or may adversely affect the Bank’s business, financial performance and capital plans.

Changes in law after the date hereof may affect your rights as a holder of Notes as well as the market value of the Notes. Regulators may, from time to time, propose or consider amendments to laws or legislation and rulemaking which may affect the Bank’s business, your rights as a holder of the Notes and the market value of the Notes. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Notes, or changes that could have a significant impact on the future legal entity structure, management of the Bank, and use of capital and requirements for loss-absorbing capacity of the Bank, which may have an adverse effect on an investment in the Notes of either or both series.

Such legislative and regulatory uncertainty could also affect your ability to accurately value the Notes and therefore affect the trading price of the Notes of each series given the extent and impact on the Notes that one or more regulatory or legislative changes could have on the Notes.

The Notes will be unsecured, subordinated and non-preferred and rank junior in right of payment and in liquidation to all of our present or future senior indebtedness and subordinated preferred indebtedness.

The Notes constitute our subordinated non-preferred indebtedness (*obligaciones subordinadas no preferentes*), will be subordinated and junior in right of payment and in liquidation to all of our present and future senior indebtedness and subordinated preferred indebtedness, and will rank *pari passu* without preference among themselves with all our other present or future subordinated non-preferred indebtedness, senior only to all classes of present and future capital stock of the Bank.

By reason of the subordination of the Notes of each series, in the case of certain events involving bankruptcy, liquidation or dissolution, although the Notes of each series would become immediately due and payable at their principal amount together with any unpaid and not canceled interest thereon, our assets would be available to pay such amounts only after all of our senior indebtedness and subordinated preferred indebtedness have been paid in full. As of September 30, 2024, we had, on a consolidated basis, an aggregate of Ps. 1,487 million (U.S.\$75.5 million) of subordinated preferred indebtedness outstanding, and an aggregate of Ps. 50,984 million (U.S.\$2,589 million) of subordinated non-preferred indebtedness outstanding. The indentures governing each series of Notes will not limit our ability to incur additional senior indebtedness, subordinated preferred indebtedness and subordinated non-preferred indebtedness from time to time. See “*Description of the NC6.5 Notes —Subordination*” and “*Description of the NC10.5 Notes —Subordination*.”

DTC may decide to suspend all clearance and settlement of transfers of the Notes of any series by holders of such Notes after its receipt of a Write-Down Notice that causes the principal amount of such Notes to be reduced to zero, and any transfer of such Notes that is scheduled to settle after such suspension is expected to be rejected by DTC and will not be settled within DTC.

DTC may decide to suspend all clearance and settlement of transfers of the Notes of each series by holders after its receipt of a Write-Down Notice that causes the principal amount of such Notes to be reduced to zero. We have agreed to provide a Write-Down Notice (as defined in “*Description of the NC6.5 Notes*” and “*Description of the NC10.5 Notes*”) to holders and to the applicable Trustee via the applicable clearing system on the business day after the occurrence of the Trigger Event. However, the records of DTC will not be immediately updated to reflect the Trigger Event, and a period of time, which may exceed several days, may be required before the clearance and settlement of transfers of such Notes through DTC are suspended. Due to such delay, it is possible that transfers that are initiated prior to such suspension and scheduled to settle on a date after DTC commences such suspension fail to settle through DTC even though such transfers were initiated prior to the Trigger Event that caused the principal amount of such Notes to be reduced to zero. In such circumstances, transferors of such Notes would not receive any consideration through DTC in respect of such intended transfer because DTC will not settle such transfer after commencement of such suspension. Similarly, it is possible that transfers that are initiated prior to such

suspension and scheduled to settle on a date before DTC commences such suspension will be settled through DTC even though such transfers were initiated after the Trigger Event that caused the principal amount of such Notes to be reduced to zero. In such circumstances, transferees of such Notes may be required to pay consideration through DTC even though, upon the occurrence of such Trigger Event, no amounts under such Notes will thereafter become due, and such transferees will have no rights whatsoever under the respective indenture or such Notes to take any action or enforce any rights or instruct the applicable Trustee to take any action or enforce any rights whatsoever against us, regardless of whether they have received actual or constructive notice of such fact. The settlement of the Notes of any series following a Trigger Event will be subject to procedures of DTC that are in place at such time.

The Notes are subject to redemption in the event of specified changes affecting the treatment of the Notes under the Mexican Capitalization Requirements or changes affecting the tax treatment of the Notes.

Upon the occurrence and continuation of certain specified changes affecting the tax treatment of the Notes or treatment of the Notes as capital securities under the Mexican Capitalization Requirements, as described under “*Description of the NC6.5 Notes—Redemption—Withholding Tax Redemption*,” “*Description of the NC10.5 Notes—Redemption—Special Event Redemption*,” “*Description of the NC6.5 Notes—Redemption—Withholding Tax Redemption*,” and “*Description of the NC10.5 Notes—Redemption—Special Event Redemption*,” we will have the option, but not the obligation, under the indenture of each series of the Notes to redeem the Notes at any time in whole (but not in part) subject to any regulatory requirements.

The rating of the Notes may be lowered or withdrawn depending on various factors, including the rating agencies’ assessments of our financial strength and Mexican sovereign risk.

The rating of the Notes addresses the likelihood of payment of principal at their maturity. The rating also addresses the timely payment of interest on each payment date. The rating of the Notes is not a recommendation to purchase, hold or sell the Notes, and the rating does not comment on market price or suitability for a particular investor. We cannot assure you that the rating of the Notes will remain for any given period of time or that the rating will not be lowered or withdrawn. An assigned rating may be raised or lowered depending, among other things, on the respective rating agency’s assessment of our financial strength, as well as its assessment of Mexican sovereign risk generally.

Our Capital Ratios are affected by business decisions made by us and our shareholders and, in making such decisions, these interests may not be aligned with those of the holders of the Notes offered hereby.

The Notes being offered hereby have terms that are affected by the extent to which we are in compliance with Mexican Capitalization Requirements. See “*Description of the NC6.5 Notes*” and “*Description of the NC10.5 Notes*.” Our Capital Ratios could be affected by a number of factors, including business decisions taken by us in coordination with our controlling shareholder, GFNorte. In this regard, our business strategy and operations may depend on the decisions of GFNorte relating to its overall business, including its operations carried on by us, as well as the overall management of our consolidated capital position. We have no obligation to consider the interests of the holders of the Notes offered hereby (or any other series of our indebtedness that may be outstanding) in connection with overall strategic decisions of GFNorte, including in respect of capital management, regardless of whether they result in the occurrence of a Trigger Event. In addition, holders will not have any claim against us relating to decisions that affect the business and operations of GFNorte, including its capital position, regardless of whether they result in the occurrence of any event that causes a suspension or cancellation of amounts due in respect of the Notes offered hereby. In addition, notwithstanding the applicability of any one or more of the conditions set out above that would result in amounts due in respect of the Notes not being paid or being paid only in part, there will be no restriction on our paying dividends on our ordinary shares or making pecuniary or other distributions to the holders of our ordinary shares, including our controlling shareholder, GFNorte, assuming that we are in compliance with Mexican Capitalization Requirements. Such decisions could cause holders of the Notes offered hereby to lose all or part of the value of their investment in the Notes or either or both series.

There is no existing market for the Notes and one may not develop in the future; thus it may be difficult to resell your Notes.

Application will be made to have the Notes of each series listed on the SGX-ST, although no assurance can be given that such listing will be accomplished. Even if the Notes of each series are listed on this exchange we may delist such Notes. The Notes of each series constitute a separate and new issue of securities with no established trading market. In addition, in the event there are changes in the listing requirements, we may conclude that continued listing on the SGX-ST is unduly burdensome. See “*General Information*.”

No assurance can be given as to:

- the liquidity of any markets that may develop for each series of Notes;
- whether an active public market for each series of Notes will develop;
- your ability to sell your Notes (or beneficial interests therein); or
- the price at which you will be able to sell your Notes, as the case may be.

We have not and will not register the Notes with the RNV maintained by the CNBV and therefore we may not publicly offer the Notes or sell the Notes, nor can they be the subject of brokerage activities in Mexico, except that we may offer the Notes in Mexico to investors that qualify as institutional or accredited investors (*inversionistas institucionales* or *inversionistas calificados*) pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law (*Ley del Mercado de Valores*) and regulations thereunder. In addition, the Notes have not been registered under the Securities Act and will be subject to transfer restrictions. See “*Transfer Restrictions*.” Future trading prices of the Notes will depend on many factors including, among other things, prevailing interest rates, our operating results, and the market for similar securities. The initial purchasers may make a market in the Notes, but they are not obligated to do so, and any such market-making activity may be terminated at any time without notice to you. In addition, such market-making activity will be subject to the limits of the Securities Act. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. See “*Plan of Distribution*.” In addition, trading or resale of the Notes (or beneficial interests therein) may be negatively affected by other factors described in this offering memorandum arising from this transaction or the market for securities of Mexican issuers generally.

Holders of Notes may find it difficult to enforce civil liabilities against us or our directors, officers and controlling persons.

We are organized under the laws of Mexico. Most of our directors, officers and controlling persons reside outside of the United States. In addition, all or a substantial portion of our assets and their assets are located outside of the United States. As a result, it may be difficult for holders of Notes to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws. Based on the opinion of our Mexican internal counsel and White & Case, S.C., there is doubt as to the enforceability against such persons in Mexico, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

Mexican law does not require us to pay our foreign-currency judgments in a currency other than Pesos.

Although our obligations to pay U.S. dollars outside Mexico are valid, under the Mexican Monetary Law (*Ley Monetaria de los Estados Unidos Mexicanos*), if proceedings are brought against us in Mexico, whether pursuant to an original action or as an action to enforce a judgment, seeking to enforce in Mexico our payment obligations under the Notes, we would not be required to discharge such obligations in Mexico in a currency other than Mexican currency. Pursuant to such Law, an obligation, whether resulting from a judgment or by agreement that is payable in Mexico in a currency other than Mexican currency, may be satisfied in Mexican currency at the rate of exchange in effect on the date and in the place payment occurs. Such rate currently is determined by the Mexican Central Bank every business banking day in Mexico and published the following business banking day in the Official Gazette. It is unclear, however, whether the applicable rate of exchange applied by the Mexican court to determine the Mexican judgment currency is the rate prevailing at the time when the judgment is rendered or when the judgment is paid. Provisions that purport to limit our liability to discharge our obligations as described above, or to give any party an additional course of action seeking indemnity or compensation for possible deficiencies arising or resulting from variations in rates of exchange, may not be enforceable in Mexico.

If we were declared insolvent by the CNBV, we would be liquidated in a court procedure and the holders of the Notes may find it difficult to collect payment on the Notes.

Under the Mexican Banking Law, if the CNBV declares us insolvent, our authorization to organize and operate as a bank will be revoked and a resolution (*resolución*) and liquidation procedure before a Federal Mexican court will commence, in which by statute the IPAB will be appointed as the receiver (*liquidador judicial*). We would be in liquidation as of the date

following the notification by CNBV of the revocation of the authorization to operate as a bank and our payment obligations denominated in foreign currency, including the Notes:

- would be converted to Pesos at the exchange rate prevailing at the time such revocation is deemed effective, other than secured debt,
- would cease accruing interest to the extent such debt is not secured,
- would be paid at the time claims of creditors are satisfied, and
- would not be adjusted to consider any depreciation of the Peso against the U.S. dollar occurring after the liquidation procedure begins.

In addition, in the event of our liquidation, Mexican law provides preferential treatment for certain claims, such as those relating to labor, social security, taxes and secured creditors.

The U.S. federal income tax consequences of investing in the Notes are not certain.

No authority directly addresses the U.S. federal income tax characterization of securities like the Notes. The determination of whether an obligation represents debt, equity, or some other instrument or interest is based on all the relevant facts and circumstances. Despite the fact that the Notes are denominated debt, the Notes should be treated as an equity interest in the Bank for U.S. federal income tax purposes. However, the Bank's characterization of the Notes is not binding on the Internal Revenue Service (the "IRS"), and no assurance can be given that the IRS will not assert, or a court would not sustain, a contrary position regarding the characterization of the Notes. U.S. Holders should consult their own independent tax advisors regarding the characterization of the Notes for U.S. federal income tax purposes. See "*Taxation—United States Federal Income Tax Considerations—Characterization of the Notes.*"

Depending upon the value and the nature of our assets and the amount and nature of our income over time, we could be classified as a passive foreign investment company for U.S. federal income tax purposes.

Despite the fact that the Notes are denominated as debt, the Notes should be treated as an equity interest in the Bank for U.S. federal income tax purposes (see "*Taxation—Certain United States Federal Income Tax Considerations—Characterization of the Notes*"). The Bank will be classified as a passive foreign investment company ("PFIC") in any taxable year if either: (a) 50% or more of our assets (determined on the basis of a quarterly average) are "passive assets" (assets that produce or are held for the production of passive income) or (b) 75% or more of our gross income for the taxable year is passive income. The application of the PFIC rules is subject to uncertainty in several respects. Banks generally derive a substantial part of their income from assets that are interest bearing or that otherwise could be considered passive under the PFIC rules. However, the IRS has issued guidance that exclude from passive income any income derived in the active conduct of a banking business by a qualifying foreign bank (the "active bank exception"). If we are a PFIC for any taxable year during which a U.S. Holder (as defined under "*Taxation—Certain United States Federal Income Tax Considerations*") held any series of Notes, the U.S. Holder might be subject to increased U.S. federal income tax liability and to additional reporting obligations. We do not intend to provide the information necessary for the U.S. Holder to make a qualified electing fund election with respect to any series of Notes. U.S. Holders should consult their own independent tax advisors regarding the application of the PFIC rules to an investment in the Notes or any series. See "*Taxation—United States Federal Income Tax Considerations—PFIC Rules.*"

While not entirely clear, payments under the Notes may be subject to withholding tax pursuant to the U.S. Foreign Account Tax Compliance Act.

Pursuant to certain provisions of the Code, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The Bank is a foreign financial institution for these purposes. A number of jurisdictions (including Mexico and the Cayman Islands) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. A foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding on "foreign passthru payments" would ever be required pursuant to FATCA or an IGA on instruments such as the Notes, are uncertain. Even if withholding were required or relevant for the Bank pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply before the date that is two years after the date of the publication of final U.S. Treasury regulations defining the term "foreign passthru payments." Holders should consult their own tax advisors regarding how these rules might apply to their investment in the

Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, neither the Bank nor any other paying agent will be required to pay additional amounts as a result of the withholding.

USE OF PROCEEDS

Our net proceeds from the issuance of the NC6.5 Notes are estimated to be approximately U.S.\$743,875,000 million, and our net proceeds from the issuance of the NC10.5 Notes are estimated to be approximately U.S.\$743,875,000 million, in each case after deducting the initial purchasers' discounts and commissions and estimated offering expenses. We expect to use the net proceeds from the offering of the Notes for general corporate purposes.

EXCHANGE RATES AND CURRENCY

Mexico has had a free market for foreign exchange since 1994, allowing the Peso to float freely against the U.S. dollar and other foreign currencies. Exchange rate policy is determined by the Exchange Rate Commission (*Comisión de Cambios*), which is formed by officers from the SHCP and the Mexican Central Bank. The Mexican Central Bank is in charge of managing international reserves through rule-based operations (1996-2001 and 2003-onwards) and/or discretionary interventions (last intervention was on February 19, 2016) to promote a clean float and prevent excess accumulation or reduction of Mexico's international reserves. Furthermore, the Mexican Central Bank intervenes directly in the foreign exchange market only to reduce excessive short-term volatility. Since late 2003, the Mexican Central Bank has been conducting auctions of U.S. dollars, to stabilize foreign exchange markets. The Mexican Central Bank also conducts auctions of hedges in respect of foreign currency risks, for Mexican banks. The Mexican Central Bank may increase or decrease the reserve of funds that financial institutions are required to maintain. Changes in Mexico's monetary base have an impact on the Peso exchange rate. If the reserve requirement is increased, financial institutions will be required to allocate more funds to their reserves, which will reduce the amount of funds available for operations. This causes the amount of available funds in the market to decrease and the cost, or interest rate, to obtain funds to increase. The opposite happens if the reserve requirements are reduced. This mechanism, known as "*corto*" or "*largo*," as the case may be, or more formally "the daily settlement balance target," represents a device used by the Mexican Central Bank to adjust the level of interest and foreign exchange rates.

There can be no assurance that the Mexican government will maintain its current policies with respect to the Peso or that the Peso will not depreciate or appreciate significantly in the future.

The following table sets forth, for the periods indicated, the period-end, average, high and low, the Mexican Central Bank Exchange Rate expressed in Pesos per U.S. dollar. The Mexican Central Bank Exchange Rate is currently determined by the Mexican Central Bank every business day in Mexico based on an average of wholesale foreign exchange market quotes and published the following business banking day in the Official Gazette and on the Mexican Central Bank's website. The rates shown below are in nominal Pesos that have not been restated in constant currency units. No representation is made that the Peso amounts referred to in this offering memorandum could have been or could be converted into U.S. dollars at any particular rate or at all. Unless otherwise indicated, U.S. dollar amounts that have been translated from Pesos have been so translated at an exchange rate of rate of Ps. 19.6921 per U.S. dollar, the rate calculated by the Mexican Central Bank on September 30, 2024, and published on October 1, 2024, in the Official Gazette. Additionally, an exchange rate of Ps. 16.9666 to U.S.\$1.00 was used to translate the income statement and balance sheet line items as of December 31, 2023.

Year Ended December 31, Month	Mexican Central Bank Exchange Rate ⁽¹⁾			
	Period-End	Average ⁽²⁾	High	Low
2019.....	18.8642	19.3275	20.1253	18.7719
2020.....	19.9087	21.5747	25.1185	18.5712
2021.....	20.4672	20.3770	21.8185	19.5793
2022.....	19.4715	20.0335	21.3775	19.1433
2023.....	16.9190	17.6203	19.4883	16.6895
June 2024	18.2478	18.2174	18.7832	17.5335
July 2024	18.5970	18.1117	18.79	17.6502
August 2024	19.6535	19.1515	19.8168	18.6228
September 2024.....	19.6440	19.6316	20.0583	19.2483
October 2024.....	20.0378	19.7062	20.1617	19.2127
November 2024 (through November 7)	19.8277	20.1068	20.3093	19.8277

(1) Source: Mexican Central Bank.

(2) Average of end-of-month rates for 2019, 2020, 2021, 2022 and 2023. Average of daily rates for each complete or partial month of 2024.

CAPITALIZATION

The following table sets forth our total capitalization as of September 30, 2024, as follows:

- on an actual basis; and
- as adjusted to reflect the issuance of the Notes offered hereby and the application of the net proceeds of this offering as described herein under “Use of Proceeds.”

This table should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Use of Proceeds” our Financial Statements appearing elsewhere in this offering memorandum.

	As of September 30, 2024			
	Actual		As Adjusted for this Offering ⁽²⁾	
	(U.S.\$ millions) ⁽¹⁾	(Ps. millions)	(U.S.\$ millions) ⁽¹⁾	(Ps. millions)
Long-Term Debt:				
Bank and other loans	362	7,120	362	7,120
Senior debt issued.....	2,629	51,772	2,629	51,772
Subordinated debentures:				
Preferred subordinated debentures	76	1,487	76	1,487
Non-preferred subordinated debentures.....	2,589	50,984	2,589	50,984
Accrued interest.....	2	42	2	42
Total subordinated debentures.....	2,667	52,513	2,667	52,513
NC6.5 Notes offered hereby	-	-	744	14,648
NC10.5 Notes offered hereby.....	-	-	744	14,648
Total long-term debt	5,658	111,405	7,146	140,701
Stockholders’ Equity:				
Paid-in capital ⁽³⁾	1,228	24,185	1,228	24,185
Other capital	6,710	132,125	6,710	132,125
Minority interest.....	(185)	(3,647)	(185)	(3,647)
Total stockholders’ equity	7,752	152,663	7,752	152,663
Total Capitalization⁽⁴⁾.....	13,410	264,068	14,898	293,364

- (1) Solely for the convenience of the reader, Peso amounts as of September 30, 2024 have been translated into U.S. dollars at the exchange rate of Ps. 19.6921 per U.S.\$1.00 and as of December 31, 2023 at the exchange rate of Ps. 16.9666 per U.S.\$1.00. See “Exchange Rates and Currency.”
- (2) The “As Adjusted for this Offering” column reflects the issuance of the NC6.5 Notes in an aggregate principal amount of U.S.\$750,000,000 and the NC10.5 Notes in an aggregate principal amount of U.S.\$750,000,000, in each case, less the initial purchasers’ discounts and commissions and estimated offering expenses.
- (3) As of September 30, 2024, our capital stock consisted of 144,199,022,252 Series O Shares, par value Ps.0.10 per share, which were issued, outstanding and fully paid. Of these shares, 141,692,531,318 (98.26% of our capital stock) are held by GFNorte.
- (4) Total capitalization is the sum of total long-term debt and total stockholders’ equity. For a discussion of our Capital Ratio, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Risk—Based Capital.”

Except as disclosed in this offering memorandum, there has been no material change in our total capitalization since September 30, 2024.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information presented in this section is derived from our accounting records or from our Financial Statements and relates only to us and our consolidated subsidiaries. This information should be read in conjunction with “Presentation of Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Financial Statements and the notes thereto included elsewhere in this offering memorandum.

Pursuant to publications in the Official Gazette dated March 13, 2020, December 4, 2020 and December 30, 2021, the CNBV announced the obligation, effective January 1, 2022, for Mexican banks and other financial institutions in Mexico to adopt new accounting standards. In addition, pursuant to the transitory articles of the General Rules Applicable to Mexican Banks, and as a practical solution, Mexican banks may recognize as of the date of initial application, which is January 1, 2022, the cumulative effect of the accounting changes and shall not present retrospectively the effects of such accounting changes in financial statements for prior periods. The aim of these new accounting standards is to adopt new standards applicable to the classification and measurement of our financial assets and liabilities, including our total non-performing loans in order to reduce the differences between Mexican Banking GAAP and International Financial Reporting Standards. For more information regarding new accounting criteria, see Note 3 to our Audited Consolidated Financial Statements as of December 31, 2022 and for the year ended December 31, 2022.

As a result, financial information as of December 31, 2023 and 2022, and for the years then ended, presented in this offering memorandum is not comparable with any prior historical financial period. For this reason, financial information as of December 31, 2021 and for the year then ended is presented in this offering memorandum on a stand-alone basis. See “Risk Factors—Risks Relating to Our Business—As a result of the implementation of new accounting criteria for credit institutions in Mexico established by the CNBV, financial information as of and for the years ended December 31, 2023 and December 31, 2022 is not comparable with financial information for prior years.”

Our Financial Statements have been prepared in accordance with Mexican Banking GAAP, which differs in certain important respects from U.S. GAAP. For a summary of the differences between Mexican Banking GAAP and U.S. GAAP, see “Annex A – Significant Differences Between Mexican Banking GAAP and U.S. GAAP.”

Summary Statement of Income Data:	For the nine-month period ended September 30,			For the Year ended December 31,		
	2024	2024	2023	2023(2)	2023	2022
	(U.S.\$ millions)(1)	(Ps. millions)		(U.S.\$ millions)(1)	(Ps. millions)	
Interest income	12,904	254,103	244,318	19,311	327,638	226,642
Interest expense	(8,812)	(173,517)	(169,758)	(13,365)	(226,763)	(141,399)
Net interest income	4,092	80,586	74,560	5,946	100,875	85,243
Allowance for loan losses	(718)	(14,142)	(12,223)	(930)	(15,782)	(11,722)
Net interest income after allowance for loan losses	3,374	66,444	62,337	5,015	85,093	73,521
Commission and fee income	1,514	29,808	25,543	2,062	34,985	31,163
Commission and fee expense	(753)	(14,831)	(12,786)	(1,048)	(17,780)	(14,975)
Brokerage revenues	71	1,404	1,735	134	2,276	2,931
Other operating expense	(145)	(2,855)	(3,271)	(236)	(4,002)	(4,831)
Non-interest expense	(1,727)	(34,013)	(30,687)	(2,617)	(44,406)	(40,942)
	(1,040)	(20,487)	(19,466)	(1,705)	(28,927)	(26,654)
Operating income	2,334	45,957	42,871	3,310	56,166	46,867
Equity in earnings of unconsolidated subsidiaries and associated companies	17	334	138	10	175	168
Income before income tax	2,351	46,291	43,009	3,321	56,341	47,035
Income (Losses) taxes	(652)	(12,843)	(11,315)	(850)	(14,425)	(12,486)
Income before Discontinued operations	1,699	33,448	31,694	2,471	41,916	34,549
Noncontrolling interest	(26)	(512)	1	(2)	(30)	-
Net income (Controlling)	1,725	33,960	31,693	2,472	41,946	34,549

- (1) Solely for the convenience of the reader, Peso amounts as of September 30, 2024 have been translated into U.S. dollars at the exchange rate of Ps. 19.6921 per U.S.\$1.00 and as of December 31, 2023 at the exchange rate of Ps. 16.9666 per U.S.\$1.00. See “Exchange Rates and Currency.”
- (2) Changes in the presentation of financial information as of and for the years ended December 31, 2023 and December 31, 2022 are the result of the incorporation of new accounting criteria as described above and therefore such financial information is not comparable with any prior historical financial period. See “Risk Factors—Risks Relating to Our Business—As a result of the implementation of new accounting criteria for credit institutions in Mexico established by the CNBV, financial information as of and for the years ended December 31, 2023 and December 31, 2022 is not comparable with financial information for prior years”.

	For the Year ended December 31, 2021
Summary Statement of Income Data:	
Interest income	104,870
Interest expense	(36,919)
Net interest income	67,951
Provisions for loan losses	(11,107)
Net interest income after allowance for loan losses	56,844
Commission and fee income	26,486
Commission and fee expense	(12,212)
Intermediation income.....	4,192
Other operating income	499
Non-interest expense	(41,935)
	(22,970)
Operating income	33,874
Equity in earnings of unconsolidated subsidiaries and associated companies	327
Income before income tax	34,201
Current income tax	(5,573)
Deferred income tax	(2,542)
Net income	26,086

Balance Sheet Data:	As of September 30,		As of December 31,		
	2024	2024	2023	2023(2)	2022
	(U.S.\$ millions) (1)	(Ps. millions)	(U.S.\$ millions) (1)	(Ps. millions)	
Assets:					
Cash and cash equivalents.....	5,061	99,660	5,901	100,128	107,581
Margin securities.....	200	3,935	290	4,918	5,478
Investment in securities.....					
Trading Financial Instrument.....	7,482	147,335	6,432	109,121	134,685
Financial Instruments to Collect or sell.....	7,651	150,674	9,492	161,049	114,771
Financial instruments to collect principal and interest.....	4,817	94,864	5,577	94,624	88,050
	19,951	392,873	21,501	364,794	337,506
Debtor balances under repurchase and resale agreements.....	2,330	45,890	4,898	83,103	74,371
Derivatives financial instruments					
For trading purposes.....	881	17,351	1,697	28,791	35,576
For hedging purposes.....	148	2,907	262	4,442	1,854
	1,029	20,258	1,959	33,233	37,430
Loan Portfolio with Credit Risk Stage					
Commercial loans					
Business loans.....	20,662	406,873	21,806	369,978	328,895
Financial institutions' loans.....	2,831	55,744	2,561	43,454	29,690
Government loans.....	8,422	165,839	9,668	164,035	165,940
Consumer loans.....	9,826	193,490	10,157	172,325	142,071
Mortgage loans.....					
Medium and Residential.....	13,292	261,751	14,632	248,257	221,771
Low-income housing.....	-	1	-	2	2
Loans acquired from INFONAVIT or FOVISSTE	73	1,443	95	1,618	1,932
Total Loan Portfolio with Credit Risk Stage 1	55,105	1,085,141	58,920	999,669	890,301
Commercial loans.....					
Business loans.....	132	2,602	73	1,233	966
Government Loans.....	-	-	-	-	-
Consumer loans.....	160	3,155	173	2,935	2,277
Mortgage loans					
Medium and residential.....	178	3,501	188	3,193	3,130
Low-income housing.....	-	-	-	-	-
Loans acquired from INFONAVIT or FOVISSTE	4	74	4	69	97
Total loan portfolio with Credit Risk Stage 2 ..	474	9,332	438	7,430	6,470
Commercial loans.....					
Business loans.....	187	3,689	170	2,883	3,750
Financial institutions' loans.....	7	130	7	119	-
Government loans.....	-	2	-	7	-
Consumer loans.....	232	4,567	284	4,820	3,528
Mortgage loans					
Medium and residential.....	86	1,694	108	1,831	1,553
Loans acquired from INFONAVIT or FOVISSTE.....	17	343	20	346	312
Total Loan Portfolio with Credit Risk Stage 3	529	10,425	590	10,006	9,143
Loan Portfolio.....	56,109	1,104,898	59,947	1,017,105	905,914
(Plus/Minus) Deferred Items.....	153	3,005	144	2,436	2,058
(Minus) Allowance for Loan Losses.....	(962)	(18,950)	(1,105)	(18,749)	(16,961)
Loan Portfolio, Net.....	55,299	1,088,953	58,986	1,000,792	891,011
Acquired Collection Rights, Net.....	43	843	64	1,094	654
Total Loan Portfolio, Net.....	55,342	1,089,796	59,050	1,001,886	891,665
Other accounts receivable, net.....	3,322	65,417	2,260	38,352	36,343
Foreclosed assets, net.....	248	4,892	282	4,792	2,844
Advance payments and other assets, net.....	211	4,161	292	4,959	8,614
Property, Furniture and Equipment, net.....	1,338	26,341	1,510	25,623	24,538
Assets for Rights of Use of Property, Furniture and Equipment, net.....	213	4,195	224	3,795	6,951

Balance Sheet Data:	As of September 30,		As of December 31,		
	2024	2024	2023	2023(2)	2022
	(U.S.\$ millions) (1)	(Ps. millions)	(U.S.\$ millions) (1)	(Ps. millions)	
Permanent Stock Investments	76	1,502	93	1,570	1,461
Deferred Income Tax Assets	91	1,785	-	-	565
Intangible Assets, net	598	11,771	816	13,843	15,493
Goodwill	135	2,649	88	1,497	1,413
Total Assets	90,144	1,775,125	99,165	1,682,493	1,552,253
Liabilities:					
Deposits					
Demand deposits	36,117	711,211	40,407	685,561	619,559
Time deposits					
General public	18,869	371,569	19,574	332,098	274,201
Money market	198	3,905	477	8,098	4,954
Global account of deposits without movements ...	199	3,923	215	3,656	3,253
Senior debt issued	2,629	51,772	2,577	43,718	17,002
	58,012	1,142,380	63,250	1,073,131	918,969
Interbank and other loans					
Demand loans	95	1,877	-	-	-
Short-term loans	198	3,895	326	5,525	7,181
Long-term loans	362	7,120	270	4,584	7,641
	655	12,892	596	10,109	14,822
Creditor balances under repurchase and resale agreements	12,882	253,674	12,143	206,018	218,928
Collateral sold or pledged					
Repurchase or resale agreements (creditor balance)	2,330	45,890	4,898	83,098	72,429
Derivatives financial instruments					
For trading purposes	927	18,249	1,266	21,488	29,116
For hedging purposes	95	1,866	133	2,259	3,956
	1,021	20,115	1,400	23,747	33,072
LEASE LIABILITY	223	4,386	226	3,835	6,606
Other account payables					
Creditors from settlements of transactions	2,003	39,445	558	9,465	7,116
Creditors from cash collateral	518	10,200	1,164	19,747	20,643
Contributions payable	81	1,603	90	1,519	1,025
Sundry creditors and other payables	1,093	21,522	1,854	31,450	30,685
	3,695	72,770	3,665	62,181	59,469
FINANCIAL INSTRUMENTS THAT QUALIFY AS LIABILITY					
Subordinated debentures	2,667	52,513	3,266	55,421	65,981
Income Tax Liabilities	349	6,864	147	2,501	7,380
Employee Benefit Liability	503	9,897	610	10,346	8,797
Deferred Credits and Advanced Collections	55	1,081	67	1,140	1,123
Total liabilities	82,392	1,622,462	90,267	1,531,527	1,407,576
Stockholders' equity					
Paid-in capital					
Common stock	954	18,795	1,108	18,795	18,795
Additional paid-in capital	274	5,390	265	4,500	4,651
	1,228	24,185	1,373	23,295	23,446
Other capital					
Capital reserves	963	18,959	1,117	18,959	18,959
Retained earnings from prior years	4,113	80,993	4,306	73,054	73,577
Result from valuation of securities available to collect or sell	(41)	(806)	(57)	(969)	(2,326)
Result from valuation of instruments for cash flow hedging	39	762	11	183	(1,572)
Defined remeasurements for employee benefits ...	(98)	(1,934)	(117)	(1,993)	(1,924)
Cumulative Translation Adjustment	10	191	(11)	(191)	(37)

Balance Sheet Data:	As of September 30,		As of December 31,		
	2024	2024	2023	2023(2)	2022
	(U.S.\$		(U.S.\$		
	millions) (1)	(Ps. millions)	millions) (1)	(Ps. millions)	
Net income (Controlling)	1,725	33,960	2,472	41,946	34,549
	6,710	132,125	7,720	130,989	121,226
Noncontrolling interest	(185)	(3,647)	(196)	(3,318)	5
Total stockholders' equity	7,752	152,663	8,898	150,966	144,677
Total liabilities and stockholders' equity.....	90,144	1,775,125	99,165	1,682,493	1,552,253

- (1) Solely for the convenience of the reader, Peso amounts as of September 30, 2024 have been translated into U.S. dollars at the exchange rate of Ps. 19.6921 per U.S.\$1.00 and as of December 31, 2023 at the exchange rate of Ps. 16.9666 per U.S.\$1.00. See "Exchange Rates and Currency."
- (2) Changes in the presentation of financial information as of and for the years ended December 31, 2023 and December 31, 2022 are the result of the incorporation of new accounting criteria as described above and therefore such financial information is not comparable with any prior historical financial period. See "Risk Factors—Risks Relating to Our Business—As a result of the implementation of new accounting criteria for credit institutions in Mexico established by the CNBV, financial information as of and for the years ended December 31, 2023 and December 31, 2022 is not comparable with financial information for prior years".

As of December
31, 2021

Balance Sheet Data:

(Ps. millions)

Assets:

Cash and cash equivalents	98,302
Margin securities	7,999
Investment in securities	
Trading Financial Instrument	32,263
Securities available for sell	136,172
Securities held to maturity	60,200
	228,635

Debtor balances under repurchase and resale agreements	3,037
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Derivatives financial instruments	
For trading purposes	26,865
For hedging purposes	1,054
	40

Valuation Adjustments for Financial Assets Hedging

Performing Loan Portfolio

Commercial loans	
Business loans	304,111
Financial institutions' loans	28,686
Government loans	147,734
Consumer loans	121,870
Mortgage loans	
Medium and Residential	198,057
Low-income housing	3
Loans acquired from INFONAVIT or FOVISSTE	2,400
Total Loan Performing Loan Portfolio	802,861

Past-due Loan Portfolio

Commercial loans	
Business loans	2,588
Government Loans	154
Consumer loans	3,017
Mortgage loans	
Medium and residential	1,802
Low-income housing	-
Mortgage loans	275
Total Past-Due Loan Portfolio	7,836

Loan Portfolio	810,697
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(Minus) Allowance for Loan Losses	(15,744)
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Loan Portfolio, Net	794,953
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Acquired Collection Rights	1,036
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Total Loan Portfolio, Net	795,989
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Other accounts receivable, net	31,140
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Foreclosed assets, net	1,717
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Property, Furniture and Equipment, net	17,662
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Permanent Stock Investments	524
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Other Assets, net

Deferred charges, advance payments and intangibles	23,176
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Other short-term and long-term assets	350
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Goodwill	-
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Total Assets	1,236,490
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Liabilities:

Deposits

Demand deposits	535,201
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Time deposits	240,089
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General public	100
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Money market	27,800
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Senior debt issued	3,023
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Global account of deposits without movements	806,213
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As of December
31, 2021

Balance Sheet Data:

(Ps. millions)

Interbank and other loans

Short-term loans	7,809
Short-term loans	7,330
Long-term loans	6,422
	21,561

Creditor balances under repurchase and resale agreements **108,591**

Collateral sold or pledged

Repurchase or resale agreements (creditor balance)..... 31

Derivatives financial instruments

For trading purposes 22,487

For hedging purposes 6,571

29,058

Other account payables

Income Taxes 568

Employee Profit Sharing 1,354

Creditors from settlements of transactions 2,458

Creditors from cash collateral..... 10,006

Sundry creditors and other payables..... 29,181

43,567

FINANCIAL INSTRUMENTS THAT QUALIFY AS LIABILITY

Subordinated debentures..... 80,574

Deferred taxes and profit sharing, net 1,122

Deferred Credits and Advanced Collections 1,138

Total liabilities **1,091,855**

Stockholders' equity.....

Paid-in capital.....

Common stock 18,795

Additional paid-in capital 3,851

22,646

Other capital

Capital reserves 18,959

Retained earnings from prior years..... 79,931

Result from valuation of securities available to collect or sell 1,720

Result from valuation of instruments for cash flow hedging (2,709)

Cumulative translation adjustment 34

Defined remeasurement for employees benefits (2,036)

Net income..... 26,086

121,985

Noncontrolling interest **4**

Total stockholders' equity **144,635**

Total liabilities and stockholders' equity..... **1,236,490**

	As of or for the nine-month period ended September 30,		As of or for the year ended December 31,		
	2024 (U.S.\$ millions, except percentages) (1)	2024 (Ps. millions, except percentages)	2023 (U.S.\$ millions, except percentages) (1)	2023 (Ps. millions, except percentages)	2022
Profitability and Efficiency:					
Return on average total assets ⁽²⁾	2.5%	2.5%	2.5%	2.5%	2.2%
Return on average equity ⁽³⁾	29.0%	29.0%	27.6%	27.6%	24.7%
Net interest margin ⁽⁴⁾	6.5%	6.5%	6.4%	6.4%	5.9%
Efficiency ratio ⁽⁵⁾	36.1%	36.1%	38.2%	38.2%	41.1%
Credit Quality Data:					
Total Stage 1 and Stage 2 Loans	55,579	1,094,473	59,358	1,007,099	896,771
Total Stage 3 Loans	529	10,425	590	10,006	9,143
Total loans	56,109	1,104,898	59,947	1,017,105	905,914
Loans graded "C," "D" and "E" ⁽⁶⁾	2,392	47,099	2,762	46,856	35,163
Allowance for loan losses	962	18,950	1,105	18,749	16,961
Credit Quality Ratios:					
Allowance for loan losses as a percentage of total loans	1.7%	1.7%	1.8%	1.8%	1.9%
Allowance for loan losses as a percentage of total Stage 3 loans ⁽⁷⁾	181.8%	181.8%	187.4%	187.4%	185.5%
Allowance for loan losses as a percentage of loans graded "C," "D" and "E" ⁽⁶⁾	40.2%	40.2%	40.0%	40.0%	48.2%
Total Stage 3 loans as a percentage of total loans	0.9%	0.9%	1.0%	1.0%	1.0%
Net Stage 3 loans (total Stage 3 loans less allowance for loan losses) as a percentage of net total loans (total Stage 1 and Stage 2 loans plus net Stage 3 loans)	(0.8%)	(0.8%)	(0.9%)	(0.9%)	(0.9%)
Net Stage 3 loans (total Stage 3 loans less allowance for loan losses) as a percentage of stockholders' equity	(5.6%)	(5.6%)	(5.8%)	(5.8%)	(5.4%)
Loans graded "C," "D" and "E" as a percentage of total loans ⁽⁶⁾	4.3%	4.3%	4.6%	4.6%	3.9%

- (1) Solely for the convenience of the reader, Peso amounts as of and for the nine-month period ended September 30, 2024 have been translated into U.S. dollars at the exchange rate of Ps. 19.6921 per U.S.\$1.00, respectively, and as of and for the year ended December 31, 2023 at the exchange rate of Ps. 16.9666 per U.S.\$1.00, respectively. See "Exchange Rates and Currency."
- (2) For Return on average assets, Net income (Controlling) of the last 12 months divided by the average of the last 12 months of total assets, based on end-of-period balances.
- (3) For Return on average equity, Net income (Controlling) of the last 12 months divided by the average of the last 12 months of stockholders' equity, based on end-of-period balances (excluding minority interests).
- (4) For Net interest margin, Net interest income of the last 12 months divided by the average of the last 12 months of total interest-earning assets, based on end-of-period balances.
- (5) Efficiency ratio is equal to non-interest expense divided by the aggregate of net interest income and non-interest income (commissions and fees, intermediation revenues and other operating income). For this purpose, net interest income is calculated before allowance for loan losses.
- (6) Refers to our loan portfolio classified pursuant to the General Rules Applicable to Mexican Banks. Under applicable regulations, such classification is determined by reference to our loan portfolio at the end of the preceding quarter. See "Selected Statistical Information—Grading of Loan Portfolio."
- (7) Corresponds to end-of-year balance, which is different from guidelines prescribed by the CNBV regarding calculation of required additional reserves. See "Selected Statistical Information—Allowance for Loan Losses."

	As of or for the year ended December 31, 2021 <i>(Ps. millions, except percentages)</i>
Profitability and Efficiency:	
Return on average total assets ⁽²⁾	2.1%
Return on average equity ⁽³⁾	18.6%
Net interest margin ⁽⁴⁾	5.8%
Efficiency ratio ⁽⁵⁾	48.2%
Credit Quality Data:	
Total performing loans	802,861
Total non-performing loans	7,836
Total loans	810,697
Loans graded “C,” “D” and “E” ⁽⁶⁾	35,937
Allowance for loan losses	15,744
Credit Quality Ratios:	
Allowance for loan losses as a percentage of total loans	1.9%
Allowance for loan losses as a percentage of total non-performing loans ⁽⁷⁾	200.9%
Allowance for loan losses as a percentage of loans graded “C,” “D” and “E” ⁽⁶⁾	43.8%
Total non-performing loans as a percentage of total loans	1.0%
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of net total loans (total performing loans plus net non-performing loans)	(1.0%)
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of stockholders’ equity	(5.5%)
Loans graded “C,” “D” and “E” as a percentage of total loans ⁽⁶⁾	4.4%

- (1) Solely for the convenience of the reader, Peso amounts as of and for the nine-month period ended September 30, 2024 have been translated into U.S. dollars at the exchange rate of Ps. 19.6921 per U.S.\$1.00, respectively, and as of and for the year ended December 31, 2023 at the exchange rate of Ps. 16.9666 per U.S.\$1.00, respectively. See “*Exchange Rates and Currency.*”
- (2) For Return on average assets, Net income of the last 12 months divided by the average of the last 12 months of total assets, based on end-of-period balances.
- (3) For Return on average equity, Net income of the last 12 months divided by the average of the last 12 months of stockholders’ equity, based on end-of-period balances (excluding minority interests).
- (4) For Net interest margin, Net interest income of the last 12 months divided by the average of the last 12 months of total interest-earning assets, based on end-of-period balances.
- (5) Efficiency ratio is equal to non-interest expense divided by the aggregate of net interest income and non-interest income (commissions and fees, intermediation revenues and other operating income). For this purpose, net interest income is calculated before allowance for loan losses.
- (6) Refers to our loan portfolio classified pursuant to the General Rules Applicable to Mexican Banks. Under applicable regulations, such classification is determined by reference to our loan portfolio at the end of the preceding quarter. See “*Selected Statistical Information—Grading of Loan Portfolio.*”
- (7) Corresponds to end-of-year balance, which is different from guidelines prescribed by the CNBV regarding calculation of required additional reserves. See “*Selected Statistical Information—Allowance for Loan Losses.*”

Capital Ratios

The table below presents our risk-weighted assets and Capital Ratios for the periods indicated.

	As of September 30,		As of December 31,			
	2024	2024	2023	2023	2022	2021
	(U.S. millions, except for percentages) (1)	(Ps. millions, except for percentages)	(U.S.\$ millions, except for percentages) (1)	(Ps. millions, except for percentages)		
Capital:						
Common Equity Tier 1 Capital (CET1)	7,025	138,340	8,210	139,297	129,145	131,693
Additional Tier 1 Capital	2,600	51,199	3,200	54,293	64,428	72,802
Tier 2 Capital	112	2,211	131	2,229	3,349	7,800
Total Net Capital	9,737	191,750	11,541	195,819	194,923	212,295
Risk-Weighted Assets:						
Credit risk	34,817	685,617	39,508	670,310	629,486	609,709
Market risk	9,167	180,525	8,864	150,393	143,368	174,738
Operational risk	6,663	131,209	7,293	123,734	80,369	75,386
Total Risk-Weighted Assets	50,647	997,350	55,664	944,437	853,223	859,833
Capital Ratios (credit, market and operational risk):						
Fundamental Capital (CET1) to risk-weighted assets	13.87%	13.87%	14.73%	14.73%	15.14%	15.32%
Tier 1 Capital to risk-weighted assets	19.00%	19.00%	20.48%	20.48%	22.45%	23.78%
Tier 2 Capital to risk-weighted assets	0.23%	0.23%	0.24%	0.24%	0.39%	0.91%
Total Net Capital to Total Risk-Weighted Assets	19.23%	19.23%	20.72%	20.72%	22.85%	24.69%

- (1) Solely for the convenience of the reader, Peso amounts as of September 30, 2024 have been translated into U.S. dollars at the exchange rate of Ps. 19.6921 per U.S.\$1.00 and as of December 31, 2023 at the exchange rate of Ps. 16.9666 per U.S.\$1.00. See “Exchange Rates and Currency.”

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Financial Statements, together with the notes thereto, included elsewhere in this offering memorandum. Our Financial Statements have been prepared in accordance with Mexican Banking GAAP, which differs in certain significant respects from MFRS and U.S. GAAP. See "Annex A - Significant Differences Between Mexican Banking GAAP and U.S. GAAP" for a discussion of significant differences between Mexican Banking GAAP and U.S. GAAP. No reconciliation of any of our Financial Statements to U.S. GAAP has been performed. Any such reconciliation would likely result in material quantitative differences. See "Presentation of Financial and Other Information" and "Risk Factors—Risks Relating to Our Business—Our Financial Statements have been prepared and are presented in accordance with Mexican Banking GAAP, which is significantly different from U.S. GAAP."

Principal Factors Affecting Our Financial Condition and Results of Operations

A substantial portion of our operations are located in Mexico. Consequently, our results of operations and our financial condition are strongly affected by the general economic environment and political conditions existing in Mexico.

Mexican Economic Environment

In 2021, the Mexican economy grew at an average of 6.0% with the economy growing at 1.9%, on a quarter-to-quarter basis for the fourth quarter according to data released by INEGI (*Instituto Nacional de Estadística y Geografía*), below 5.1% expansion, on a quarter-to-quarter basis, registered in the previous quarter. Economic activity was primarily driven by manufacturing sector, which benefited from increased demand, particularly from the United States, due to Mexico's strategic position as a trade partner.

In 2022, the Mexican economy grew at an average of 3.7% with the economy growing at 4.4%, on a quarter-to-quarter basis for the fourth quarter according to data released by INEGI (*Instituto Nacional de Estadística y Geografía*), which was weaker than the 4.7% growth, on a quarter-to-quarter basis, registered in the previous quarter. Economic activity was primarily affected by commerce, transportation and tourism, which benefited from the reopening of the economy and an increase in mobility.

In 2023, the Mexican economy grew by 3.2%, according to data released by INEGI (*Instituto Nacional de Estadística y Geografía*). Economic activity was primarily affected by this growth was driven by positive development in the construction, manufacturing and industrial sectors.

The Mexican economy remains influenced by the U.S. economy, and therefore, any deterioration of the U.S. economy, disruption of the USMCA, or other related events, may impact the Mexican economy. This is due, among others, to the export sector and the direct and indirect effects on tourism, remittances and investment. Specifically, trade integration between the two nations has been ongoing during the last three decades since the implementation of NAFTA. In recent years, it has been further strengthened with the renewed USMCA agreement. On June 19, 2019, the Mexican Senate approved this legislation and the agreement entered into force on July 1, 2020.

The benefits of international trade have been mutual for both Mexico and the U.S., with the two nations becoming each other's most important trading partners since last year. During the first half of 2024, Mexico accounted for 15.7% of the total dollar value of U.S. imports, while 82.7% of Mexico's exports were directed to the United States. The USMCA includes a sunset clause requiring a review and potential modification every six years, with the agreement set to expire after 16 years unless renegotiated and renewed. The next scheduled review will be in 2026, and changes in political leadership in the United States, Mexico, and Canada could significantly influence both the renegotiation process and the resulting terms.

In terms of the revision clause (Article 34.7), the three countries must confirm in writing by July 1, 2026, whether they intend to continue under the USMCA. If any party opts not to renew, a process will be triggered that could lead to a period of volatility and uncertainty.

For most trade disputes, the USMCA preserves similar settlement mechanisms to its predecessor, NAFTA, but includes new provisions to prevent unilateral actions. Under the USMCA, dispute resolution panels aim to ensure a more transparent and efficient process, promoting operational continuity between countries.

Nevertheless, a few disputes remain unresolved, particularly in the electricity and agricultural sectors, which could play a significant role in the upcoming negotiations.

Any action taken by the current U.S. or Mexico administrations, including changes to the USMCA and/or other U.S. government policies that may be adopted by the U.S. administration, could have a negative impact on the Mexican economy. These include, but are not limited to, reductions in the levels of remittances, lower commercial activity or bilateral trade, and declining foreign direct investment into Mexico. Any sign of tariffs or protectionist measures could potentially lead to lower GDP growth. These economic and political consequences could adversely affect our business, operating results, and financial condition.

Shifts in international trade, alongside evolving global public policies, could drive increased regionalization, potentially benefiting countries like Mexico through relocation or nearshoring opportunities. While risks may arise with the USMCA review in 2026, Mexico's competitive advantages could serve as a positive differentiator. In the short term, there may be uncertainty around the review process, but in the long term, conditions could support deeper trade integration among the three countries within the trade bloc.

As of the date of this offering memorandum, it is difficult to predict the impact of the November 5, 2024, U.S. presidential election on policies important to Mexico's economy, particularly those relating to trade and migration, or the extent of any potential polarization, social unrest, or post-electoral disputes in the United States. Any such political instability could affect U.S.-Mexico relations, potentially impacting our operations.

The global economy currently faces exceptional challenges, including Russia's invasion of Ukraine—the largest military attack on a European state since World War II—which could continue to cause significant disruption, instability, and market volatility. The European Union, United Kingdom, United States, and other governments have imposed substantial sanctions and export controls against Russia and its interests, restricting transit for certain Russian citizens and seizing assets within the EU. Although the full impact of these measures and Russia's possible responses remain uncertain, they could materially and adversely impact our business, financial condition, and operational results.

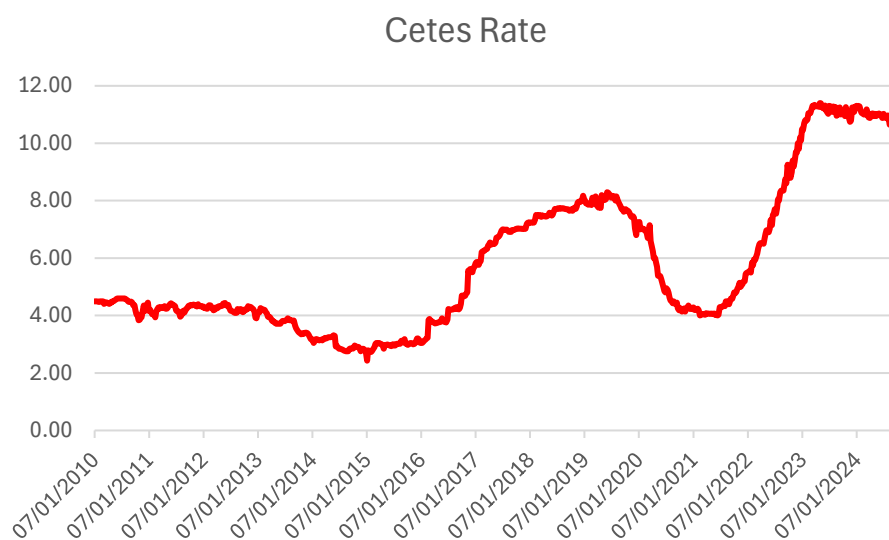
Moreover, geopolitical and economic risks have increased in recent years due to U.S.-China trade tensions, the rise of populism, and tensions in the Middle East, including the Gaza conflict. Rising trade tensions may contribute to a de-globalizing world economy, increased protectionism, immigration barriers, reduced international trade, and decreased financial market integration. These factors could materially and adversely affect our business, financial condition, and results of operations.

Additionally, economic conditions in Mexico may also be affected by political developments in the United States. We cannot assure that any developments in the U.S. or elsewhere will not materially and adversely affect our business, financial conditions, and results of operations in the future.

Effects of Changes in Interest Rates

Interest rate fluctuations in Mexico have effects on our interest income, interest expense and trading income. Changes in market interest rates may lead to temporary repricing gaps between our interest-earning assets and our interest-bearing liabilities. Upward or downward adjustments of the interest rates on our assets and liabilities generally occur approximately every 28 days. The repricing generally limits the effects of net exposures that regularly occur upon movements in interest rates. See "*Selected Statistical Information—Interest Rate Sensitivity of Assets and Liabilities.*" In addition, sustained high interest rate environments have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and in a deterioration of asset quality.

The table below shows the annual interest rate paid in connection with primary offerings of Cetes, which are Mexican government Peso-denominated treasury bills, with 28-day maturities.



Source: Mexican Central Bank

During the year ended December 31, 2022, the Mexican Central Bank increased interest rates by 500 basis points to 10.50%. Interest rates on 28-day and 91-day *Cetes* averaged 7.66% and 8.28%, respectively, in the year ended December 31, 2022, as compared with average rates on 28-day and 91-day *Cetes* of 7.85% and 7.94%, respectively, in the year ended December 31, 2019.

During the year ended December 31, 2023, the Mexican Central Bank increased interest rates at 11.25%. Interest rates on 28-day and 91-day *Cetes* averaged 11.10% and 11.36%, respectively, in the year ended December 31, 2023, as compared with average rates on 28-day and 91-day *Cetes* of 4.43% and 4.64%, respectively, in the year ended December 31, 2021.

During the nine-month period ended September 30, 2024, the Mexican Central Bank decreased interest rates by 75 basis points to 10.50%. Interest rates on 28-day and 91-day *Cetes* averaged 10.93% and 11.36%, respectively, in the nine months of 2023, as compared with average rates on 28-day and 91-day *Cetes* of 7.05% and 7.63%, respectively, in the nine-month period of 2022. For further detail, see “*Risk Management—Market Risk*.”

Trends Affecting Our Financial Condition and Results of Operations

The Mexican financial services sector is likely to remain competitive with a large number of financial services providers and alternative distribution channels. Additionally, further consolidation in the sector (through mergers, acquisitions or alliances) is likely to occur as other major banks look to increase their market share, combine with complementary businesses or strengthen their balance sheets. In addition, regulatory changes will take place in the future that we expect will increase the overall level of regulation in the sector.

The following are the most important trends, uncertainties and events that we believe are reasonably likely to have a material adverse effect on us or that would cause the disclosed financial information not to be indicative of our future operating results or our financial condition:

- uncertainties relating to economic growth expectations, interest rate cycles in Mexico, the new government policies and continued instability and volatility in the financial markets, and the impact they may have over the yield curve and exchange rates;
- the resulting effect of the global economic slowdown and fluctuations in local interest and exchange rates;
- changes in the credit quality of our loan portfolio as a result of inorganic or organic growth and weakness in certain sectors of the Mexican economy, such as the home building sector;

- increases in our cost of funding that could adversely affect our net interest margin as a consequence of timing differences in the repricing of our assets and liabilities;
- increased competition that may lead to tightening of our margins;
- inflationary pressures that may lead to increases in interest rates and decreases in growth;
- acquisitions or restructurings of businesses that do not perform in accordance with our expectations or that subject us to previously unknown risks; and
- increased regulation, government intervention and new laws prompted by the global financial crisis which could change our industry and require us to modify our businesses or operations.

Recognition of the Effects of Inflation in Financial Information

We recognize inflation in our Financial Statements pursuant to MFRS B-10 “Effects of Inflation,” which considers two types of economic environments: a) inflationary, when the accumulated inflation of the three previous years is equal to or higher than 26%, in which case the effects of inflation must be acknowledged; and b) non-inflationary, when in the same period inflation is less than 26%, in which case the effects of inflation should not be recorded in the financial statements.

The cumulative Mexican inflation over the three years prior to 2023 and 2022 was 21.14% and 19.39%, respectively. Therefore, pursuant to the provisions of MFRS B-10 described above, the Mexican economy was considered as non-inflationary during these periods.

The Mexican inflation rates for the years ended on December 31, 2023, 2022 and 2021 were 4.66%, 7.82% and 7.36% respectively, and the inflation rate for the first eight-month period ended August 31, 2024, was 2.75%.

Changes in Accounting Policies

Improvements to MFRS 2024 – The following improvements were issued with entry into force as of January 1, 2024, which do not generate accounting changes.

MFRS C-2.- An entity will classify financial assets based on its business model, among others, as financial instruments receivable or sold (IFCV). The term “financial instruments to collect or sell” is replaced by the term “financial instruments to collect and sell” because the main objective of these must be to obtain a profit from their sale, which will be carried out when the conditions are met. optimal market conditions and in the meantime, collect contractual cash flows; That is, they are held to collect and sell.

MFRS C-10.- Converges with the provisions of IFRS 9, Financial Instruments; Therefore, in the case of hedging a foreign currency risk, a non-derivative financial instrument denominated in that currency may be designated as a hedging instrument, provided that it is not an equity instrument for which an entity has elected to be presented at fair value in Other Comprehensive Income in accordance with MFRS C-2.

Critical Accounting Policies

We have identified certain critical accounting policies on which our financial position and results of operations are dependent. These critical accounting policies generally involve complex quantitative analyses or are based on subjective judgments or decisions. In the opinion of management, our critical accounting policies under Mexican Banking GAAP are those described below. Our management relies on certain assumptions and estimates based on historical experience and other factors that are considered to be relevant for the preparation of our audited consolidated financial statements and are applied consistently to our condensed interim financial statements. These assumptions and estimates are continuously reviewed by our management. We recognize amendments to our accounting estimates in the period in which the amendment is introduced and subsequent periods if the amendment affects both current and subsequent periods. Actual results may differ from these assumptions and estimates. For a complete description of our significant accounting policies, see Note 4 to our Audited Consolidated Financial Statements.

Beginning on January 1, 2022, new accounting criteria were incorporated for the Mexican financial system, in accordance with Mexican Banking GAAP, including changes in the financial statements and in the main indicators. As a result, financial information as of and for the years ended December 31, 2023 and December 31, 2022 is not comparable with information published in prior years.

Fair Value of Financial Instruments

To determine the fair value of the positions in financial instruments, both its own and those of third parties, the Bank uses the prices, rates and other market information provided by a price provider authorized by the CNBV, except for what refers to the operations with futures, which are valued with the market prices determined by the clearing house of the stock exchange in which they are operated.

Allowance for Loan Losses

As of January 1, 2022, regulatory changes by the CNBV entered into force, regarding the classification and registration of the loan portfolio (Accounting Criterion B-6) for the implementation of the MFRS C-16 (IFRS 9), modifications to the standard methodologies for rating and calculating allowance for loan losses, recalibration of the standard methodologies for calculating the probability of default of the commercial portfolio and changes in the requirements to certify internal models and methodologies for calculating capital requirements for credit risk and estimate of preventive reserves.

Within these modifications, loans are classified into three “Stages” based on their risk: those cataloged within Stage 1 are considered to have no 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. With the above description, for loans classified in Stage 1 and 3, the expected loss was calculated over a 12-month time horizon, while for those loans classified in Stage 2, expected losses were recognized throughout the life of the loan.

Among the most relevant regulatory changes in standard portfolio rating methodologies and in the requirements to certify internal models and methodologies, the following stand out:

Standard Methodology

- All portfolios
 - In loans classified as Stage 2, allowances are estimated considering the higher of the expected loss with a 12-month horizon or the expected loss considering the remaining term of the loan.
- Commercial loans
 - The methodologies for determining the Probabilities of Default of all types of borrowers (Governments loans, Financial Holding Companies and Business with Sales of less than 14 million UDIS) are replaced.
 - The methodology for determining the percentage of reserves in loans 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 additionally, the evolution of said Severity of the Loss of credits classified in Stage 3 is modified, which will gradually increase to reach 100% in a period of 36 months after its classification in Stage 3.
 - The formulas for estimating the Exposure at Default in committed lines of credit are adjusted.
 - In certain exposures, Rebuttal of Stage 2 is allowed when the borrower’s delay event 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 impairment in the credit quality of the borrower, in certain exposures the deterioration to a Stage of higher risk is allowed after a quantitative and qualitative analysis, and that is also approved by a collegiate body.

Internal Models

In October 2016, the Board of Directors approved the implementation plan for the internal models for calculating reserves and capital requirements for all modelable portfolios, which was sent to the CNBV that same year. Pursuant to this implementation plan, the models for the Credit Card, Business and Personal Automotive portfolios were certified.

As a result of the issuance of MFRS C-16 (IFRS 9), the Mexican Board for the Research and Development of Financial Information Standards (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera*) published 10 new MFRS that entered into force on January 1, 2018. Since then, the CNBV started the process of adapting the regulations applicable to supervised financial entities, in order to adapt them to the new international framework.

On March 13, 2020, the CNBV published in the Official Gazette a Resolution that amended the General Rules Applicable to Mexican Banks. In this Resolution, the CNBV deemed it was necessary to update the accounting criteria applicable to Mexican banks, in order to make it consistent with national and international financial reporting standards and allow for transparent and comparable financial information with other countries. Therefore, this Resolution incorporated new MFRS issued by the Mexican Board for the Research and Development of Financial Information Standards.

Initially, these new rules were to be effective as of January 1, 2021; however, due to the COVID-19 pandemic, their effectiveness was postponed until January 1, 2022 (through an Amending Resolution published in the Official Gazette on December 4, 2020). Due to the foregoing, the Bank adhered to the new regulation and adopted the Internal Reserve Methodologies based on MFRS C-16, requesting in April 2021 the CPR and the Board of Directors, the approval of the new Implementation Plan (Capital and Reserves), which was authorized by the CNBV in January 2022 through Official Letter No. 111-2/852/2022.

Therefore, as of January 2022, when the MFRS C16 (IFRS 9) standard came into force, it is being used to calculate preventive reserves for credit risks, both in the Standard Approach and in the Internal Models. Consequently, for the Internal Models there will be estimates for the risk parameters under two approaches: IRB for calculating the capital requirement and MFRS9 for calculating reserves:

- The approach for equity will maintain long-term estimates under Annex 15 of the General Rules Applicable to Mexican Banks.
- The approach for reserves captures current behaviors and with a prospective approach (future macroeconomic environment), under Annex 15 Bis of the General Rules Applicable to Mexican Banks. In addition, the new methodology indicates that the portfolio must be classified into 3 risk stages, being necessary for stage 2 a reserve calculation for the remaining term.

Given the new guidelines of the General Rules Applicable to Mexican Banks on Internal Models, the CNBV will only issue an official letter of approval for the use of the methodology for the Calculation of Equity, for a maximum period of 18 months. The use of the internal reserve methodology is authorized by the Board of Directors with the support of the Technical Evaluation made by the Independent Evaluator that guarantees compliance with the model under the standards established in Annex 15 Bis. It should be noted that the Technical Evaluation Report is sent to the CNBV for its review, the validity of this model is also for a maximum period of 18 months.

Advanced Internal Model for Credit Card

On November 15, 2017, the Bank obtained approval from the CNBV for the use of Internal Models (IM) for Credit Card (TDC) qualification for the constitution of regulatory reserves and capital for credit risk with an advanced approach (Official 111-3/706/2017). Every year, the Internal Models are recalibrated, and the certification is obtained again, and given that, on December 17, 2021, the CNBV granted authorization for the use of the MI only for the calculation of capital requirements for a maximum period of 18 months. (Official Letter 111-2/272/2021) and the Board of Directors authorized the use of the reserve methodology based on MFRS C-16 at its meeting held on October 21, 2021. The maximum period of use of the reserve model is also for 18 months.

These internal models improve comprehensive credit risk management, estimating risk parameters through the Bank's experience, and have been applied as of February 2018 (with January figures). The aforementioned parameters are:

- Probability of Default (PD). Indicates the probability that a borrower will default on his contractual obligations in the following twelve months with respect to the month of qualification. A score is obtained for each credit, which is mapped to a Master rating scale.
- Loss severity (SP). Measures the intensity of the loss at default expressed as a percentage of the Exposure at Default (EI).
- Exposure at Default (EI). It is the amount of the debt at the time of default on a loan, considering a horizon of the following 12 months with respect to the month of qualification.

Advanced Internal Model for Individual Auto Loan

On November 25, 2019, the Bank obtained approval from the CNBV for the use of Internal Models (IM) for the qualification of Individuals Auto Loans (Auto PF) for the constitution of regulatory reserves and capital for credit risk with a focus advanced (Official 111/678/2019). Every year, the Internal Models are recalibrated, and the certification is obtained again, and given that, on September 29, 2022, the CNBV (Official 111-2/272/2021) granted authorization for the use of the MI only for the calculation of capital requirements for a maximum period of 18 months, and the Board of Directors authorized the use of the reserve methodology based on MFRS-C16 at its meeting on July 21, 2022. The maximum period of use of the reserve model also is for 18 months.

These internal models improve comprehensive credit risk management, estimating risk parameters through the Bank's experience. The aforementioned parameters are:

- Probability of the Default (PI). Indicates the probability that a borrower will default on his contractual obligations in the following twelve months with respect to the month of qualification. A score is obtained for each credit, which is mapped to a Master rating scale.
- Loss severity (SP). Measures the intensity of the loss at default expressed as a percentage of the Exposure at Default (EI)
- Exposure at Default (EI). It is the amount of the debt at the time of default on a loan, considering a horizon of the following 12 months with respect to the month of qualification.

Basic Internal Model for Business

The Bank obtained on November 30, 2018 from the CNBV the approval for the use of the Internal Model for business for the constitution of reserves and regulatory capital requirement for credit risk with a basic approach (Official Letter 111-3/1472/ 2018) in Banorte, and on March 1, 2019 for AyF (Oficios 111-1/160/2019 and 111-1/161/2019). Every year, the Internal Models are recalibrated, and the certification is obtained again, and given that, on December 17, 2021, the CNBV granted authorization for the use of the MI only for the calculation of capital requirements for a maximum period of 18 months. for Banorte (Official 111-2/269/2021) and AyF (Official 111-2/267/2021). Likewise, the Board of Directors authorized the use of the reserve methodology based on MFRS C16 at its meeting held on October 21, 2021 for Banorte and on October 20, 2021 for AyF. The maximum period of use of the reservation model is also for 18 months.

The positions subject to those qualification are Business Entities (other than federal entities, municipalities and financial entities) and individuals with business activity, both with annual sales greater than or equal to 14 million UDIs.

The Internal Model improves comprehensive credit risk management, estimating risk parameters through the Bank's experience, and has been applied as of February 2019 (with figures as of January) at Banorte; and as of March 2019 (with figures as of February) in AyF. The authorized parameter under the Basic Internal Model of Companies is:

- Probability of the Default (PI). Indicates the probability that a borrower will default on his contractual obligations in the following twelve months with respect to the month of qualification. A score is obtained for each credit, which is mapped to a Master rating scale.

Employee Retirement Obligations

According to Mexican Federal Labor Law, the Bank has obligations derived from severance payments and seniority premiums payable to employee that cease to render their services under certain circumstances.

Defined Benefit Plan

The Bank 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 Bank's overall employee, as well as the obligation related to retired personnel.

At the end of 2022, 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 Bank applies the provision of MFRS 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 employee 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 Bank 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 MFRS D-3, because the cost of this plan is equivalent to the Bank'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 Bank determines employee statutory profit sharing based on the criteria established in the guidelines set forth by the Mexican Constitution.

Property, Plant 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.

Deferred Income Tax Assets

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 Statement of Financial Position under the "Deferred Income taxes, net" line.

Results of Operations for the Nine-month Period Ended September 30, 2024 Compared to the Nine-month Period Ended September 30, 2023

Net Interest Income

Our net interest income was Ps. 80,586 million for the nine-month period ended September 30, 2024 compared to Ps. 74,560 million for the corresponding period in 2023, an increase of Ps. 6,026 million, or 8.1%. This increase resulted from an increase of Ps. 12,627 million in our interest income from loans and an increase of Ps. 2,563 million in our interest income from financial instruments investments, partially offset by an increase of Ps. 8,630 million in our interest expense from deposits. During the nine-month period ended September 30, 2024, the rate on 28-day TIIE averaged 11.27%, 10 basis points lower than the 11.37% average rate for the nine-month period ended September 30, 2023, which had a neutral impact on our NIM, which was 6.5% for the nine-month period ended September 30, 2023 and remained flat for the nine-month period ended September 30, 2024.

In terms of margins, our average interest rate earned on interest-earning assets was 16.3% in the nine-month period ended September 30, 2024, and our average interest rate paid on interest-bearing liabilities was 14.7%, resulting in a yield

spread of 1.6%. Our average interest rate earned on interest-earning assets was 17.2% for the nine-month period ended September 31, 2023, and our average interest rate paid on interest-bearing liabilities was 15.9%, resulting in a yield spread of 1.3%.

The following table sets forth the components of our net interest income for the periods indicated:

	For the nine-month period ended September 30,	
	2024	2023
	<i>(Ps. millions)</i>	
Interest Income:		
Interest on loans	107,867	95,239
Fees on loans (1)	1,399	1,248
Interest on cash and cash equivalents and securities	29,762	26,405
Income on derivative instruments	103,529	110,216
Interest on repurchase operations (2)	10,514	10,982
UDI valuation (5)	-	-
Foreign exchange valuation (4)	728	-
Other interest income	307	228
Total interest income	254,103	244,318
Interest Expense:		
Interest on deposits and funding	41,748	33,118
Interest on repurchase operations (3)	28,456	26,646
Expense on hedging operations	99,529	106,575
UDI valuation (5)	242	159
Foreign exchange valuation (4)	67	50
Fees paid (6)	2,286	1,852
Other interest expenses	1,189	1,356
Total interest expense	173,517	169,758
Net interest income	80,586	74,560

- (1) Fees on loans represent fees generated in connection with the issuance, renewal, draw-down or prepayment of a loan that is recorded as interest income in accordance with Mexican Banking GAAP.
- (2) Interest income on repurchase operations represents interest income on securities purchased pursuant to our agreements to resell in accordance with Mexican Banking GAAP.
- (3) Interest expense on repurchase operations represents interest expense on securities sold under agreements to repurchase in accordance with Mexican Banking GAAP.
- (4) Foreign exchange valuation represents the net changes in the foreign exchange valuation that are recorded as interest income or interest expense depending on the net effect in accordance with Mexican Banking GAAP.
- (5) UDI valuation represents part of the effect from changes in the inflation rate on UDI-denominated liabilities that are recorded in interest expense and UDI-denominated assets that are recorded in interest income, as the case may be, in accordance with Mexican Banking GAAP.
- (6) Fees paid represent fees incurred in connection with our withdrawal, renewal and drawing down of loans that are recorded as interest expense in accordance with Mexican Banking GAAP.

Interest Income

Our interest income was Ps. 254,103 million for the nine-month period ended September 30, 2024 compared to Ps. 244,318 million for the corresponding period in 2023, an increase of Ps. 9,785 million, or 4.0%. Our average interest rate earned on interest-earning assets decreased by 80 basis points from 17.1% during the nine-month period ended September 30, 2023 to 16.3% during the corresponding period in 2024. Our average balance of interest-earning assets increased by 9.1% from Ps. 1,901 billion during the nine-month period ended September 30, 2023 to Ps. 2,073 billion during the corresponding period in 2024. The average balance of interest-earning assets increased primarily as a result of an increase in the average balance of our loans of Ps. 107,385 million or 11.4% from Ps. 944,445 million to Ps. 1,051,830 and an increase of our investment securities of Ps. 47,294 million or 14.5%.

Our interest on loans was Ps. 107,867 million (or 42.5% of our interest income) for the nine-month period ended September 30, 2024 compared to Ps. 95,239 million (or 39.0% of interest income) for the corresponding period in 2023, an increase of Ps. 12,628 million, or 13.3%. This increase was primarily the result of an increase of 11.1% in our loans portfolio, mostly consumer portfolio and commercial and corporate loans.

Our interest income from cash and cash equivalents and securities was Ps.29,762 million (or 11.7% of our interest income) for the nine-month period ended September 30, 2024 compared to Ps.26,405 million (or 10.8% of our interest income) for the corresponding period in 2023, an increase of Ps.3,357 million, or 12.7%. This increase was the result of a 14.5% growth in our investment securities average balance. This mainly reflected the increased activity by the Fixed Income desk in Mexican Government Securities.

Our interest income from derivative instruments was Ps. 103,529 million (or 40.7% of our interest income) for the nine-month period ended September 30, 2024 compared to Ps. 110,216 million (or 45.1% of our interest income) for the corresponding period in 2023, a decrease of Ps.6,687 million, or 6.1%. This primarily reflected the decrease in the Interbank Mexican Reference Rate (TIIE).

Our interest income from repurchase operations was Ps. 10,514 million (or 4.1% of our interest income) for the nine-month period ended September 30, 2024 compared to Ps. 10,982 million (or 4.5% of our interest income) for the corresponding period in 2023, a decrease of Ps. 468 million, or 4.3%. This change was mainly due to a decrease of 4.3% in our repurchase operations average balance.

Interest Expense

Our interest expense was Ps. 173,517 million for the nine-month period ended September 30, 2024 compared to Ps. 169,758 million for the corresponding period in 2023, an increase of Ps. 3,759 million, or 2.2%. This increase was mainly due to an increase of Ps. 8,630 million in our interest expense from deposits, which primarily reflected an increase of 18.1% in our deposits average balance, and a decrease of Ps. 7,046 million in our derivative instrument expenses.

Our interest expense on deposits and funding was Ps. 41,748 million (or 24.1% of our interest expense) for the nine-month period ended September 30, 2024 compared to Ps. 33,118 million (or 19.5% of our interest expense) for the corresponding period in 2023, an increase of Ps. 8,630 million, or 26.1%. This increase was driven by an 18.1% increase in our deposits and funding average balances.

Our interest expense from repurchase operations was Ps. 28,456 million (or 16.4% of interest expense) for the nine-month period ended September 30, 2024 compared to Ps. 26,646 million (or 15.7% of interest expense) for the corresponding period in 2023, an increase of Ps. 1,810 million, or 6.8%. This change was mainly due to an increase of 7.1% in our repurchase operations average balance.

Allowance for Loan Losses (Provision for Loan Losses)

Our allowance for loan losses charged against earnings was Ps. 14,142 million for the nine-month period ended September 30, 2024, compared to Ps. 12,223 million for the corresponding period in 2023, an increase of Ps. 1,919 million, or 15.7%. This increase was primarily due to a rise of 9.9% in our Stage 3 loan portfolio.

Our allowance for loan losses as a percentage of Stage 3 loans decreased to 181.8% as of September 30, 2024, from 193.5% as of September 30, 2023. The decrease in our allowance for loan losses to Stage 3 loans ratio was driven by an increase of 9.9% in our Stage 3 loan portfolio and a 3.2% increase in our allowance for loan losses.

The cost of risk (calculated as loan losses divided by average total loans) was 1.7% for the nine-month period ended September 30, 2024 compared to 1.6% for the nine-month period ended September 30, 2023.

Net Interest Income after Allowance for Loan Losses

As a result of the factors discussed above, our net interest income after allowance for loan losses was Ps. 66,444 million for the nine-month period ended September 30, 2024 compared to Ps. 62,337 million for the corresponding period in 2023, an increase of Ps. 4,107 million, or 6.6%.

Risk-Adjusted Net Interest Margin

Our risk-adjusted net interest margin was 5.4% for the nine-month period ending September 30, 2024, consistent with the same period in 2023. This stability reflects an increase in our loan loss provisions, alongside growth in our loan portfolio.

Commission and Fee Income

Our total commission and fee income was Ps. 29,808 million for the nine-month period ended September 30, 2024 compared to Ps. 25,543 million for the corresponding period in 2023, an increase of Ps. 4,265 million, or 16.7%, primarily due

to an increase in core banking services, such as electronic banking services as well as growth in services related to credit card loans.

The following table shows the breakdown of our commissions and fees for the periods indicated:

	For the nine-month period ended September 30,	
	2024	2023
	(Ps. millions)	
Commissions and Fees:		
Fund transfers	1,703	1,476
Account management	1,453	1,437
Fiduciary	418	397
Credit card	6,830	5,441
Income from real estate loan portfolios acquired and other investment projects	-	-
Electronic banking services	15,252	13,110
Other commissions and fees	4,152	3,682
Total commissions and fees income	29,808	25,543
Commission and fee expense	(14,831)	(12,786)
Net commissions and fees	14,977	12,757

Commission and Fee Expense

Our total commission and fee expense was Ps. 14,831 million for the nine-month period ended September 30, 2024 compared to Ps. 12,786 million for the corresponding period in 2023, an increase of Ps. 2,045 million, or 16.0%, primarily due to an increase in POS activity (in terms of number of both transactions and volumes transacted), which caused an increase on fees paid for interbank transactions.

Intermediation Revenues

Our intermediation revenues were Ps. 1,404 million in the nine-month period ended September 30, 2024 compared to Ps. 1,735 million for the corresponding period in 2023, a decrease of Ps. 331 million, or 19.1%, principally due to lower unrealized securities trading revenues, partially offset by foreign exchange gains.

Our foreign exchange gains were Ps. 9,293 million in the nine-month period ended September 30, 2024 compared to Ps. 623 million for the corresponding period in 2023, an increase of Ps. 8,670 million, or 1,391.4%, due primarily to an increase in valuation associated with the dollar currency position.

Our realized gains on securities intermediation were Ps. 426 million for the nine-month period ended September 30, 2024, compared to a gain of Ps. 164 million for the corresponding period in 2023, an increase of Ps. 263 million, or 160.6%, which was attributable mainly to the increase of trading volumes in the same period of 2024. We recorded unrealized losses on securities of Ps. 8,007 million in the nine-month period ended September 30, 2024 compared to unrealized gains on securities of Ps. 812 million for the corresponding period in 2023, which was primarily due to changes in the Derivatives Fair Value due to the depreciation of the USD against the peso by Ps. 2.7255, and the decrease of 76 basis points in the TIIE. The increase of more than Ps. 2.7 contributed to the substantial Ps. 9,293 million foreign exchange gain in the same nine-month period.

Other Operating Income/Expenses

Our other operating expenses was Ps. 2,855 million for the nine-month period ended September 30, 2024 compared to Ps. 3,271 million for the corresponding period in 2023, a decrease of Ps. 416 million, or 12.7%.

Non-interest Expense

Our non-interest expense was Ps. 34,013 million for the nine-month period ended September 30, 2024 compared to Ps. 30,687 million for the corresponding period in 2023, an increase of Ps. 3,326 million, or 10.8%. This increase was the result mainly of the following expenses:

- a Ps. 1,479 million increase in our salaries and employee benefits;
- a Ps. 1,336 million increase in our leases, depreciation and amortization;

- a Ps. 271 million increase in our professional fees;
- a Ps. 72 million increase in our administrative and promotional expenses; and
- a Ps. 167 million increase in our other factors.

Our efficiency ratio, defined as non-interest expense divided by the aggregate of net interest income and non-interest income, in the nine-month period ended September 30, 2024, was 36.1%, compared to 35.8% for the corresponding period in 2023.

Operating Income

As a result of the factors discussed above, our operating income was Ps. 45,957 million for the nine-month period ended September 30, 2024, compared to Ps. 42,871 million for the corresponding period in 2023, an increase of Ps. 3,086 million, or 7.2%.

Equity in Earnings of Unconsolidated Subsidiaries and Associated Companies

Our equity in earnings of unconsolidated subsidiaries and associated companies was Ps. 334 million in the nine-month period ended September 30, 2024 compared to Ps. 138 million for the corresponding period in 2023, an increase of Ps. 196 million, or 142.0%.

Income Tax

We recorded an income tax expense of Ps. 12,843 million in the nine-month period ended September 30, 2024, compared to a Ps. 11,315 million income tax expense for the corresponding period in 2023. Due to an increase of Ps. 1,528 million, or 13.5%. This increase was mainly due to a higher operating profit.

Net Income

Our net income was Ps. 33,960 million (Controlling) for the nine-month period ended September 30, 2024, compared to Ps. 31,693 million for the corresponding period in 2023, an increase of Ps. 2,267 million, or 7.2%.

Results of Operations for the Year Ended December 31, 2023 Compared to the Year Ended December 31, 2022

Net Interest Income

Our net interest income was Ps. 100,875 million for the year ended December 31, 2023, compared to Ps. 85,243 million for the year ended December 31, 2022, an increase of Ps. 15,632 million, or 18.3%. During the year ended December 31, 2023, the rate on 28-day TIIE averaged 11.4%, 349 basis points higher than the 7.9% average rate for the year ended December 31, 2022, which had a positive impact of 0.6 percentage points on our NIM that increased from 5.9% as of December 31, 2022 to 6.5% as of December 31, 2023.

In terms of margins, our average interest rate earned on interest-earning assets was 17.0% in the year ended December 31, 2023, and our average interest rate paid on interest-bearing liabilities was 15.6%, resulting in a yield spread of 1.4%. Our average interest rate earned on interest-earning assets was 12.6% for the year ended December 31, 2022, and our average interest rate paid on interest-bearing liabilities was 10.6%, resulting in a yield spread of 2.0%.

The following table sets forth the components of our net interest income for the periods indicated:

	For the year ended December 31,	
	2023	2022
	(Ps. millions)	
Interest Income:		
Interest on loans	129,872	95,447
Fees on loans (1)	1,656	1,476
Interest on cash and cash equivalents and securities.....	36,090	21,059
Income on derivative instruments.....	145,046	93,104
Interest on repurchase operations (2).....	14,526	14,849
UDI valuation (5)	-	-
Foreign exchange valuation (4)	106	505
Other interest income	341	202
Total interest income	327,638	226,642
Interest Expense:		
Interest on deposits and funding	46,725	23,993
Interest on repurchase operations (3).....	35,475	24,163
Expense on hedging operations	140,116	90,003
UDI valuation (5)	221	311
Foreign exchange valuation (4)	3	-
Fees paid (6).....	2,419	1,656
Other interest expenses.....	1,805	1,273
Total interest expense	226,763	141,399
Net interest income	100,875	85,243

- (1) Fees on loans represent fees generated in connection with the issuance, renewal, draw-down or prepayment of a loan that is recorded as interest income in accordance with Mexican Banking GAAP.
- (2) Interest income on repurchase operations represents interest income on securities purchased pursuant to our agreements to resell in accordance with Mexican Banking GAAP.
- (3) Interest expense on repurchase operations represents interest expense on securities sold under agreements to repurchase in accordance with Mexican Banking GAAP.
- (4) Foreign exchange valuation represents the net changes in the foreign exchange valuation that are recorded as interest income or interest expense depending on the net effect in accordance with Mexican Banking GAAP.
- (5) UDI valuation represents part of the effect from changes in the inflation rate on UDI-denominated liabilities that are recorded in interest expense and UDI-denominated assets that are recorded in interest income, as the case may be, in accordance with Mexican Banking GAAP.
- (6) Fees paid represent fees incurred in connection with our withdrawal, renewal and drawing down of loans that are recorded as interest expense in accordance with Mexican Banking GAAP.

Interest Income

Our interest income was Ps. 327,638 million for the year ended December 31, 2023, compared to Ps. 226,642 million for the year ended December 31, 2022, an increase of Ps. 100,996 million, or 44.6%.

Our average interest rate earned on interest-earning assets increased by 440 basis points from 12.6% during the year ended December 31, 2022, to 17.0% during the year ended December 31, 2023. Our average balance of interest-earning assets increased by 7.1% from Ps. 1,799 billion during the year ended December 31, 2022 to Ps. 1,927 billion during the year ended December 31, 2023. The average balance of interest-earning assets increased primarily as a result of an increase in the average balance of our loans of Ps. 114,237, or 13.5%.

Our interest on loans was Ps. 129,872 million (or 39.6% of our interest income) for the year ended December 31, 2023 compared to Ps. 95,447 million (or 42.1% of our interest income) for the year ended December 31, 2022, an increase of Ps. 34,425 million, or 36.1%. This increase was primarily the result of an increase of 13.5% in our loan portfolios average balance and an increase of 225 basis points in our loan portfolio average rate.

Our interest income from cash and cash equivalents and securities was Ps. 36,090 million (or 11.0% of our interest income) for the year ended December 31, 2023, compared to Ps. 21,059 million (or 9.3% of our interest income) for the year ended December 31, 2022, an increase of Ps. 15,031 million, or 71.4%. This increase was primarily the result of a 23.8% growth in our investment securities average balance.

Our interest income from derivative instruments was Ps. 145,046 million (or 44.3% of our interest income) for the year ended December 31, 2023, compared to Ps. 93,104 million (or 41.1% of our interest income) for the year ended December 31, 2022, an increase of Ps. 51,942 million, or 55.8%.

Our interest income from repurchase operations was Ps. 14,526 million (or 4.4% of our interest income) for the year ended December 31, 2023, compared to Ps. 14,849 million (or 6.6% of our interest income) for the year ended December 31, 2022, a decrease of Ps. 323 million, or 2.2%. This decrease was primarily the result of a 36.2% decrease in our repurchase operations average balances.

Interest Expense

Our interest expense was Ps. 226,763 million for the year ended December 31, 2023, compared to Ps. 141,399 million for the year ended December 31, 2022, an increase of Ps. 85,364 million, or 60.4%, mainly due to an increase of Ps. 50,113 million in our derivative instruments interest expense and an increase of Ps. 22,732 million in our deposits and funding interest expense, which primarily reflected an increase of 289 basis point in the average interest rate.

Our interest expense from repurchase operations was Ps. 35,475 million (or 15.6% of interest expense) for the year ended December 31, 2023, compared to Ps. 24,163 million (or 17.1% of interest expense) for the year ended December 31, 2022, an increase of Ps. 11,312 million, or 46.8%.

From September 2022 to July 2024, we conducted several private secondary market repurchases for an aggregate amount of U.S. 15.6 million of fixed rate subordinated preferred non-convertible debentures.

Allowance for Loan Losses (Provision for Loan Losses)

Our allowance for loan losses was Ps. 15,782 million for the year ended December 31, 2023, compared to Ps. 11,722 million for the year ended December 31, 2022, an increase of Ps. 4,060 million, or 34.6%. This increase was primarily the result of the growth of the portfolio, as well as the return to normal activity after the COVID pandemic and the end of related support programs.

The cost of risk (calculated as loan losses divided by average total loans) was 1.6% for the year ended December 31, 2023, compared to 1.4% for the year ended December 31, 2022, a decrease of 26 basis points.

Net Interest Income after Allowance for Loan Losses

As a result of the factors discussed above, our net interest income after allowance for loan losses was Ps. 85,093 million for the year ended December 31, 2023, compared to Ps. 73,521 million for the year ended December 31, 2022, an increase of Ps. 11,572 million, or 15.7%.

Risk-Adjusted Net Interest Margin

Our risk-adjusted net interest margin was 5.5% for the year ended December 31, 2023, compared to 5.1% for the year ended December 31, 2022. This change reflects an adjustment in our loan loss provisions, driven by portfolio growth and a return to pre-pandemic levels of activity. This increase of 40 basis points in risk-adjusted net interest margin highlights our focus on balancing risk exposure with income generation.

Commission and Fee Income

Our total commission and fee income was Ps. 34,985 million for the year ended December 31, 2023, compared to Ps. 31,163 million for the year ended December 31, 2022, an increase of Ps. 3,822 million, or 12.3%, primarily due to an increase in core banking services, including electronic banking services as well as growth in services related to credit card loans and an increase in consumer insurance fees.

The following table shows the breakdown of our commissions and fees for the years ended December 31, 2023 and 2022:

	For the year ended December 31,	
	2023	2022
	(Ps. millions)	
Commissions and Fees:		
Fund transfers.....	2,028	2,040
Account management.....	1,922	1,910
Fiduciary	343	536
Credit card.....	7,625	6,081
Income from real estate loan portfolios acquired and other investment projects.....	-	19
Electronic banking services.....	18,114	16,972
Other commissions and fees.....	4,954	3,606
Total commissions and fees income.....	34,985	31,163
Commission and fee expense	(17,780)	(14,975)
Net commissions and fees	17,205	16,188

Commission and Fee Expense

Our total commission and fee expense was Ps. 17,780 million for the year ended December 31, 2023, compared to Ps. 14,975 million for the year ended December 31, 2022, an increase of Ps. 2,805 million, or 18.7%, due to an increase in POS activity (in terms of number of transactions and volumes transacted), which caused an increase on fees paid for interbank transactions resulting in higher commissions paid for origination dynamics of consumer loans.

Intermediation Revenues

Our intermediation revenues were Ps. 2,276 million for the year ended December 31, 2023, compared to Ps. 2,931 million for the year ended December 31, 2022, a decrease of Ps. 655 million, or 22.3%, due primarily to volatility in foreign exchange, partially offset by the security realized gains.

Our foreign exchange gains were Ps. 884 million for the year ended December 31, 2023, compared to Ps. 2,926 million for the year ended December 31, 2022, a decrease of Ps. 2,042 million, or 69.8%, due primarily to a decrease in valuation associated with the dollar currency position.

Our realized gain on securities intermediation increased to Ps. 190 million for the year ended December 31, 2023, compared to a loss of Ps. 1,421 million for the year ended December 31, 2022, an increase of Ps. 1,611 million which was attributable mainly to the higher volume of transactions in 2023. We recorded a decrease in unrealized gains on securities of Ps. 1,065 million for the year ended December 31, 2023, compared to a gain of Ps. 1,386 million for the year ended December 31, 2022, which was primarily due to a decrease in the fair value of the derivatives portfolio affected to by the dollar/Pesos exchange rate.

Other Operating Income/Expense

Our other operating expense was Ps. 4,002 million for the year ended December 31, 2023, compared to Ps. 4,831 million for the year ended December 31, 2022, a decrease of Ps. 829 million or 17.2%.

Non-interest Expense

Our non-interest expense was Ps. 44,406 million for the year ended December 31, 2023 compared to Ps. 40,942 million for the year ended December 31, 2022, an increase of Ps. 3,464 million, or 8.5%. This increase was the result of the following increases in expenses:

- a Ps. 2,084 million increase in our salaries and employee benefits;
- a Ps. 798 million increase in our leases, depreciation and amortization;
- a Ps. 695 million increase in our administrative and promotional expenses;
- a Ps. 173 million decrease in our taxes other than income taxes; and

- a Ps. 60 million increase in our other factors.

Our efficiency ratio, defined as non-interest expense divided by the sum of net interest income and non-interest income, was 38.2% in the year ended December 31, 2023, compared to 41.1% for the year ended December 31, 2022.

Operating Income

As a result of the factors discussed above, our operating income was Ps. 56,166 million for the year ended December 31, 2023, compared to Ps. 46,867 million for the year ended December 31, 2022, an increase of Ps. 9,299 million, or 19.8%.

Equity in Earnings of Unconsolidated Subsidiaries and Associated Companies

Our equity in earnings of unconsolidated subsidiaries and associated companies was Ps. 175 million in the year ended December 31, 2023 compared to Ps. 168 million for the year ended December 31, 2022, an increase of Ps. 7 million, or 4.2%.

Income Tax

We recorded an income tax expense of Ps. 14,425 million in the year ended December 31, 2023, compared to a Ps. 12,486 million income tax expense for the corresponding period in 2022, an increase of Ps. 1,939 million, or 15.5%. This increase was mainly due to a higher operating profit.

Net Income (Controlling)

Our net income was Ps. 41,946 million (Controlling) for the year ended December 31, 2023, compared to Ps. 34,549 million for the year ended December 31, 2022, an increase of Ps. 7,397 million, or 21.4%, due to the results of our operations discussed above.

Results of Operations for the Year Ended December 31, 2021

Net Interest Income

Our net interest income was Ps. 67,951 million for the year ended December 31, 2021 due to the result of interest income of Ps. 104,870 million and interest expense of Ps. 36,919 million.

In terms of margins, our average interest rate earned on interest-earning assets was 7.4% for the year ended December 31, 2021, and our average interest rate paid on interest-bearing liabilities was 3.7%, resulting in a yield spread of 3.7%.

The following table sets forth the components of our net interest income for the periods indicated:

	For the year ended December 31, 2021 (Ps. millions)
Interest Income:	
Interest on loans	75,457
Fees on loans (1)	1,470
Interest on cash and cash equivalents and securities	11,702
Income on derivative instruments	4,031
Interest on repurchase operations (2)	12,211
UDI valuation (5)	-
Foreign exchange valuation (4)	-
Other interest income	-
Total interest income	104,870
Interest Expense:	
Interest on deposits and funding	15,618
Interest on repurchase operations (3)	16,293
Expense on hedging operations	3,334
UDI valuation (5)	284
Foreign exchange valuation (4)	82
Fees paid (6)	1,308
Other interest expenses	-
Total interest expense	36,919
Net interest income	67,951

- (1) Fees on loans represent fees generated in connection with the issuance, renewal, draw-down or prepayment of a loan that is recorded as interest income in accordance with Mexican Banking GAAP.
- (2) Interest income on repurchase operations represents interest income on securities purchased pursuant to our agreements to resell in accordance with Mexican Banking GAAP.
- (3) Interest expense on repurchase operations represents interest expense on securities sold under agreements to repurchase in accordance with Mexican Banking GAAP.
- (4) Foreign exchange valuation represents the net changes in the foreign exchange valuation that are recorded as interest income or interest expense depending on the net effect in accordance with Mexican Banking GAAP.
- (5) UDI valuation represents part of the effect from changes in the inflation rate on UDI-denominated liabilities that are recorded in interest expense and UDI-denominated assets that are recorded in interest income, as the case may be, in accordance with Mexican Banking GAAP.
- (6) Fees paid represent fees incurred in connection with our withdrawal, renewal and drawing down of loans that are recorded as interest expense in accordance with Mexican Banking GAAP.

Interest Income

Our interest income was Ps. 104,870 million for the year ended December 31, 2021. The interest income for the year ended December 31, 2021 was primarily comprised of Ps. 75,457 million from our loans portfolio, Ps. 12,211 million from our securities repurchasing and loans and Ps. 11,702 million from our cash and cash equivalents and securities.

Our average interest rate earned on interest-earning was Ps. 1,412,147 million during the year ended December 31, 2021. The average balance of our interest-earning assets was Ps. 794,791 million during the year ended December 31, 2021.

Our interest on loans was Ps. 75,457 million (or 72.0% of our interest income) for the year ended December 31, 2021. The interest on loans for the year ended December 31, 2021 was primarily comprised Ps. 31,285 million from our commercial loans, Ps. 26,381 million from our consumer loans and Ps. 17,791 million from our mortgage loans.

Our interest income from cash and cash equivalents and securities was Ps. 11,702 million (or 11.1% of our interest income) for the year ended December 31, 2021. The interest income from cash and cash equivalents and securities for the year ended December 31, 2021 was primarily comprised of Ps. 9,691 million from our investments in securities, Ps. 1,871 million from our cash and cash equivalents and Ps. 126 million from margin securities.

Our interest income from derivative instruments was Ps. 4,031 million (or 5.3% of our interest income) for the year ended December 31, 2021.

Our interest income from repurchase operations was Ps. 12,211 million (or 11.6% of our interest income) for the year ended December 31, 2021.

Interest Expense

Our interest expense was Ps. 36,919 million for the year ended December 31, 2021. The interest expense for the year ended December 31, 2021 was primarily comprised of Ps. 16,293 million from repurchase operations and Ps. 15,618 million from deposits.

Our average interest rate paid on interest-bearing liabilities was Ps. 996,121 million for the year ended December 31, 2021.

Our interest payments on deposits and funding were Ps. 15,618 million (or 42.3% of our interest expense) for the year ended December 31, 2021. The interest payments on deposits and funding for the year ended December 31, 2021 was primarily comprised of Ps. 13,143 million from deposits and Ps. 2,475 million from funding.

Our interest expense from repurchase operations was Ps. 16,293 million (or 44.1% of interest expense) for the year ended December 31, 2021.

Allowance for Loan Losses (Provision for Loan Losses)

Our allowance for loan losses charged against earnings was Ps. 11,107 million for the year ended December 31, 2021.

The cost of risk (calculated as loan losses divided by average total loans) was 1.4% for 2021. This level of the cost of risk is calculated considering Ps. 11,107 million allowance for loan losses for the year ended December 31, 2021, divided by Ps. 798,275 million 12 month average total loans.

Our other operating income was Ps. 499 million for the year ended December 31, 2021. mainly composed of the result of foreclosed assets, recoveries and estimates of losses.

Net Interest Income after Allowance for Loan Losses

As a result of the factors discussed above, our net interest income after allowance for loan losses was Ps. 56,844 million for the year ended December 31, 2021.

Risk-Adjusted Net Interest Margin

Our risk-adjusted net interest margin was 4.9% for the year ended December 31, 2021. This was a result of the Net Interest Income after Allowances for Loan Losses described above and an average of Ps. 1,168,294 interest-earnings assets for the period.

Commission and Fee Income

Our total commission and fee income was Ps. 26,486 million for the year ended December 31, 2021. The commission and fee income for the year ended December 31, 2021 was primarily comprised of Ps. 13,423 million from electronic banking services, Ps. 5,178 million in services related to credit card loans, Ps. 2,073 million from funds transfers and Ps. 2,023 million from account management.

The following table shows the breakdown of our commissions and fees for the years ended December 31, 2021:

	For the year ended December 31, 2021 (Ps. millions)
Commissions and Fees:	
Fund transfers.....	2,073
Account management.....	2,023
Fiduciary	528
Credit card.....	5,178
Income from real estate loan portfolios acquired and other investment projects.....	25
Electronic banking services.....	13,423
Other commissions and fees.....	3,236
Total commissions and fees income.....	26,486
Commission and fee expense	(12,212)
Net commissions and fees.....	14,274

Commission and Fee Expense

Our total commission and fee expense was Ps. 12,212 million for the year ended December 31, 2021. The commission and fee expense for the year ended December 31, 2021 was primarily comprised of Ps. 7,974 million from interbank transactions fees due to POS activity.

Intermediation Revenues

Our intermediation revenues were Ps. 4,192 million in the year ended December 31, 2021, due to Ps. 3,084 million in foreign exchange, and Ps. 1,108 million in securities.

Our foreign exchange gains were Ps. 3,084 million in the year ended December 31, 2021, due primarily to realized P&L associated with the dollar currency position.

Our realized gain on securities intermediation was Ps. 18 million for the year ended December 31, 2021, attributable principally to the increase in trade volume in 2021. We recorded a gain in unrealized gains on securities of Ps. 1,090 million for the year ended December 31, 2021, which was primarily due to Derivative's Portfolio performance.

Other Operating Income/Expense

Our other operating income was Ps. 499 million for the year ended December 31, 2021.

Non-interest Expense

Our non-interest expense was Ps. 41,935 million for the year ended December 31, 2021, mainly explained by of the following expenses:

- a Ps. 15,779 million in our salaries and employee benefits;
- a Ps. 8,572 million in our leases, depreciation and amortization;
- a Ps. 7,786 million in our administrative and promotional expenses;
- a Ps. 6,117 million in our taxes other than income taxes and professional fees;
- a Ps. 3,596 million in our contributions to the IPAB; and
- a Ps. 85 million increase in our other factors.

Our efficiency ratio, defined as non-interest expense divided by the sum of net interest income and non-interest income, was 48.2% in the year ended December 31, 2021.

Operating Income

As a result of the factors discussed above, our operating income was Ps. 33,874 million for the year ended December 31, 2021.

Equity in Earnings of Unconsolidated Subsidiaries and Associated Companies

Our equity in earnings of unconsolidated subsidiaries and associated companies was Ps. 327 million for the year ended December 31, 2021, mainly registered by the associated companies.

Income Tax

We recorded an income tax expense of Ps. 8,115 million for the year ended December 31, 2021. The effective tax rate for the year ended December 31, 2021, was 23.95%.

Net Income

Our net income was Ps. 26,086 million for the year ended December 31, 2021, due to the results of our operations discussed above.

Financial Position

The following discussion compares our consolidated financial position as of September 30, 2024 and December 31, 2023, 2022 and 2021. Our consolidated financial position as of December 31, 2021 is presented on a stand-alone basis. See “Risk Factors—Risks Relating to Our Business—As a result of the implementation of new accounting criteria for credit institutions in Mexico established by the CNBV, financial information as of and for the years ended December 31, 2023 and December 31, 2022 is not comparable with financial information for prior years.”

Assets

We had total assets of Ps. 1,775 billion as of September 30, 2024, compared to Ps. 1,682 billion as of December 31, 2023, an increase of Ps. 92,632 million, or 5.5%. This increase was mainly the result of an increase of Ps. 87,373 million in our total Stage 1 and Stage 2 loans.

We had total assets of Ps. 1,682 billion as of December 31, 2023, compared to Ps. 1,552 billion as of December 31, 2022, an increase of Ps. 130 billion, or 8.4%. This increase was mainly the result of an increase of Ps. 110,329 million in our total Stage 1 and Stage 2 loans and an increase of Ps. 27,166 million in our financial instruments investments.

We had total assets of Ps. 1,236,490 million as of December 31, 2021. The total assets as of December 31, 2021 were primarily comprised of Ps. 810,687 million in our loan portfolio, Ps. 228,635 million in our investments in securities and Ps. 98,302 million in our cash and cash equivalents.

Stage 1, Stage 2 and Performing Loan Portfolio

As of September 30, 2024, total Stage 1 and Stage 2 loans were Ps. 1,094 billion compared to Ps. 1,007 billion as of December 31, 2023, an increase of Ps. 87,373 million, or 8.7%. This increase was mainly due to an increase of Ps. 38,264 million in our Stage 1 and Stage 2 business loans, an increase of Ps. 21,385 million in our Stage 1 and Stage 2 consumer loans, an increase of Ps. 13,631 million in our Stage 1 and Stage 2 mortgage loans, an increase of Ps. 12,290 million in our Stage 1 and Stage 2 financial institutions loans and an increase of Ps. 1,804 million in our Stage 1 and Stage 2 government loans.

As of December 31, 2023, total Stage 1 and Stage 2 loans were Ps. 1,007 billion compared to Ps. 897 billion as of December 31, 2022, an increase of Ps. 110,329 million, or 12.3%. This variation was mainly due to an increase of Ps. 41,350 million in our Stage 1 and Stage 2 business loans, an increase of Ps. 30,912 million in our Stage 1 and Stage 2 consumer loans, an increase of Ps. 26,207 million in our Stage 1 and Stage 2 mortgage loans, an increase of Ps. 13,764 million in our Stage 1 and Stage 2 financial institutions loans and a decrease of Ps. 1,905 million in our government loans. Total Stage 1 and Stage 2 loans represented 59.9% of total assets as of December 31, 2023, compared to 57.8% of total assets as of December 31, 2022. As of December 31, 2023, Stage 1 and Stage 2 business loans represented 36.9% of total Stage 1 and Stage 2 loans, loans to financial institutions represented 4.3%, Stage 1 and Stage 2 mortgage loans represented 25.1%, Stage 1 and Stage 2 government loans represented 16.3% and Stage 1 and Stage 2 consumer loans represented 17.4%. As of December 31, 2022, Stage 1 and Stage 2 business loans represented 36.8% of total Stage 1 and Stage 2 loans, loans to financial institutions represented 3.3%,

Stage 1 and Stage 2 mortgage loans represented 25.3%, Stage 1 and Stage 2 government loans represented 18.5% and Stage 1 and Stage 2 consumer loans represented 16.1%.

We had total performing loans of Ps. 802,861 million as of December 31, 2021. The total performing loans as of December 31, 2021 were primarily comprised of Ps. 304,111 million in our performing business loans portfolio, Ps. 147,734 million in our performing government loans portfolio, Ps. 200,459 million in our performing mortgage loans portfolio, Ps. 121,870 million in our performing consumer loans portfolio and Ps. 28,686 million in our performing financial institutions loans portfolio.

The net interest margin of our loan portfolio was 6.5% as of September 30, 2024 compared to 6.4% as of December 31, 2023, an increase of 0.1%.

The net interest margin of our loan portfolio was 6.4% as of December 31, 2023 compared to 5.9% as of December 31, 2022, an increase of 0.5%.

Non-performing and Stage 3 Loan Portfolio

We had total Stage 3 loans of Ps. 10,425 million that represented 0.6% of total assets as of September 30, 2024, compared to Ps. 10,006 million as of December 31, 2023, an increase of Ps. 419 million, or 4.2%. This increase was primarily due to an increase of Ps. 806 million in our Stage 3 business loans partially offset by a decrease of Ps. 253 million in our Stage 3 consumer loans and a decrease of Ps. 140 million in our Stage 3 mortgage loans. As of September 30, 2024, the primary components of our total Stage 3 loans were as follows: Ps. 3,689 million of Stage 3 business loans which represented 35.4% of our total Stage 3 loans, Ps. 4,567 million of Stage 3 consumer loans which represented 43.8% of our total Stage 3 loans and Ps. 2,037 million of Stage 3 mortgage loans which represented 19.5% of our total Stage 3 loans.

We had total Stage 3 loans of Ps. 10,006 million as of December 31, 2023, compared to Ps. 9,143 million as of December 31, 2022, an increase of Ps. 863 million, or 9.4%, mainly due to an increase of Ps. 1,292 million in our Stage 3 consumer loans portfolio. Of this increase, Ps. 311 million was attributable to Stage 3 consumer loans related to “*Tarjetas del Futuro*” that were consolidated starting December 31, 2023. The overall increase in Stage 3 loans was partially offset by a decrease of Ps. 867 million in our Stage 3 business loans portfolio. Total Stage 3 loans represented 0.6% of total assets as of December 31, 2023, compared to 0.6% of total assets as of December 31, 2022. As of December 31, 2023, Stage 3 business loans represented 28.8%, Stage 3 mortgage loans represented 21.8%, Stage 3 government loans represented 0.1% and Stage 3 consumer loans represented 48.2% of our total Stage 3 loans.

As of December 31, 2022, Stage 3 business loans represented 41.0% of total Stage 3 loans, Stage 3 consumer loans represented 38.6% and Stage 3 mortgage loans represented 20.4%.

We had total non-performing loans of Ps. 7,836 million as of December 31, 2021, which represented 0.6% of total assets. This level of total non-performing loans is primarily composed by Ps. 3,017 million in our non-performing consumer loans portfolio (38.5% of our non-performing total loans), Ps. 2,588 million in our non-performing business loans (33.0% of our non-performing total loans) and Ps. 2,077 million in our non-performing mortgage loans (26.5% of our non-performing total loans).

Deferred Taxes and Employee Profit Sharing Assets

Our deferred taxes are a net asset comprised of temporary differences to be used as income tax deductions in future years. These temporary differences mainly derive from the loan loss reserves that could be tax deducted at the time a loan is written-off, according with the rules issued by the CNBV.

We had net deferred tax and employee profit sharing liabilities of Ps. 1,785 million as of September 30, 2024, compared to Ps. (882) million as of December 31, 2023, an increase of Ps. 2,667 million, or 302% derived primarily from the deferred tax from valuation effect on securities, commissions charged in advance, loan loss reserves and a project to be capitalized.

We had net deferred tax and employee profit sharing liabilities of Ps. (882) million as of December 31, 2023, compared to net deferred tax and employee profit sharing assets of Ps. 565 million as of December 31, 2022, derived primarily from the deferred tax from valuation effect on securities, commissions charged in advance, loan loss reserves and a project to be capitalized.

We had net deferred tax and employee profit sharing assets of Ps. 565 million as of December 31, 2022, compared to net deferred tax and employee profit sharing assets of Ps. 0 million as of December 31, 2021.

Liabilities

We had total liabilities of Ps. 1,622,462 million as of September 30, 2024, compared to Ps. 1,531,527 million as of December 31, 2023, an increase of Ps. 90,935 million, or 5.9%. This variation was mainly due to an increase of Ps. 69,249 million in deposits and an increase of Ps. 47,656 million in repurchase operations.

We had total liabilities of Ps. 1,531,527 million as of December 31, 2023, compared to Ps. 1,407,576 million as of December 31, 2022, an increase of Ps. 123,951 million, or 8.8%. This variation was mainly due to an increase of Ps. 154,162 million in deposits.

We had total liabilities of Ps. 1,091,855 million as of December 31, 2021. The total liabilities as of December 31, 2021 were primarily comprised of Ps. 806,213 million deposits, Ps. 108,591 million creditor balances under repurchase and resale agreements and Ps. 80,574 million subordinated debentures.

Deposits

We had total deposits of Ps. 1,142 billion as of September 30, 2024, compared to Ps. 1,073 billion as of December 31, 2023, an increase of Ps. 69,249 million, or 6.5%. As of September 30, 2024, demand deposits, which bear interest at lower rates, represented 62.3% of total deposits, while general public time deposits represented 32.5% of total deposits.

We had total deposits of Ps. 1,073 billion as of December 31, 2023, compared to Ps. 918,969 million as of December 31, 2022, an increase of Ps. 154,162 million, or 16.8%. As of December 31, 2023, demand deposits, which bear interest at lower rates, represented 63.9% of total deposits, while general public time deposits represented 30.9% of total deposits.

We had total deposits of Ps. 806,213 million as of December 31, 2021. This level of deposits is primarily composed of Ps. 535,201 million in demand deposits and Ps. 240,189 million in time deposits.

As of December 31, 2022, demand deposits represented 67.4% of total deposits and general public time deposits represented 29.8%. As of December 31, 2021, demand deposits represented 66.4% of total deposits and general public time deposits represented 29.8%.

Total deposits represented 70.4%, 70.1%, 65.3%, and 73.8% of total liabilities as of September 30, 2024, December 31, 2023, December 31, 2022 and December 31, 2021, respectively.

Interbank and Other Loans

We had interbank and other loans of Ps. 12,892 million as of September 30, 2024, compared to Ps. 10,109 million as of December 31, 2023, an increase of Ps. 2,783 million, or 27.5%. Interbank and other loans represented 0.8% of total liabilities as of September 30, 2024, compared to 0.7% as of December 31, 2023.

We had interbank and other loans of Ps. 10,109 million as of December 31, 2023, compared to Ps. 14,822 million as of December 31, 2022, a decrease of Ps. 4,713 million, or 31.8%. Interbank and other loans represented 0.7% of total liabilities as of December 31, 2023, compared to 1.1% as of December 31, 2022.

We had interbank and other loans of Ps. 21,561 million as of December 31, 2021. Interbank and other loans represented 2.0% of total liabilities as of December 31, 2021.

Subordinated Debt Instruments

We had outstanding non-convertible subordinated debt instruments of Ps. 52,513 million as of September 30, 2024 compared to Ps. 55,421 million as of December 31, 2023, a decrease of Ps. 2,908 million, or 5.2%. This decrease was mainly due to an appreciation of the peso against the dollar.

We had outstanding non-convertible subordinated debt instruments of Ps. 55,421 million as of December 31, 2023, compared to Ps. 65,981 million as of December 2022. This decrease was mainly due to the repurchase of UDI 494 million of fixed rate subordinated preferred non-convertible debentures.

We had outstanding non-convertible subordinated debt instruments of Ps. 65,981 million as of December 31, 2022.

We had outstanding non-convertible subordinated debt instruments of Ps. 80,574 million as of December 31, 2021.

In September 2024 we redeemed U.S.\$ 600 million of subordinated preferred capital notes.

From September 2022 to July 2024, we conducted several private secondary market repurchases for an aggregate amount of U.S. 15.9 million of fixed rate subordinated preferred non-convertible debentures.

Subordinated debt instruments represented 3.2%, 3.6%, 4.7% and 7.4% of total liabilities as of September 30, 2024, December 31, 2023, December 31, 2022 and December 31, 2021, respectively.

The table below summarizes our Tier 1 and Tier 2 U.S. dollar-denominated subordinated non-convertible debt instruments outstanding as of September 30, 2024, and their contribution to our regulatory capital:

As of September 30, 2024						
Series	Type	Principal	Interest rate	Issuance date	Call date	Effect on capital (1)
BANOC36	Tier 2	76	5.750%	04-oct-16	04-oct-26	0.15%
BNRP	Tier 1	550	7.625%	06-jul-17	10-ene-28	1.08%
BANOB48	Tier 1	500	7.500%	27-jun-19	27-jun-29	0.99%
BANOC21	Tier 1	500	8.375%	14-jul-20	14-oct-30	0.99%
BANOA99	Tier 1	500	5.875%	24-nov-21	24-ene-27	0.99%
BANOB72	Tier 1	550	6.625%	24-nov-21	24-ene-32	1.08%
Total		2,676	7.156%			5.28%

- (1) Outstanding Tier 1 and Tier 2 U.S. dollar denominated subordinated non-convertible debt instruments as of September 30, 2024 considering the Mexican Central Bank Exchange Rate on September 30, 2024 of Ps. 19.6921 per U.S.\$1.00, divided by risk weighted assets.
- (2) Average weighted rate of our outstanding Tier 1 and Tier 2 U.S. dollar denominated subordinated non-convertible debt instruments outstanding as of September 30, 2024.

Stockholders' Equity

Our stockholders' equity was Ps. 152,663 million as of September 30, 2024, compared to Ps. 150,966 million as of December 31, 2023, an increase of Ps. 1,697 million, or 1.1% mainly due to a net income (Controlling) of Ps. 33,960 million partially offset by Ps. 20 million paid as dividends on June 20, 2024 and Ps. 11 million paid as dividends on July 31, 2024.

Our stockholders' equity was Ps. 150,966 million as of December 31, 2023, compared to Ps. 144,677 million as of December 31, 2022, an increase of Ps. 6,289 million, or 4.3%.

Our stockholders' equity was Ps. 144,635 million as of December 31, 2021. This level of stockholders' equity is primarily composed of Ps. 79,931 million in retained earnings from previous years and Ps. 26,086 million in net income for the year ended December 31, 2021.

Liquidity

The purpose of our liquidity management function is to ensure that we have funds available to meet our financial obligations. These obligations arise from withdrawals of deposits, repayments at maturity of short-term notes, extensions of loans or other forms of credit and working capital needs. One significant element of the liquidity management function is maintaining our compliance with the Mexican Central Bank's liquidity regulations. See "*Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities.*"

We have various sources of liquidity. Short-term and marketable investments, such as government securities and deposits with the Mexican Central Bank and prime banks, which are our most liquid income-generating assets. Deposits, including demand deposits, savings deposits and time deposits, are our largest source of liquidity. Our liquid assets also include deposits in foreign banks. These deposits in foreign banks are denominated principally in U.S. dollars.

Mexican Central Bank regulations require Mexican banks to comply with certain reserve requirements with respect to non-Peso-denominated liabilities. Reserves on non-Peso-denominated deposits continue to be required. See "*Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities.*" As of September 30, 2024 and December 31, 2023, 2022 and 2021, we were in compliance with all reserve requirements and liquidity coefficients.

Our management expects that cash flows from operations and other sources of liquidity will be sufficient to meet our liquidity requirements over the next 12 months.

Foreign Currency Position

As of September 30, 2024, the limit established for us by the Mexican Central Bank for maturity-adjusted net foreign currency-denominated liabilities was U.S.\$19,818 million (Ps. 390,260 million). As of such date, our maturity-adjusted net

foreign currency-denominated liabilities were U.S.\$3,908 million (Ps. 76,969 million). For a discussion of the components of Tier 1 Capital, see “*Supervision and Regulation—Capitalization*.”

As of September 30, 2024 and for the years ended December 31, 2023, 2022 and 2021, we were in compliance with regulatory requirements relating to the limit of maturity adjusted net foreign currency denominated liabilities.

Mexican Central Bank regulations require that a bank maintain open positions in foreign currencies no higher than a specified level with respect to its total Tier 1 Capital. As part of our asset liability management strategy, we closely monitor our exposure to foreign currency risk, with a view to minimizing the effect of exchange rate movements on our earnings. As of September 30, 2024, our foreign currency denominated assets totaled U.S. \$21,370 million (Ps. 420,822 million), representing 23.9% of our total assets. At that date, our foreign currency denominated liabilities amounted to U.S. \$21,384 million (Ps. 421,096 million), representing 26.2% of our total liabilities.

Funding

Our principal sources of funding are customer deposits, which are concentrated in non-interest-bearing checking accounts, short-term notes with interest due at maturity and interest-bearing demand and time deposits. Customer deposits are our least expensive source of funding. Our customer deposits increased to Ps. 1,087 million (or 67% of total liabilities) as of September 30, 2024 from Ps. 1,021 million (or 66.7% of total liabilities) as of December 31, 2023, an increase of Ps. 65,388 million, or 6.4%. This increase was primarily due to our current campaigns which increased our demand and time deposits. Our annual cost of funds as of September 30, 2024 was 49.3% of *Cetes* compared to 46.2% as of December 31, 2023.

Long-term debt is another source of funds for us. Long-term debt is issued to match long-term loans and investments and reduce liquidity risk. As of September 30, 2024, we had Ps. 7,120 million principal amount of long-term debt outstanding with maturities over one year. We had Ps. 4,584 million and Ps. 7,641 million principal amount of long-term debt outstanding with maturities over one year as of December 31, 2023 and 2022, respectively.

Our current funding strategy seeks to reduce funding costs by taking advantage of our extensive branch network and customer base to attract banking deposits. Although we monitor developments in public demand for long-term loans and opportunities to borrow long-term funds on favorable terms, we anticipate that customers in Mexico will continue in the near future to demand short-term deposits (particularly demand deposits and short-term time deposits) and loans, and we intend to maintain our emphasis on the use of banking deposits.

UDI-denominated deposits from the Mexican government provide the funding for our off-balance sheet UDI Trusts. In return, we have purchased from the Mexican government *Cetes Especiales*, which have an interest rate based on the *Cetes* rate and maturities and principal amounts that mirror the maturities and the principal amount of the loans in the UDI Trusts (the “*Cetes Especiales*” or “*Special Cetes*”). These *Special Cetes* pay interest in cash only as the loans in the UDI Trusts mature. The Mexican government’s UDI-denominated deposits have a fixed real interest rate which varies depending on the type of loan in the UDI Trusts.

Our foreign currency-denominated assets, substantially all of which are dollar-denominated, are funded from a number of sources. These sources include deposits of the same currency obtained mainly through deposits of customers, medium and large Mexican companies, primarily in the export sector, interbank deposits and fixed rate notes. In the case of foreign trade transactions, we use trade financing facilities including from Mexican development banks and foreign export-import banks. Foreign currency funding rates are generally based on SOFR. Our position in foreign currency as of September 30, 2024 amounted to U.S.\$ 21,370 million in assets (or 23.9% of total assets) and U.S.\$ 21,384 million in liabilities (or 26.2% of total liabilities). Our position in foreign currency as of December 31, 2023 amounted to U.S.\$ 21,420 million in assets (or 21.6% of total assets) and U.S.\$21,380 million in liabilities (or 23.8% of total liabilities). Our position in foreign currency as of December 31, 2022, translated into U.S. dollars at the exchange rate of Ps. 19.5089 per U.S.\$1.00, amounted to U.S.\$ 18,406 million in assets (or 23.3% of total assets) and U.S.\$ 18,460 million in liabilities (or 25.7% of total liabilities).

Capital Expenditures

We budget internally for capital expenditures in U.S. dollars. We invested (in nominal terms) U.S.\$ 78 million, U.S.\$ 254 million, U.S.\$ 362 million and U.S.\$ 269 million in technology (including telecommunications, computer hardware and software, systems development, ATMs and POSs) for the nine-month period ended September 30, 2024 and in the fiscal years 2023, 2022 and 2021, respectively. In addition, we estimate that in the remaining quarter of 2024 we will invest U.S.\$ 3 million as part of our branch expansion program and U.S.\$ 140 million in technology (including telecommunications, computer hardware and software, systems development, ATMs and POSs), out of which we will invest U.S.\$ 6 million as part of our cybersecurity program.

We expect that capital expenditures for the remaining of 2024 will be funded with cash generated from future operations and other sources of liquidity. We can give no assurance, however, that the capital expenditures will be made in the amounts currently expected or be funded with cash generated from our future operations.

Risk-Based Capital

The Mexican Capitalization Requirements take into account credit risk, operational risk and market risk. See “*Supervision and Regulation—Capitalization*.” As of September 30, 2024, we were in compliance with all applicable capital adequacy regulations. On a general basis, in order for a Mexican bank not to be required to defer or cancel interest payments and defer principal payments of subordinated debt and not to be subject to certain other corrective measures, it needs to comply with the following minimum Capital Ratios required by the Mexican Capitalization Requirements: **(a)** 10.5% in the case of Total Net Capital, **(b)** 8.5% in the case of Tier 1 Capital, or **(c)** 7.0% in the case of Fundamental Capital, plus, in the case of each of (b) and (c), a Systemically Important Bank Capital Supplement for Grade II banks of 0.90% and any Countercyclical Capital Supplement applicable to the Bank, plus in the case of (a), the Net Capital Supplement.

The table below present our risk-weighted assets and Capital Ratios as of September 30, 2024 and as of December 31, 2023, 2022 and 2021, determined, as required by regulations.

	As of September 30,		As of December 31,			
	2024	2024	2023	2023	2022	2021
	(U.S.\$ millions, except for percentages) ⁽¹⁾	(Ps. millions, except for percentages)	(U.S.\$ millions, except for percentages) ⁽¹⁾	(Ps. millions, except for percentages)		
Capital:						
Common Equity Tier 1 Capital (CET1).....	7,025	138,340	8,210	139,297	129,145	131,693
Additional Tier 1 Capital.....	2,600	51,199	3,200	54,293	64,428	72,802
Tier 2 Capital.....	112	2,211	131	2,229	3,349	7,800
Total Net Capital	9,737	191,750	11,541	195,819	194,923	212,295
Risk-Weighted Assets:						
Credit risk.....	34,817	685,617	39,508	670,310	629,486	609,709
Market risk	9,167	180,525	8,864	150,393	143,368	174,738
Operational risk	6,663	131,209	7,293	123,734	80,369	75,386
Total Risk-Weighted Assets	50,647	997,350	55,664	944,437	853,223	859,833
Capital Ratios (credit, market and operational risk):						
Fundamental Capital (CET1) to risk-weighted assets	13.87%	13.87%	14.73%	14.73%	15.14%	15.32%
Tier 1 Capital to risk-weighted assets.....	19.00%	19.00%	20.48%	20.48%	22.45%	23.78%
Tier 2 Capital to risk-weighted assets.....	0.23%	0.23%	0.24%	0.24%	0.39%	0.91%
Total Net Capital to Total Risk-Weighted Assets	19.23%	19.23%	20.72%	20.72%	22.85%	24.69%

(1) Solely for the convenience of the reader, Peso amounts as of September 30, 2024 have been translated into U.S. dollars at the exchange rate of Ps. 19.6921 per U.S.\$1.00 and as of December 31, 2023 at the exchange rate of Ps. 16.9666 per U.S.\$1.00. See “*Exchange Rates and Currency*.”

SELECTED STATISTICAL INFORMATION

The following selected statistical information is provided with respect to Banorte and its consolidated subsidiaries only. Selected statistical information for Banorte is as of and for the nine-month period ended September 30, 2024 and as of and for the years ended December 31, 2023, 2022 and 2021.

Assets and liabilities have been classified by currency of denomination (Pesos or foreign currency), rather than by domicile of customer or other criteria, because substantially all of our transactions are effected in Mexico or on behalf of Mexican residents in Pesos or foreign currency. The U.S. dollar is the main foreign currency used in our transactions, although Euros are also used. For purposes of this section, all foreign currency assets and liabilities have been converted into U.S. dollars and subsequently converted into Pesos at an exchange rate of Ps. 19.6921 to U.S.\$1.00, which was the Mexican Central Bank Exchange Rate on September 30, 2024. Additionally, an exchange rate of Ps. 16.9666 to U.S.\$1.00 was used to translate the income statement and balance sheet line items as of December 31, 2023.

The following information should be read in conjunction with our Financial Statements and the notes thereto included elsewhere in this offering memorandum, as well as “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Presentation of Financial and Other Information.” The following information is presented solely for the convenience of the reader for analytical purposes and, for certain items, differs from and is not comparable to the presentation in our Financial Statements.

Unless otherwise indicated, balance sheet and statement of income items in the following tables are presented in millions of Pesos as of September 30, 2024. Because Mexican tax law does not currently provide income tax exemptions for any investment securities, we do not hold any income tax-exempt securities and no tax-equivalence adjustments are considered necessary.

Certain amounts and percentages included in this offering memorandum have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Pursuant to publications in the Official Gazette dated March 13, 2020, December 4, 2020 and December 30, 2021, the CNBV announced the obligation, effective January 1, 2022, for Mexican banks and other financial institutions in Mexico to adopt new accounting standards. In addition, pursuant to the transitory articles of the General Rules Applicable to Mexican Banks, and as a practical solution, Mexican banks may recognize as of the date of initial application, which is January 1, 2022, the cumulative effect of the accounting changes and shall not present retrospectively the effects of such accounting changes in financial statements for prior periods. The aim of these new accounting standards is to adopt new standards applicable to the classification and measurement of our financial assets and liabilities, including our total non-performing loans in order to reduce the differences between Mexican Banking GAAP and International Financial Reporting Standards. For more information regarding new accounting criteria, see Note 3 to our Audited Consolidated Financial Statements as of December 31, 2022 and for the year ended December 31, 2022.

As a result, financial information as of December 31, 2023 and 2022, and for the years then ended, presented in this offering memorandum is not comparable with any prior historical financial period. For this reason, financial information as of December 31, 2021 and for the year then ended is presented in this offering memorandum on a stand-alone basis. See “Risk Factors—Risks Relating to Our Business—As a result of the implementation of new accounting criteria for credit institutions in Mexico established by the CNBV, financial information as of and for the years ended December 31, 2023 and December 31, 2022 is not comparable with financial information for prior years”.

Average Balance Sheet and Interest Rate Data

Peso-Denominated Average Balances and Interest Income

Average balances for Peso-denominated assets and liabilities have been calculated in the following manner: for each month, an average of the daily Peso balances and the interest income (expense) was determined. The average balance for each year presented below is the average of the monthly balances so determined. Interest income (expense) for each year is the total of the income (expense) for the months so determined.

Foreign Currency-Denominated and UDI-Denominated Average Balances and Interest Income

Average balances and interest income (expense) for foreign currency-denominated and UDI-denominated assets and liabilities have been translated into Pesos and calculated in the following manner: for each month, an average of the daily

foreign currency or UDI balances and the total interest income (expense) was determined. In addition, the average balances and the total interest income (expense) were translated into Pesos using the applicable month-end exchange rate published in the Official Gazette. The average balance for each year presented below is the average of the monthly balances so determined. Interest income (expense) for each year is the total of the income (expense) for the months so determined.

Average Interest Rate

The average annual rates earned on interest-earning assets and the average annual rate paid on interest-bearing liabilities are nominal rates.

Average Assets and Interest Rates

The tables below present the average balance of assets, interest income and average annual interest rate for the periods indicated:

	For the nine-month period ended September 30,			For the year ended December 31,					
	2024			2023			2022		
	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate
	<i>(Ps. millions, except percentages)</i>								
Deposits in banks:									
Pesos.....	54,831	5,113	12.4%	43,419	5,486	12.8%	41,187	3,235	7.9%
Foreign currency	5,412	1,020	25.1%	8,333	1,683	20.5%	5,289	513	9.7%
Sub-total	60,244	6,133	13.6%	51,751	7,168	14.0%	46,477	3,748	8.1%
Investment securities ^{(1) (3)} :									
Pesos.....	249,180	19,516	10.4%	223,978	23,633	10.7%	161,184	12,882	8.1%
UDIs	11,539	734	8.5%	8,358	697	8.5%	8,825	781	9.0%
Foreign currency	111,915	3,364	4.0%	101,318	4,576	4.6%	99,473	3,633	3.7%
Sub-total	372,634	23,614	8.4%	333,653	28,906	8.8%	269,481	17,295	6.5%
Loans ⁽²⁾ :									
Pesos.....	915,230	101,446	14.8%	849,920	124,595	14.9%	747,957	93,349	12.7%
UDIs	46	3	9.4%	55	5	9.7%	69	6	9.5%
Foreign currency	136,554	8,121	7.9%	111,418	7,270	6.6%	99,130	3,770	3.9%
Sub-total	1,051,830	109,571	13.9%	961,393	131,870	13.9%	847,156	97,125	11.6%
Repurchase Agreements:									
Pesos.....	128,786	10,514	10.9%	132,394	14,526	11.1%	207,360	14,849	7.3%
Trading Derivatives:									
Pesos.....	414,015	98,527	31.7%	398,819	135,815	34.5%	378,042	87,363	23.4%
Foreign Currency	-	-	-	-	-	-	-	-	-
Sub-total	414,015	98,527	31.7%	398,819	135,815	34.5%	378,042	87,363	23.4%
Hedging Derivatives:									
Pesos.....	45,817	5,002	14.5%	49,218	9,231	19.0%	50,423	5,741	11.5%
Foreign Currency	-	-	-	-	-	-	-	-	-
Sub-total	45,817	5,002	14.5%	49,218	9,231	19.0%	50,423	5,741	11.6%
Foreign exchange valuation:									
Pesos.....	-	728	-	-	106	-	-	505	-
Sub-total	-	728	-	-	106	-	-	505	-
Dividend from equity instruments:									
Pesos.....	-	15	-	-	17	-	-	16	-
Sub-total	-	15	-	-	17	-	-	16	-
Total interest-earning assets:									
Pesos.....	1,807,860	240,862	17.7%	1,697,747	313,408	18.7%	1,586,153	217,939	13.9%
UDIs	11,585	737	8.5%	8,413	702	8.5%	8,893	787	9.0%
Foreign currency	253,881	12,504	6.6%	221,069	13,528	6.2%	203,892	7,916	3.9%
Sub-total	2,073,326	254,103	16.3%	1,927,228	327,638	17.2%	1,798,938	226,642	12.8%
Permanent stock investments:									
Pesos.....	1,261	-	-	1,589	-	-	1,097	-	-
Foreign Currency	1	-	-	-	-	-	1	-	-
Sub-total	1,262	-	-	1,589	-	-	1,097	-	-
Cash and due from banks:									
Pesos.....	25,056	-	-	24,860	-	-	23,642	-	-
UDI	-	-	-	-	-	-	-	-	-
Foreign currency	17,995	-	-	25,281	-	-	20,734	-	-
Sub total.....	43,052	-	-	50,140	-	-	44,375	-	-
Securitizations (<i>Constancias</i>):									
Pesos.....	35	-	-	(247)	-	-	-	-	-
Sub total.....	35	-	-	(247)	-	-	-	-	-
Allowances for loan losses:									
Pesos.....	(17,945)	-	-	(16,872)	-	-	(15,349)	-	-
UDIs	(1)	-	-	(1)	-	-	(1)	-	-
Foreign currency	(645)	-	-	(728)	-	-	(764)	-	-
Sub total.....	(18,591)	-	-	(17,601)	-	-	(16,114)	-	-
Property, furniture and equipment, net:									
Pesos.....	29,830	-	-	29,073	-	-	24,442	-	-
Foreign Currency	392	-	-	253	-	-	230	-	-
Sub total.....	30,223	-	-	29,326	-	-	24,672	-	-
Other non interest earning assets									
Pesos.....	68,092	-	-	61,013	-	-	63,942	-	-
UDIs	248	-	-	317	-	-	191	-	-
Foreign currency	16,113	-	-	13,642	-	-	15,344	-	-
Sub total.....	84,452	-	-	74,973	-	-	79,477	-	-
Total assets:									
Pesos.....	1,914,188	240,862	16.8%	1,797,163	313,408	17.7%	1,683,926	217,939	13.1%
UDIs	11,831	737	8.3%	8,729	702	8.2%	9,083	787	8.8%
Foreign currency	287,738	12,504	5.8%	259,518	13,528	5.3%	239,436	7,916	3.4%
Total.....	2,213,758	254,103	15.3%	2,065,409	327,638	16.1%	1,932,445	226,642	11.9%

(1) Does not include equity investments in subsidiaries and affiliates. Includes securities purchased under agreements to resell and derivatives financial instruments.

(2) Interest income includes fees on loans of Ps. 1,476 million in 2022, Ps. 1,656 million in 2023 and Ps. 1,399 million for the nine-month period ended September 30, 2024.

(3) UDI Trusts' deposits are payable to the Mexican federal government and deducted from *Cetes Especiales* (investment securities) for balance sheet purposes.

For the year ended December 31,			
2021			
	Average Balance	Interest Income	Average Interest Rate
(Ps. millions, except percentages)			
Deposits in banks:			
Pesos	44,163	1,981	4.5%
Foreign currency	1,110	17	1.5%
Sub-total	45,273	1,997	4.4%
Investment securities ^{(1) (3)} :			
Pesos	135,858	6,629	4.9%
UDIs	4,754	441	9.4%
Foreign currency	87,770	2,622	3.0%
Sub-total	228,381	9,691	4.3%
Loans ⁽²⁾ :			
Pesos	721,014	74,712	10.5%
UDIs	84	8	9.3%
Foreign currency	73,693	2,208	3.0%
Sub-total	794,791	76,927	9.8%
Repurchase Agreements:			
Pesos	282,669	12,211	4.4%
Trading Derivatives:			
Pesos	18,086	-	-
Foreign Currency	-	-	-
Sub-total	18,086	-	-
Hedging Derivatives:			
Pesos	42,947	4,031	9.5%
Foreign Currency	-	-	-
Sub-total	42,947	4,031	9.8%
Foreign exchange valuation:			
Pesos	-	-	-
Sub-total	-	-	-
Dividend from equity instruments:			
Pesos	-	13	0.0%
Sub-total	-	13	0.0%
Total interest-earning assets:			
Pesos	1,244,737	99,575	8.1%
UDIs	4,837	448	9.4%
Foreign currency	162,573	4,846	3.0%
Sub-total	1,412,147	104,870	7.5%
Permanent stock investments:			
Pesos	619	-	-
Foreign Currency	1	-	-
Sub-total	620	-	-

(1) Does not include equity investments in subsidiaries and affiliates. Includes securities purchased under agreements to resell and derivatives financial instruments.

(2) Interest income includes fees on loans of Ps. 1,470 million in 2021, Ps. 1,476 million in 2022, Ps. 1,656 million in 2023 and Ps. 1,399 million for the nine-month period ended September 30, 2024.

(3) UDI Trusts' deposits are payable to the Mexican federal government and deducted from *Cetes Especiales* (investment securities) for balance sheet purposes.

Average Liabilities, Stockholders' Equity and Interest Rates

The tables below present the average balance of liabilities and stockholders' equity, interest expense and average annual interest rate for the periods indicated:

	For the nine-month period ended September 30,			For the year ended December 31,					
	2024			2023			2022		
	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate
	<i>(Ps. millions, except percentages)</i>								
Demand deposits:									
Pesos.....	240,380	13,354	7.4%	221,028	15,932	7.3%	177,868	8,578	4.9%
Foreign currency.....	49,317	1,156	3.1%	43,722	1,126	2.6%	29,308	145	0.5%
Sub-total	289,697	14,510	6.7%	264,749	17,057	6.5%	207,176	8,723	4.3%
Time deposits:									
Peso.....	374,541	26,784	9.5%	319,799	29,583	9.4%	253,081	14,765	5.9%
UDI.....	10,562	373	4.7%	5,054	230	4.6%	3,533	167	4.8%
Foreign currency.....	10,357	340	4.4%	12,385	398	3.3%	15,967	231	1.5%
Sub-total	395,460	27,497	9.3%	337,237	30,211	9.1%	272,581	15,162	5.6%
Bank loans:									
Pesos.....	1,197	104	11.6%	123	19	15.5%	773	84	11.1%
Foreign currency.....	1,604	74	6.2%	1,460	79	5.5%	1,389	47	3.4%
Sub-total	2,801	179	8.5%	1,583	98	6.3%	2,162	131	6.1%
Loans from Mexican development banks:									
Pesos.....	8,314	607	9.7%	9,481	905	9.7%	10,818	791	7.4%
Foreign currency.....	1,008	38	5.0%	1,027	48	4.7%	1,054	24	2.3%
Sub-total	9,322	645	9.2%	10,508	953	9.2%	11,871	815	7.0%
Outstanding subordinated debentures:									
Pesos.....	-	-	-	-	-	-	-	-	-
UDIs.....	-	-	-	1,396	70	5.1%	2,075	104	5.0%
Foreign currency.....	58,297	106	0.2%	57,665	145	0.3%	70,810	330	0.5%
Sub-total	58,297	106	0.2%	59,061	215	0.4%	72,885	435	0.6%
Securities sold under agreements to repurchase:									
Pesos.....	326,740	25,639	10.5%	311,956	32,581	10.6%	320,187	22,500	7.1%
UDIs.....	-	-	-	-	-	-	-	-	-
Foreign currency.....	37,472	2,817	10.0%	25,979	2,894	11.3%	20,739	1,664	8.1%
Sub-total	364,212	28,456	10.4%	337,935	35,475	10.6%	340,926	24,163	7.2%
Trading Derivatives:									
Pesos.....	411,275	94,478	30.6%	390,536	131,253	34.1%	371,911	84,726	23.1%
Foreign currency.....	-	-	-	-	-	-	-	-	-
Sub-total	411,275	94,478	30.6%	390,536	131,253	34.1%	371,911	84,726	23.1%
Hedging Derivatives:									
Pesos.....	44,742	5,052	15.0%	48,934	8,863	18.4%	53,907	5,277	9.9%
Foreign currency.....	-	-	-	-	-	-	-	-	-
Sub-total	44,742	5,052	15.0%	48,934	8,863	18.4%	53,907	5,277	9.9%
Foreign exchange valuation:									
Pesos.....	-	(309)	-	-	(221)	-	-	(311)	-
Sub-total	-	(309)	-	-	(221)	-	-	(311)	-
Cost for new credits:									
Pesos.....	-	2,286	-	-	2,418	-	-	1,656	-
Sub-total	-	2,286	-	-	2,418	-	-	1,656	-
Total interest-bearing liabilities:									
Pesos.....	1,407,190	168,613	16.0%	1,301,856	221,775	17.3%	1,188,544	138,688	11.8%
UDIs.....	10,562	373	4.7%	6,450	300	4.7%	5,608	271	4.9%
Foreign currency.....	158,054	4,531	3.8%	142,238	4,689	3.3%	139,267	2,440	1.8%
Sub-total	1,575,806	173,517	14.7%	1,450,544	226,763	15.9%	1,333,419	141,399	10.8%
Non-interest-bearing liabilities:									
Pesos.....	436,929	-	-	409,406	-	-	395,899	-	-
UDIs.....	394	-	-	320	-	-	278	-	-
Foreign currency.....	46,246	-	-	51,106	-	-	59,202	-	-
Sub-total	483,568	-	-	460,833	-	-	455,379	-	-
Stockholders' equity:									
Pesos.....	151,782	-	-	152,846	-	-	142,213	-	-
UDIs.....	-	-	-	-	-	-	-	-	-
Foreign currency.....	2,602	-	-	1,186	-	-	1,434	-	-
Sub-total	154,384	-	-	154,032	-	-	143,647	-	-
Total liabilities and stockholders' equity:									
Pesos.....	1,995,901	168,613	11.3%	1,864,109	221,775	12.1%	1,726,657	138,688	8.0%
UDIs.....	10,956	373	4.5%	6,770	300	4.5%	5,885	271	4.6%
Foreign currency.....	206,901	4,531	2.9%	194,531	4,689	2.4%	199,903	2,440	1.2%

Total.....	<u>2,213,758</u>	<u>173,517</u>	<u>10.4%</u>	<u>2,065,409</u>	<u>226,763</u>	<u>11.1%</u>	<u>1,932,445</u>	<u>141,399</u>	<u>7.3%</u>
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				For the year ended December 31,		
				2021		
				Average Balance	Interest Expense	Average Interest Rate
(Ps. millions, except percentages)						
Demand deposits:						
Pesos				164,097	5,231	3.2%
Foreign currency				23,224	13	0.1%
Sub-total.....				187,321	5,244	2.8%
Time deposits:						
Peso.....				252,975	8,561	3.4%
UDI				3,275	146	4.5%
Foreign currency				28,411	264	0.9%
Sub-total.....				284,662	8,971	3.2%
Bank loans:						
Pesos				1,585	81	5.2%
Foreign currency				-	-	0.0%
Sub-total.....				1,585	81	5.2%
Loans from Mexican development banks:						
Pesos				12,564	766	6.2%
Foreign currency				1,460	22	1.5%
Sub-total.....				14,024	788	5.7%
Outstanding subordinated debentures:						
Pesos				-	-	-
UDIs.....				1,542	97	6.4%
Foreign currency				59,265	438	0.7%
Sub-total.....				60,807	535	0.9%
Securities sold under agreements to repurchase:						
Pesos				367,327	15,272	4.2%
UDIs.....				-	-	-
Foreign currency				19,308	1,021	5.3%
Sub-total.....				386,635	16,293	4.2%
Trading Derivatives:						
Pesos				13,786	-	-
Foreign currency				-	-	-
Sub-total.....				13,786	-	-
Hedging Derivatives:						
Pesos				47,301	3,334	7.1%
Foreign currency				-	-	-
Sub-total.....				47,301	3,334	7.1%
Foreign exchange valuation:						
Pesos				-	(366)	-
Sub-total.....				-	(366)	-
Cost for new credits:						
Pesos				-	1,308	-
Sub-total.....				-	1,308	-
Total interest-bearing liabilities:						
Pesos				859,636	34,918	4.1%
UDIs.....				4,817	243	5.1%
Foreign currency				131,668	1,757	1.4%
Sub-total.....				996,121	36,919	3.8%
Non-interest-bearing liabilities:						
Pesos				352,866	-	-
UDIs.....				169	-	-
Foreign currency				46,466	-	-
Sub-total.....				399,501	-	-
Stockholders' equity:						

Pesos	140,688	-	-
UDIs.....	-	-	-
Foreign currency	1,612	-	-
Sub-total.....	142,300	-	-
Total liabilities and stockholders' equity:			
Pesos	1,353,190	34,918	2.6%
UDIs.....	4,986	243	4.9%
Foreign currency	179,747	1,757	1.0%
Total	1,537,922	36,919	2.4%

Changes in Interest Income and Expense—Volume and Rate Analysis

The following tables allocate, by currency of denomination, changes in interest income and interest expense between changes in volume and changes in rates for the nine-month period ended September 30, 2024 compared to the corresponding period in 2023, for the year ended December 31, 2023 compared to the year ended December 31, 2022, for 2022 compared to 2021 and for 2021 compared to 2020. Volume and rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities. The variances caused by changes in both volume and rate have been allocated to volume.

Interest-Earning Assets

	Nine-month period ended September 30, 2024/2023			Years Ended December 31, 2023/2022		
	Increase/ (Decrease) due to Changes in			Increase/ (Decrease) due to Changes in		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
Deposits in banks:						
Pesos	1,202	(39)	1,163	178	2,104	2,282
Foreign currency	(600)	243	(357)	300	886	1,186
Sub-total	602	204	806	478	2,990	3,468
Investment securities:						
Pesos	2,299	(133)	2,166	5,088	5,812	10,900
UDIs	111	289	400	(42)	(43)	(85)
Foreign currency	552	(520)	32	68	888	956
Sub-total	2,962	(364)	2,598	5,114	6,657	11,771
Loans ⁽¹⁾ :						
Pesos	8,743	1,296	10,039	12,902	18,778	31,680
UDIs	(1)	-	(1)	(1)	-	(1)
Foreign currency	1,388	1,609	2,997	474	3,075	3,549
Sub-total	10,130	2,905	13,035	13,375	21,853	35,228
Repurchase operations:						
Pesos	(475)	1	(474)	(5,443)	5,115	(328)
Sub-total	(475)	1	(474)	(5,443)	5,115	(328)
Trading Derivatives	-	-	-	-	-	-
Pesos	4,758	(9,596)	(4,838)	4,868	44,257	49,125
Foreign currency	-	-	-	-	-	-
Sub-total	4,758	(9,596)	(4,838)	4,868	44,257	49,125
Hedging Derivatives:						
Pesos	(436)	(1,506)	(1,942)	(139)	3,677	3,538
Foreign currency	-	-	-	-	-	-
Sub-total	(436)	(1,506)	(1,942)	(139)	3,677	3,538
Foreign exchange valuation:						
Pesos	-	728	728	-	(398)	(398)
Sub-total	-	728	728	-	(398)	(398)
UDI Trusts' fiduciary liabilities:						
Pesos	-	(1)	(1)	-	1	1
Subtotal	-	(1)	(1)	-	1	1
Total interest-earning assets:						
Pesos	11,333	347	11,680	12,586	35,089	47,675
UDIs	110	289	399	(43)	(43)	(86)
Foreign currency	1,340	1,332	2,672	842	4,849	5,691
Total	12,783	1,968	14,751	13,385	39,895	53,280

Interest income includes fees on loans of Ps. 1,476 million in 2022, Ps. 1,656 million in 2023 and Ps. 1,399 million for the nine-month period ended September 30, 2024.

Interest-Bearing Liabilities

	September 30, 2024/2023			2023/2022		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
Demand deposits:						
Pesos	1,604	683	2,287	2,110	5,345	7,455
Foreign currency	121	262	383	72	923	995
Sub-total.....	1,725	945	2,670	2,182	6,268	8,450
Time deposits:						
Pesos	4,470	1,242	5,712	3,946	11,078	15,024
UDIs.....	201	13	214	73	(9)	64
Foreign currency	(40)	106	66	(52)	222	170
Sub-total.....	4,631	1,361	5,992	3,967	11,291	15,258
Bank loans:						
Pesos	92	2	94	(72)	6	(66)
Foreign currency	(14)	10	(4)	2	30	32
Sub-total.....	78	12	90	(70)	36	(34)
Loans from Mexican development banks:						
Pesos	(112)	12	(100)	(99)	215	116
Foreign currency	(1)	3	2	(1)	25	24
Sub-total.....	(113)	15	(98)	(100)	240	140
Outstanding subordinated debentures:						
Pesos						
UDIs.....	(71)	-	(71)	(35)	-	(35)
Foreign currency	1	(4)	(3)	(62)	(126)	(188)
Sub-total.....	(70)	(4)	(74)	(97)	(126)	(223)
Securities sold under agreements to repurchase:						
Pesos	864	218	1,082	(586)	10,808	10,222
Foreign currency	1,161	(408)	753	426	821	1,247
Sub-total.....	2,025	(190)	1,835	(160)	11,629	11,469
Trading derivatives:						
Pesos	6,302	(11,965)	(5,663)	4,302	42,872	47,174
Sub-total.....	6,302	(11,965)	(5,663)	4,302	42,872	47,174
Hedging derivatives:						
Pesos	(518)	(962)	(1,480)	(494)	4,129	3,635
Sub-total.....	(518)	(962)	(1,480)	(494)	4,129	3,635
Foreign exchange valuation:						
Pesos	-	(99)	(99)	-	90	90
Sub-total.....	-	(99)	(99)	-	90	90
Cost for Credits:						
Pesos	-	434	434	-	761	761
Sub-total.....	-	434	434	-	761	761
Total interest-bearing liabilities:						
Pesos	6,400	1,530	7,930	4,805	32,432	37,237
UDIs.....	130	13	143	38	(9)	29
Foreign currency	1,228	(31)	1,197	385	1,895	2,280
Total.....	7,758	1,512	9,270	5,228	34,318	39,546

Interest-Earning Assets—Yield and Yield Spread

The following tables set forth, by currency of denomination, the levels of our average interest earning assets and net interest income, and gross and net yield and yield spread obtained, for each of the periods indicated. In addition, because loan

fees are a component of pricing, a table including loan fees (other than fees on credit card cash disbursements and merchant fees on credit card purchases) in net interest income has been included.

	For the nine-month period ended September 30,	For the year ended December 31,	
	2024	2023	2022
	<i>(Ps. millions, except percentages)</i>		
Total average earning assets:			
Pesos	1,807,860	1,697,747	1,586,153
UDIs.....	11,585	8,413	8,893
Foreign currency	253,881	221,069	203,892
Total.....	2,073,326	1,927,228	1,798,938
Historical not including loan fees:			
Net interest income:			
Pesos	72,249	91,633	79,251
UDIs.....	364	403	516
Foreign currency	7,973	8,839	5,476
Total.....	80,586	100,875	85,243
Gross yield ⁽¹⁾ :			
Pesos	17.5%	18.5%	13.7%
UDIs.....	8.4%	8.3%	8.9%
Foreign currency	6.5%	6.1%	3.9%
Weighted-average rate	16.1%	17.0%	12.6%
Net yield ⁽²⁾ :			
Pesos	5.3%	5.4%	5.0%
UDIs.....	4.1%	4.8%	5.8%
Foreign currency	4.1%	4.0%	2.7%
Weighted-average rate	5.1%	5.2%	4.7%
Yield spread ⁽³⁾ :			
Pesos	1.8%	1.4%	2.1%
UDIs.....	3.7%	3.7%	4.0%
Foreign currency	2.7%	2.8%	2.1%
Weighted-average rate	1.6%	1.4%	2.0%

(1) Gross yield represents interest income divided by average earning assets.

(2) Net yield represents the total of net interest income divided by average earning assets, based on beginning and end-of-year balances.

(3) Yield spread represents the difference between gross yield on average interest-earning assets and average cost of interest-bearing liabilities, based on beginning and end-of-year balances.

**For the year
ended
December 31,
2021
(Ps. millions,
except
percentages)**

Total average earning assets:

Pesos	1,244,737
UDIs	4,837
Foreign currency	162,573
Total	1,412,147

Historical not including loan fees:

Net interest income:	
Pesos	64,657
UDIs	205
Foreign currency	3,089
Total	67,951
Gross yield ⁽¹⁾ :	
Pesos	8.0%
UDIs	9.3%
Foreign currency	3.0%
Weighted-average rate	7.4%
Net yield ⁽²⁾ :	
Pesos	5.2%
UDIs	4.2%
Foreign currency	1.9%
Weighted-average rate	4.8%
Yield spread ⁽³⁾ :	
Pesos	3.9%
UDIs	4.2%
Foreign currency	1.6%
Weighted-average rate	3.7%

(1) Gross yield represents interest income divided by average earning assets.

(2) Net yield represents the total of net interest income divided by average earning assets, based on beginning and end-of-year balances.

(3) Yield spread represents the difference between gross yield on average interest-earning assets and average cost of interest-bearing liabilities, based on beginning and end-of-year balances.

Return on Average Total Assets and Average Stockholders' Equity

The following tables present certain selected financial data and ratios for Banorte for the periods indicated:

	For the nine- month period ended September 30, 2024	For the year ended December 31, 2023	2022
	<i>(Ps. millions, except percentages)</i>		
Net income (Controlling)	33,960	41,946	34,549
Average total assets	1,763,328	1,660,647	1,551,879
Average stockholders' equity	152,559	151,851	140,153
Return on average total assets (ROAA) ⁽¹⁾	2.5%	2.5%	2.2%
Return on average equity (ROAE) ⁽²⁾	29.0%	27.6%	24.7%
Average stockholders' equity as a percentage of average total assets	8.7%	9.1%	9.0%
Dividend Payout Ratio	73.9%	89.7%	101.3%

(1) For Return on average assets, Net income (Controlling) of the last 12 months divided by the average of total assets, based on end-of-month balances, for the last 12 months.

(2) For Return on average equity, Net income (Controlling) of the last 12 months divided by the average of stockholders' equity, based on end-of-month balances (excluding minority interests) for the last 12 months.

**For the year
ended
December 31,
2021**

*(Ps. millions,
except
percentages)*

Net income	26,086
Average total assets	1,243,403
Average stockholders' equity	140,329
Return on average total assets (ROAA) ⁽¹⁾	2.1%
Return on average equity (ROAE) ⁽²⁾	18.6%
Average stockholders' equity as a percentage of average total assets	11.3%
Dividend Payout Ratio	49.1%

(1) For Return on average assets, Net income (Controlling) of the last 12 months divided by the average of total assets, based on end-of-month balances, for the last 12 months.

(2) For Return on average equity, Net income (Controlling) of the last 12 months divided by the average of stockholders' equity, based on end-of-month balances (excluding minority interests), for the last 12 months.

Interest Rate Sensitivity of Assets and Liabilities

Interest Rates

Mexican Central Bank regulations mandate that Mexican banks base their floating interest rates on commercial and mortgage loans on a single reference rate published by official or market-driven sources and that the agreements for such loans specify the factor used to determine the interest rate and the minimum and maximum spread over the reference rate. Currently, we generally base the floating interest rate on all of our new Peso-denominated loans on the TIIE.

In accordance with the Mexican Central Bank regulations, our policy with respect to non-Peso lending activities, mainly in U.S. dollars, is to price such loans generally on the basis of SOFR or a fixed rate. Spreads over SOFR are determined in accordance with our marginal cost of funding in currencies other than Pesos. Under Mexican Central Bank regulations, a portion of our non-Peso liabilities must be invested in certain dollar-denominated, low-risk, highly liquid instruments and deposits. See “*Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities.*” Our cost associated with funding the reserve is also included in determining the cost to customers of non-Peso-denominated loans.

Interest Rate Sensitivity

A key component of our asset and liability policy is the management of interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest income due to the repricing characteristics of assets and liabilities. For any given period, the pricing structure is matched when an equal amount of assets and liabilities reprice. Any excess of assets or liabilities over these matched items results in a repricing gap or net exposure. A negative repricing gap denotes liability sensitivity and normally means that a decline in interest rates would have a positive effect on net interest income, while an increase in interest rates would have a negative effect on net interest income.

The following table reflects our interest-earning assets and interest-bearing liabilities as of September 30, 2024. Fixed-rate instruments were classified in this table according to their final maturity and other instruments according to their time of repricing.

As of September 30, 2024						
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	Non-Rate Sensitive or Over One Year	Total
<i>(Ps. millions, except percentages)</i>						
Assets⁽¹⁾:						
Variable-rate loans.....	571,170	11,241	5,835	10,895	-	599,142
Fixed-rate loans.....	18,756	20,726	26,617	41,855	387,377	495,331
Total Stage 1 and Stage 2 loans.....	589,927	31,968	32,452	52,750	387,377	1,094,473
Securities and investments.....	109,710	1,389	63,850	40,309	177,615	392,873
Repurchase agreements and derivative financial instruments.....	66,148	-	-	-	-	66,148
Total interest-earning assets.....	765,784	33,357	96,303	93,059	564,992	1,553,494
Cash, property and other non-interest-earning assets.....	75,320	-	-	-	154,836	230,156
Stage 3 loans.....	-	-	-	-	10,425	10,425
Less: Allowance for loan losses.....	-	-	-	-	(18,950)	(18,950)
Total assets.....	841,104	33,357	96,303	93,059	711,303	1,775,125
Liabilities And Stockholders' Equity⁽¹⁾:						
Demand deposits.....	169,227	12,795	18,630	35,324	479,158	715,134
Time deposits.....	290,972	74,109	8,833	1,512	49	375,474
Senior Debt Issued.....	25,210	5,252	-	275	21,035	51,772
Total deposits.....	485,409	92,156	27,463	37,111	500,241	1,142,380
Short-term debt.....	3,934	1,797	40	-	-	5,772
Long-term debt.....	2,151	1,242	74	290	3,363	7,120
Securities and derivative financial instruments.....	221,399	44,286	47,345	4,712	1,937	319,679
Subordinated debentures.....	-	-	-	-	52,513	52,513
Other liabilities.....	4,208	64	50	64	90,612	94,998
Stockholders' equity.....	-	-	-	-	152,663	152,663
Total liabilities and stockholders' equity.....	717,101	139,546	74,973	42,176	801,329	1,775,125
Interest rate sensitivity gap.....	124,003	(106,189)	21,330	50,882	(90,026)	-
Cumulative interest rate sensitivity gap.....	124,003	17,814	39,144	90,027	-	-
Cumulative gap as percentage of total interest-earning assets.....	8.0%	1.1%	2.5%	5.8%	0.0%	-

(1) Based on the lesser of the number of days to reprice and the remaining days to maturity of the corresponding asset or liability.

As of September 30, 2024, interest earning assets totaled Ps. 1,553 billion. Of these assets, 49.3% repriced periodically every 30 days or less. Such assets included 77.0% of Stage 1 and Stage 2 loans and 14.3% of securities and investments. Of our total Stage 1 and Stage 2 loan portfolio, 54.7% was comprised of variable-rate loans and 45.3% was comprised of fixed-rate loans.

Of our liabilities as of September 30, 2024, 70.4% consisted of deposits, totaling Ps. 1,142 billion, of which 42.5% reprice every 30 days or less. The remaining 29.6% of our liabilities amounting to Ps. 480,082 million consisted of Ps. 12,892 million of funds from bank borrowings, Ps. 52,513 million of subordinated debentures, Ps. 319,679 million of financial instruments repurchase operations, and Ps. 94,998 million of other liabilities. Of such Ps. 1,622,462 million of liabilities, 44.2% reprice every 30 days or less.

Interest-Bearing Deposits with Other Banks

Mexican Central Bank regulations require banks to maintain a minimum liquidity coefficient of foreign currency liabilities. See “*Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities.*” A substantial majority of our short-term deposits with international banks are denominated in U.S. dollars.

Mexican Central Bank regulations require that a bank maintain balanced positions in foreign currencies no higher than a specified level with respect to its Tier 1 Capital. As of December 31, 2023, the limit established for us by the Mexican Central Bank for maturity-adjusted net foreign currency-denominated liabilities was U.S.\$ 20,778 million (Ps. 352,537 million). As

of December 31, 2023, our maturity-adjusted net foreign currency liabilities totaled U.S.\$ 1,373 million (Ps. 23,304 million). As of September 30, 2024, the limit established for us by the Mexican Central Bank for maturity-adjusted net foreign currency-denominated liabilities was U.S.\$ 19,818 million (Ps. 390,260 million). As of September 30, 2024, our maturity-adjusted net foreign currency liabilities totaled U.S.\$ 3,908 million (Ps. 76,969 million).

Securities

We held securities in the amount of Ps. 392,873 million as of September 30, 2024, representing 22.1% of our total assets.

The following table presents our portfolio of securities as of the dates indicated, including those that are subject to repurchase agreements:

	<u>As of September 30, 2024</u>	<u>As of December 31, 2023</u>	<u>2022</u>
	<i>(Ps. millions, except percentages)</i>		
Peso-Denominated:			
Mexican government securities:			
<i>Cetes</i>	10,288	7,509	367
<i>Cetes Especiales</i> ⁽¹⁾	473	462	449
Bonds	232,104	191,012	205,050
Total Mexican government securities	242,864	198,984	205,865
Bank bonds and certificates.....	39,726	45,976	26,678
Other fixed income securities.....	821	63	44
Managed Funds Stocks.....	-	758	863
Equity securities (GFNorte, Banorte Stock Plan).....	-	-	136
Total Peso-denominated	283,411	245,781	233,587
Foreign Currency-Denominated:			
Government securities:	98,685	-	-
Mexican government securities issued abroad	1,980	82,144	85,932
Total government securities	100,666	105,059	85,932
Eurobonds PEMEX	6,991	7,837	9,420
U.S. commercial paper	1,118	6,091	9,834
US Agencies.....	-	-	-
Other fixed income securities.....	405	330	76
Equity securities (Visa & MC)	-	-	-
Total foreign currency-denominated	109,180	119,317	105,261
Sub-total securities	392,591	365,099	338,848
Assigned Securities Pending Settlement	282	(305)	(1,342)
Total Securities	392,873	364,794	337,506

(1) *Cetes Especiales* in the above table are shown net of UDI Trusts' deposits.

	As of December 31, 2021 (Ps. millions, except percentages)
Peso-Denominated:	
<i>Cetes</i>	8,331
<i>Cetes Especiales</i> ⁽¹⁾	616
Bonds	91,053
Total Mexican government securities	100,000
Bank bonds and certificates	33,436
Other fixed income securities	34
Managed Funds Stocks	997
Equity securities (GFNorte, Banorte Stock Plan)	130
Total Peso-denominated	134,597
Foreign Currency-Denominated:	
Government securities:	-
Mexican government securities issued abroad	81,923
Total government securities	81,923
Eurobonds PEMEX	12,032
U.S. commercial paper	-
US Agencies	-
Other fixed income securities	83
Equity securities (Visa & MC)	-
Total foreign currency-denominated	94,038
Sub-total securities	228,636
Assigned Securities Pending Settlement	-
Total Securities	228,636

(1) *Cetes Especiales* in the above table are shown net of UDI Trusts' deposits.

Securities—Maturities and Average Yields

The following tables analyzes as of September 30, 2024, remaining maturities and weighted-average yields of our securities that have a specific date of maturity:

	As of September 30,2024																
	From 1 to 89 days		From 90 to 179 days		From 6 to 12 months		From 1 to 2 years		From 2 to 3 years		From 3 to 4 years		From 4 to 5 years		More than 5 Years		Total
	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Amnt	Yield	Balance
	(Ps. millions, except percentages)																
PESO-DENOMINATED:																	
CETES	4,240	10.54%	1,993	10.44%	2,717	10.17%	1,338	9.97%	-	-	-	-	-	-	-	-	10,288
CETES Especiales.....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	473	-	473
Bonds.....	383	9.38%	17,546	10.50%	29,090	10.64%	58,126	10.00%	42,365	9.98%	22,109	10.57%	34,328	9.41%	28,156	8.81%	232,104
Total Mexican government securities.....	4,623	10.4%	19,539	10.5%	31,807	10.6%	59,464	10.0%	42,365	10.0%	22,109	10.6%	34,328	9.4%	28,629	8.7%	242,864
Bank bonds and certificates.....	4,347	11.89%	2,949	10.83%	603	10.70%	3,956	11.15%	5,078	10.85%	1,215	10.91%	8,134	11.37%	13,443	10.65%	39,726
Other fixed-income securities.....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	821	0.00%	821
Total Peso-denominated.....	8,970	11.1%	22,489	10.5%	32,411	10.6%	63,420	10.1%	47,444	10.1%	23,324	10.6%	42,461	9.8%	42,893	9.1%	283,411
FOREIGN CURRENCY-DENOMINATED:																	
Mexican government securities issued abroad.....	-	-	-	-	-	-	14,538	4.29%	23,620	4.37%	6,041	4.31%	11,534	4.37%	42,952	5.23%	98,685
U.S. Treasury securities.....	-	-	-	-	-	-	-	-	1,980	3.62%	-	-	-	-	-	-	1,980
Eurobonds PEMEX.....	-	-	3,569	4.23%	-	-	3,160	6.04%	262	8.24%	-	-	-	-	-	-	6,991
U.S. commercial paper.....	-	-	-	-	1,118	4.98%	-	-	-	-	-	-	-	-	-	-	1,118
Agencies.....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other fixed-income securities.....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	405	-	405
Total foreign currency denominated.....	-	-	3,569	4.2%	1,118	5.0%	17,698	4.6%	25,863	4.3%	6,041	4.3%	11,534	4.4%	43,356	5.2%	109,180
Total securities (excluding equity securities).....	8,970	11.1%	26,058	9.7%	33,529	10.4%	81,118	8.9%	73,307	8.1%	29,365	9.3%	53,996	8.6%	86,249	7.1%	392,591

Bank Loans and Securities Sold Under Repurchase Agreements

The following tables sets forth our borrowings and securities sold under repurchase agreements for the periods indicated:

	As of and for the nine-month period ended September 30,		As of and for the year ended December 31,			
	2024		2023		2022	
	Amount	Rate	Amount	Rate	Amount	Rate
	<i>(Ps. millions, except percentages)</i>					
Bank loans:						
At end of period	12,892	8.8%	10,109	8.6%	14,822	9.3%
Daily average indebtedness during period	12,407	8.7%	11,710	9.0%	23,068	7.2%
Maximum month-end balance	10,903	8.7%	14,538	8.5%	119,210	7.1%
Securities sold under repurchase agreements:						
At end of period	253,674	10.3%	206,018	10.3%	218,928	10.0%
Daily average indebtedness during period	240,615	10.7%	208,708	10.9%	143,328	7.9%
Maximum month-end balance	253,674	10.3%	219,193	11.1%	223,158	9.5%
Total at end of period	266,566	10.2%	216,127	10.3%	233,750	10.0%
Daily average indebtedness during period	253,022	10.6%	220,418	10.8%	166,395	7.8%
Maximum month-end balance	264,576	10.2%	233,731	11.0%	342,369	8.6%

As of and for the year ended December 31,		
2021		
	Amount	Rate
	(Ps. millions, except percentages)	
Bank loans:		
At end of period	21,561	7.4%
Daily average indebtedness during period	15,754	6.1%
Maximum month-end balance.....	22,022	5.3%
Securities sold under repurchase agreements:		
At end of period	108,591	5.0%
Daily average indebtedness during period	115,709	4.2%
Maximum month-end balance.....	146,456	4.2%
Total at end of period	130,152	5.4%
Daily average indebtedness during period	131,463	4.5%
Maximum month-end balance.....	168,477	4.4%

Deposits

The following tables present the components of our deposit base for the dates indicated:

	As of September 30,	As of December 31,	
	2024	2023	2022
	(Ps. millions)		
Interest-bearing demand deposits:			
Peso-denominated	249,775	225,801	177,570
Non-Peso-denominated	50,623	38,504	33,123
Sub-total	300,399	264,305	210,693
Non-interest-bearing demand deposits:			
Peso-denominated	378,306	392,705	372,874
Non-Peso-denominated	36,429	32,207	39,245
Sub-total	414,735	424,912	412,119
Time deposits:			
Peso-denominated	412,719	370,545	281,928
Non-Peso-denominated	14,526	13,369	14,228
Sub-total	427,246	383,914	296,157
Total.....	1,142,380	1,073,131	918,969

	As of December 31, 2021
Interest-bearing demand deposits:	
Peso-denominated	133,090
Non-Peso-denominated	23,160
Sub-total	156,250
Non-interest-bearing demand deposits:	
Peso-denominated	342,741
Non-Peso-denominated	39,233
Sub-total	381,974
Time deposits:	
Peso-denominated	244,459
Non-Peso-denominated	23,530
Sub-total	267,989
Total.....	806,213

Market Share Peer Comparison

The following table presents a comparison of our market share against that of our peers, the largest banks in Mexico, as of September 30, 2024 for the categories there indicated:

	Auto	Payroll	C. Card	Mortgage	Commercial & Corporate	Government	Deposits
Banorte	18.00%	20.90%	10.20%	19.10%	14.30%	23.50%	14.10%
BBVA	23.00%	39.20%	32.10%	25.60%	23.00%	32.20%	22.50%
Banamex	0.00%	15.30%	22.40%	5.20%	7.70%	7.10%	12.20%
Santander	15.30%	13.60%	13.70%	16.80%	10.30%	11.00%	11.60%
HSBC	5.70%	8.30%	7.20%	7.20%	5.70%	3.10%	7.00%
Scotiabank	8.70%	0.50%	2.00%	17.20%	5.60%	4.00%	6.80%
Inbursa	20.70%	0.50%	2.50%	0.40%	8.30%	5.30%	4.60%
Others	8.60%	1.80%	9.90%	5.00%	25.20%	13.80%	21.20%

Loan Portfolio

Total loan amounts set forth in this section include the total principal amount of our performing, Stage 1, Stage 2, non-performing and Stage 3 loans outstanding at the date presented, which include rediscounted loans and loans in the UDI Trusts. The terms “total loans” and “total loan portfolio” include total performing, Stage 1 and Stage 2 loans plus total non-performing and Stage 3 loans. The terms “net total loans” and “net total loan portfolio” refer to net total performing, Stage 1 and Stage 2 loans plus net non-performing and Stage 3 loans. See “*Presentation of Financial and Other Information—Terms Relating to Our Loan Portfolio.*”

Total balance of our loan portfolio as of September 30, 2024 amounted to Ps. 1,105 billion, an increase of Ps. 87,793 million, or 8.6%, from the balance as of December 31, 2023. This increase was mainly due to an increase in corporate, commercial and mortgage loans. As of September 30, 2024, Stage 1 and Stage 2 business loans represented 37.4% of total Stage 1 and Stage 2 loans, Stage 1 and Stage 2 loans to financial institutions represented 5.1%, Stage 1 and Stage 2 mortgage loans represented 24.4%, Stage 1 and Stage 2 government loans represented 15.2% and Stage 1 and Stage 2 consumer loans represented 18.0%. As of December 31, 2023, our loan portfolio amounted to Ps. 1,017 billion, an increase of Ps. 111,191 million, or 12.3%, from the balance as of December 31, 2022. This increase was mainly due to an increase in corporate and mortgage loans. As of December 31, 2023, Stage 1 and Stage 2 business loans represented 36.9% of total Stage 1 and Stage 2 loans, loans to financial institutions represented 4.3%, Stage 1 and Stage 2 mortgage loans represented 25.1%, Stage 1 and Stage 2 government loans represented 16.3% and Stage 1 and Stage 2 consumer loans represented 17.4%.

As of December 31, 2022, our loan portfolio amounted to Ps. 905,914 million, an increase of Ps. 95,217 million, or 11.7% compared to December 31, 2021. This increase was mainly due to an increase in mortgage and commercial loans.

Loans by Type and by Borrower

The following tables analyze our loan portfolio by loan type. Total loans reflect the sum of the Stage 1 and Stage 2 loan portfolio and the Stage 3 loan portfolio. For a breakdown of Stage 3 loans by loan type, see “—*Non-Performing and Stage 3 Loan Portfolio*” below.

	As of September 30, 2024	As of December 31, 2023 2022 (Ps. millions)	
Stage 1, Stage 2 and Stage 3 Loans			
Commercial and Corporate loans:			
Government loans	165,839	164,035	165,940
Loans granted to financial institutions	55,744	43,454	29,690
Commercial loans:			
Collateralized or guaranteed	298,416	273,788	234,318
Unsecured	111,059	97,423	95,542
Sub-total	409,475	371,211	329,860
Total commercial and corporate loans	631,058	578,700	525,490
Consumer loans:			
Mortgage	266,770	253,138	226,932
Credit cards	64,742	58,137	45,127
Other consumer credits	131,903	117,124	99,222
Total consumer loans	463,415	428,399	371,281
Total Stage 1 and Stage 2 loans	1,094,473	1,007,100	896,771
Total Stage 3 loans	10,425	10,006	9,143
Total loans ⁽¹⁾	1,104,898	1,017,105	905,914

(1) The loan amounts set out in the above table include accrued interest.

	As of December 31, 2021 (Ps. millions)
Performing and Non-Performing Loans	
Commercial and Corporate loans:	
Government loans	147,734
Loans granted to financial institutions	28,686
Commercial loans:	
Collateralized or guaranteed	217,257
Unsecured	86,854
Sub-total.....	304,111
Total commercial and corporate loans	480,531
Consumer loans:	
Mortgage.....	200,459
Credit cards.....	39,108
Other consumer credits	82,762
Total consumer loans	322,329
Total performing loans	802,861
Total non-performing loans.....	7,836
Total loans ⁽¹⁾	810,697

(1) The loan amounts set out in the above table include accrued interest.

Commercial Loans

Total Stage 1 and Stage 2 commercial and corporate loans as of September 30, 2024 amounted to Ps. 631,058 million, which increased by Ps. 52,358 million, or 9.0%, from the amount recorded on December 31, 2023. This increase was mainly due an increase of Ps. 38,264 million in our Stage 1 and Stage 2 business loans, an increase of Ps. 12,290 million in our Stage 1 and Stage 2 financial institutions loans and an increase of Ps. 1,804 million in our Stage 1 and Stage 2 government loans.

Total Stage 1 and Stage 2 commercial and corporate loans totaled Ps. 578,700 million as of December 31, 2023, which increased by Ps. 53,210 million, or 10.1%, from the amount recorded on December 31, 2022. This increase was mainly due to an increase of Ps. 41,351 million in our Stage 1 and Stage 2 business loans, an increase of Ps. 13,764 million in our Stage 1 and Stage 2 financial institutions loans and a decrease of Ps. 1,905 million in our government loans.

Total performing commercial and corporate loans totaled Ps. 480,531 million for December 31, 2021. Composed of Ps. 304,111 million in our performing business loans, Ps. 28,686 performing financial institutions loans and 147,734 million in our performing government loans.

As of September 30, 2024 and as of December 31, 2023, 2022 and 2021 the aggregate outstanding principal amount and accrued interest of loans to our 15 largest clients (including loans to a single corporate group or to the Mexican government) represented 15.4%, 14.3%, 17.7% and 16.4%, respectively, of total government, commercial and corporate loans. Of these 15 largest clients, as of September 30, 2024, 15 were classified as “A”, under the CNBV’s regulatory loan classification guidelines.

As of September 30, 2024, 24.7% of our commercial loan portfolio was unsecured. Unsecured commercial loans, consisting primarily of short-term working capital loans (with terms of 30 to 90 days), are common in Mexico. The credit analysis and administration of these loans are the same as for secured loans. If we establish an unsecured line of credit, it is because we believe the borrower is a creditworthy customer, and the fact that it is an unsecured loan is taken into consideration during the approval process.

Consumer Loans

Our Stage 1 and Stage 2 consumer loans, including mortgage, credit card and other consumer loans, increased 15.4% in 2023 and increased 8.2% during the nine-month period ended September 30, 2024.

Our Stage 1 and Stage 2 credit card portfolio increased in 28.8% in 2023 and increased 11.4% during the nine-month period ended September 30, 2024. Like other Mexican banks, we reflect in our interest rates for credit cards the greater risk associated with such loans. Other types of loans, such as mortgage and automobile loans, are generally less risky because borrowers are less able to increase their borrowings without prior approval and must generally provide some form of collateral.

Our Stage 1 and Stage 2 automobile and other consumer loans increased 18.0% from December 31, 2022 to December 31, 2023 and increased 12.6% from December 31, 2023 to September 30, 2024.

As of September 30, 2024, our mortgage portfolio consisted of 184,784 residential loans, with an aggregate principal amount outstanding of Ps. 268,807 million. These loans were originally granted in Pesos or UDIs. The Peso-denominated loans were funded by us and carry market interest rates, but the monthly payment is fixed or variable. The UDI-denominated loans were funded by us and the Mexican government, and the monthly payment is fixed, but the outstanding balance in Pesos increases monthly in proportion to the variation of the NCPI.

Loans by Currency

Foreign currency-denominated loans amounted to Ps. 158,212 million on September 30, 2024, reflecting an increase of 28.6% from December 31, 2023. The increase in foreign currency-denominated loans from December 31, 2023 to September 30, 2024 was due to the decrease in the exchange rate of 11%, the rest to an increase in the demand for export related activity.

Foreign currency-denominated loans amounted to Ps. 123,006 million on December 31, 2023, reflecting an increase of 8.0% from December 31, 2022. The increase in foreign currency-denominated loans from December 31, 2022 to December 31, 2023 was driven by an increase in corporate loans.

The following table presents our Peso and foreign currency-denominated loan portfolio at the dates indicated. Foreign currency-denominated loans that were not denominated in U.S. dollars were converted into U.S. dollars and then expressed in Pesos, at the Mexican Central Bank Exchange Rate.

	As of September 30,		As of December 31,			
	2024		2023		2022	
	Loan Amount	% of Portfolio ⁽²⁾	Loan Amount	% of Portfolio ⁽²⁾	Loan Amount	% of Portfolio ⁽²⁾
	<i>(Ps. millions, except percentages)</i>					
Peso-denominated loans	946,645	85.7%	894,050	87.9%	791,919	87.4%
UDI denominated loans	41	0.0%	49	0.0%	62	0.0%
Foreign currency-denominated loans	158,212	14.3%	123,006	12.1%	113,933	12.6%
Total loans ⁽¹⁾	1,104,898	100.0%	1,017,105	100.0%	905,914	100.0%

(1) The loan amounts set out in the above table include accrued interest.

(2) Percentage of portfolio equals the relevant loan amount by currency divided by the sum of total loans.

	As of December 31,	
	2021	
	Loan Amount	% of Portfolio ⁽²⁾
	<i>(Ps. millions, except percentages)</i>	
Peso-denominated loans	726,408	89.6%
UDI denominated loans	74	0.0%
Foreign currency-denominated loans	84,216	10.4%
Total loans ⁽¹⁾	810,697	100.0%

(1) The loan amounts set out in the above table include accrued interest.

(2) Percentage of portfolio equals the relevant loan amount by currency divided by the sum of total loans.

Loans to the Public and Private Sectors

As of September 30, 2024, our loans to the public sector amounted to Ps. 165,841 million, accounting for 15.0% of our total loan portfolio. The percentage of our loan portfolio comprised of public sector loans increased from 18.2% as of December 31, 2021 to 18.3% as of December 31, 2022 and decreased to 16.1% as of December 31, 2023. See “*Risk Factors—Risks Relating to Our Business—We maintain lower levels of capital or reserves in connection with our loans to Mexican federal, state and municipal governments*” and “*Risk Factor—Risks Relating to Our Business—Some of our loans to Mexican states and municipalities may be renegotiated.*”

Loans to individuals consisted of loans for business activities, mortgage loans, credit card loans and automobile and other consumer loans. Our loans to individuals totaled Ps. 481,863 million as of September 30, 2024, reflecting an increase of 8.1% from Ps. 445,937 million as of December 31, 2023. For December 31, 2023, our loans to individuals totaled Ps. 445,937 million, which increased by 15.6% from Ps. 385,594 million as of December 31, 2022.

The following table sets forth an analysis of the composition of our total loan portfolio at the dates indicated with respect to loans to both the public and private sectors:

	As of September 30,		As of December 31,			
	2024		2023		2022	
	Loan Amount	% of Portfolio ⁽³⁾	Loan Amount	% of Portfolio ⁽³⁾	Loan Amount	% of Portfolio ⁽³⁾
			<i>(Ps. millions, except percentages)</i>			
Public sector ⁽¹⁾	165,841	15.0%	164,042	16.1%	165,940	18.3%
Private sector:						
Businesses	457,196	41.4%	407,127	40.0%	354,379	39.1%
Individuals ⁽²⁾	481,861	43.6%	445,937	43.8%	385,594	42.6%
Total private sector loans	939,057	85.0%	853,063	83.9%	739,974	81.7%
Total loans	1,104,898	100.0%	1,017,105	100.0%	905,914	100.0%

(1) Includes loans supported by the full faith and credit of the Mexican government.

(2) Includes loans to individuals for business activities as well as mortgage, credit card and other consumer loans.

(3) Percentage of portfolio equals the relevant loan amount divided by the sum of total loans.

	As of December 31,	
	2021	
	Loan Amount	% of Portfolio ⁽³⁾
	<i>(Ps. millions, except percentages)</i>	
Public sector ⁽¹⁾	147,888	18.2%
Private sector:		
Businesses	327,262	40.4%
Individuals ⁽²⁾	335,546	41.4%
Total private sector loans	662,808	81.8%
Total loans	810,697	100.0%

(1) Includes loans supported by the full faith and credit of the Mexican government.

(2) Includes loans to individuals for business activities as well as mortgage, credit card and other consumer loans.

(3) Percentage of portfolio equals the relevant loan amount divided by the sum of total loans.

Loans by Economic Activity

During the last few years, we have focused our lending activities towards those sectors of the Mexican economy which we believe, within the context of our overall risk management policies, have the greatest potential for growth. In addition, we have attempted to reduce our risk by diversifying our loan portfolio among a greater number of customers and within a larger geographic area in Mexico.

By December 31, 2022, the total balance of our mortgage loan portfolio increased by Ps. 26,261 million, or 13.0%, mainly due to higher levels of mortgage loans. As of December 31, 2023, our mortgage loan portfolio totaled Ps. 255,315 million, representing an increase of Ps. 26,518 million, or 11.6%, from the mortgage loan balance as of December 31, 2022. This increase was mainly the result of:

- 23% of new lending increase in 2022 compared to 2021 (46,750 million in 2021 vs 57,492 million in 2022).
- Intense “mortgages improvement strategy” and strategic campaigns with no cost of appraisal and origination fee implemented during all year.
- During 2022 the mortgages loan rate for premium customers was 8.00%, it was the most competitive rate into the market.
- Intense retention strategy.
- The attrition rate was approximately of (1.03%).
- Mortgage loans represented 25.1%, 25.3% and 25.0%, respectively, of our total loan portfolio as of December 31, 2023, 2022 and 2021, respectively.

As of December 31, 2023, our government loans decreased by Ps. 1,898 million, or 1.1%, construction and real estate development loans decreased by Ps. 843 million, or 2.2% and our mortgage loans increased by Ps. 26,518 million, or 11.6%.

During the nine-month period ended September 30, 2024, our government loans increased by Ps. 1,799 million, or 1.1%, construction and real estate development loans increased by Ps. 2,885 million, or 7.7% and our mortgage loans increased by Ps. 13,492 million, or 5.3% from the loan balance as of December 31, 2023.

The following table sets forth an analysis of our loan portfolio's composition at the dates indicated according to the borrower's principal economic activity:

	As of September 30,		As of December 31,			
	2024		2023		2022	
	Loan Amount	% of Portfolio (5)	Loan Amount	% of Portfolio (5)	Loan Amount	% of Portfolio (5)
<i>(Ps. millions, except percentages)</i>						
Economic Activity ⁽¹⁾:						
Mortgages.....	268,807	24.3%	255,315	25.1%	228,797	25.3%
Social and community services ⁽²⁾	48,791	4.4%	44,723	4.4%	32,408	3.6%
Manufacturing	54,261	4.9%	49,180	4.8%	44,658	4.9%
Construction and real estate development.....	40,419	3.7%	37,535	3.7%	38,377	4.2%
Commercial activities ⁽³⁾	136,862	12.4%	106,683	10.5%	92,515	10.2%
Credit card	66,780	6.0%	60,107	5.9%	46,236	5.1%
Financial services ⁽⁴⁾	118,488	10.7%	104,833	10.3%	90,279	10.0%
Energy and utilities.....	8,198	0.7%	12,819	1.3%	9,884	1.1%
Agriculture, forestry and livestock	11,823	1.1%	11,882	1.2%	10,792	1.2%
Mining	2,094	0.2%	1,873	0.2%	2,445	0.3%
Transportation and communication ...	48,102	4.4%	48,140	4.7%	41,940	4.6%
Government.....	165,841	15.0%	164,042	16.1%	165,940	18.3%
INB commercial portfolio.....	-	0.0%	-	0.0%	-	0.0%
Other consumer loans.....	134,432	12.2%	119,973	11.8%	101,640	11.2%
ADE	-	0.0%	-	0.0%	-	0.0%
Fid. FCICK16-1.....	-	0.0%	-	0.0%	-	0.0%
Total loan portfolio.....	1,104,898	100.0%	1,017,105	100.0%	905,914	100.0%

- (1) The loan amounts set out in the above table include accrued interest and Stage 3 loans.
(2) Includes certain loans to the public sector and to educational and cultural institutions.
(3) Includes loans for commercial activities not directly related to manufacturing.
(4) Includes credit extended to financial institutions and unincorporated businesses except for credit exposures connected to leasing and factoring.
(5) Percentage of portfolio equals the relevant loan amount by economic activity divided by the sum of total loans.

	As of December 31, 2021	
	Loan Amount	% of Portfolio (5)
<i>(Ps. millions, except percentages)</i>		
Economic Activity ⁽¹⁾:		
Mortgages.....	202,536	25.0%
Social and community services ⁽²⁾	35,369	4.4%
Manufacturing	43,141	5.3%
Construction and real estate development	35,291	4.4%
Commercial activities ⁽³⁾	80,603	9.9%
Credit card.....	40,451	5.0%
Financial services ⁽⁴⁾	76,034	9.4%
Energy and utilities.....	10,600	1.3%
Agriculture, forestry and livestock	9,755	1.2%
Mining	3,966	0.5%
Transportation and communication	40,543	5.0%
Government.....	147,888	18.2%
INB commercial portfolio	-	0.0%
Other consumer loans	84,436	10.4%
ADE	-	0.0%
Fid. FCICK16-1	83	0.0%
Total loan portfolio.....	810,697	100.0%

- (1) The loan amounts set out in the above table include accrued interest and non-performing loans.
- (2) Includes certain loans to the public sector and to educational and cultural institutions.
- (3) Includes loans for commercial activities not directly related to manufacturing.
- (4) Includes credit extended to financial institutions and unincorporated businesses except for credit exposures connected to leasing and factoring.
- (5) Percentage of portfolio equals the relevant loan amount by economic activity divided by the sum of total loans.

Our loan portfolio is characterized by seasonal variations in loan demand and in outstanding loan balances. For example, heavy demand for agricultural financing drives increases in outstanding loan balances from May through July of each year. In addition, the Mexican economy has historically experienced large increases in economic activity during the second half of the year, resulting in significant demand for working capital and inventory financing during the period from September through November and for consumer loan balances from November through January.

Maturity Composition of the Loan Portfolio

The following tables set forth an analysis with reference to time remaining to maturity of our loan portfolio, as of September 30, 2024 and as of December 31, 2023, 2022 and 2021:

	As of September 30,		As of December 31,			
	2024		2023		2022	
	Loan Amount	% of Portfolio (3)	Loan Amount	% of Portfolio (3)	Loan Amount	% of Portfolio (3)
<i>(Ps. millions, except percentages)</i>						
Due within 1 year ⁽¹⁾	220,453	20.0%	193,266	19.0%	165,934	18.3%
Between 1 and 5 years ⁽¹⁾	345,046	31.2%	304,536	29.9%	255,764	28.2%
Over 5 years ⁽¹⁾	528,974	47.9%	509,298	50.1%	475,073	52.4%
Sub-total loans	1,094,473	99.1%	1,007,099	99.0%	896,771	99.0%
Stage 3 loans	10,425	0.9%	10,006	1.0%	9,143	1.0%
ADE	-	-	-	-	-	-
Total loan portfolio ⁽²⁾	1,104,898	100.0%	1,017,105	100.0%	905,914	100.0%

- (1) These loans may be prepaid.
- (2) Maturity composition is based on the period remaining to the maturity of the loans.
- (3) Percentage of portfolio equals the relevant loan amount by currency divided by the sum of total loans.

	As of December 31,	
	2021	
	Loan Amount	% of Portfolio (3)
<i>(Ps. millions, except percentages)</i>		
Due within 1 year ⁽¹⁾	136,249	16.8%
Between 1 and 5 years ⁽¹⁾	225,743	27.8%
Over 5 years ⁽¹⁾	440,869	54.4%
Sub-total loans	802,861	99.0%
Non-performing loans	7,836	1.0%
ADE	-	-
Total loan portfolio ⁽²⁾	810,697	100.0%

- (1) These loans may be prepaid.
- (2) Maturity composition is based on the period remaining to the maturity of the loans.
- (3) Percentage of portfolio equals the relevant loan amount by currency divided by the sum of total loans.

From December 31, 2022, to December 31, 2023, our loans due within one year increased by Ps. 27,332 million, or 16.5%. From December 31, 2023, to September 30, 2024, such loans increased by Ps. 27,187 million, or 14.1%.

For the nine-month period ended September 30, 2024, and for the years ended December 31, 2023, 2022 and 2021, our loans with a maturity of over five years decreased as a percentage of total loans. These trends are the result of changes in interest rates, economic uncertainty, and a shift in both borrower preferences and the Bank's risk management strategies.

Higher interest rates have made long-term borrowing more expensive, leading both borrowers and the Bank to favor shorter-term loans. Additionally, even though the amount of such loans has increased, the Bank's focus on managing liquidity risks and responding to fluctuating market conditions has further reduced its appetite for loans with maturities exceeding five years compared to loans within one year.

Interest Rate Sensitivity of Outstanding Loans

Every 28 days the interest rates of the majority of our Peso-denominated loans have rates that are determined by reference to a marginal variable rate. Following the establishment of the THIE on March 20, 1995, we began pricing loans based on the THIE.

The following table presents the interest rate sensitivity of our outstanding loan portfolio at the dates indicated:

	As of September 30, 2024	As of December 31, 2023	As of December 31, 2022
		(Ps. millions)	
Fixed-rate	599,142	470,994	408,284
Variable rate	495,331	536,104	488,486
Total loan portfolio	1,094,473	1,007,099	896,771
Stage 3 loans	10,425	10,006	9,143
Allowances for loan losses	(18,950)	(18,749)	(16,961)
Net total loan portfolio ⁽¹⁾	1,085,948	998,356	888,953

(1) The loan amounts set out in the above table include accrued interest.

	As of December 31, 2021 (Ps. millions)
Fixed-rate	370,616
Variable rate	432,245
Total loan portfolio	802,861
Non-performing loans	7,836
Allowances for loan losses	(15,744)
Net total loan portfolio ⁽¹⁾	794,953

(1) The loan amounts set out in the above table include accrued interest.

Non-Performing and Stage 3 Loan Portfolio

In assessing the performance of our loan portfolio, we have reviewed both the outstanding amount of our non-performing and Stage 3 loan portfolio, as well as the classification of loans using the loan grading system set forth under the General Rules Applicable to Mexican Banks. In accordance with the practice of most Mexican banks, we have traditionally monitored the performance of our loan portfolio by reference to our *cartera vencida*, or non-performing and Stage 3 loan portfolio.

Pursuant to Mexican Banking GAAP, we recognize the entire principal amount and accrued but unpaid interest of a loan as “non-performing” and “Stage 3” in accordance with the following criteria:

- in the case of loans where the principal and interest are payable in a single installment, 30 days after a payment becomes due;
- in the case of loans where the principal are payable in a single installment with periodic interest payments, 90 days after an interest payment is missed or 30 days after a principal payment is missed;
- in the case of loans where the principal and interest are payable in periodic installments, 90 days after a payment is missed;
- in the case of revolving loans, 60 days after a missed payment;
- in the case of mortgage loans, 90 days after a missed payment;
- in the case of credit card loans, after two consecutive payments are missed; and
- in the case of checking accounts, when an overdraft occurs.

In addition, unpaid balances of loans are considered “non-performing” and “Stage 3” when a borrower has declared bankruptcy. Restructured loans are considered “non-performing” and “Stage 3” until we have received payment for three consecutive monthly periods, or one installment payment in cases where the installment period is greater than 60 days. Loans with an extended maturity date in which the borrower has not paid the accrued interest and at least 25% of the original principal amount when due will be considered “non-performing” and Stage 3 so long as there is no evidence of sustained payment.

Accrued interest recorded as non-performing or Stage 3 interest and included in income becomes part of our total classifiable credit portfolio and is subject to the loan loss reserve requirements of the credit portfolio grading system, as described under “—Grading of Loan Portfolio.” The amount of the loan loss allowance for possible credit risk is based upon the grade assigned to the underlying loan.

The non-performing and Stage 3 loan portfolio may include credits that our management views as involving different risk levels and that are accordingly graded for regulatory purposes in categories ranging from “A” to “E.” See “—Grading of Loan Portfolio.”

As of September 30, 2024, the total amount of Stage 3 loans was Ps. 10,425 million, which represented 0.9% of total loans. Of this amount, Ps. 378 million, or 3.6%, of the total amount of Stage 3 loans represented non-performing or Stage 3 interest. The total amount of Stage 3 loans increased by Ps. 419 million, or 4.2%, during the nine-month period ended September 30, 2024, out of which business loans represented Ps. 806 million, which was offset by a decrease in consumer loans for Ps. 253 million.

As of December 31, 2023, the total amount of Stage 3 loans was Ps. 10,006 million, which represented 1.0% of total loans. Of this amount, Ps. 368 million, or 3.7%, of the total amount of Stage 3 loans represented non-performing or Stage 3 interest. The total amount of Stage 3 loans increased by Ps. 863 million, or 9.4%, during the year ended December 31, 2023, out of which business loans represented Ps. (867) million and consumer loans represented Ps. 1,292 million.

As of December 31, 2022, the total amount of Stage 3 loans was Ps. 9,143, or 1.0% of total loans. Of this amount, Ps. 355 million, or 3.9%, of the total amount of Stage 3 loans represented non-performing or Stage 3 interest.

As of December 31, 2021, the total amount of non-performing loans was Ps. 7,836, or 1.0% of total loans. Of this amount, Ps. 360 million, or 4.6%, of the total amount of non-performing loans represented non-performing interest.

The following tables set forth an analysis of our Stage 3 loans (including non-performing interest) by type of loan at the dates indicated:

	As of September 30, 2024	As of December 31, 2023 2022 (Ps. millions)	
Stage 3 Loans			
Commercial, Corporate and Government loans:			
Collateralized or guaranteed	2,197	1,441	2,169
Unsecured	1,624	1,568	1,581
Total commercial, corporate and government loans	3,821	3,009	3,750
Consumer loans:			
Residential Mortgage	2,037	2,177	1,865
Credit card	2,038	1,968	1,108
Other consumer credit	2,529	2,852	2,420
Total consumer loans	6,604	6,997	5,393
Total Stage 3 loans	10,425	10,006	9,143
Allowance for loan losses	(18,950)	(18,749)	(16,961)
Total Stage 3 portfolio net of allowance for loan losses	(8,525)	(8,743)	(7,818)

	As of December 31, 2021
	(Ps. millions)
Non-Performing Loans	
Commercial, Corporate and Government loans:	
Collateralized or guaranteed	1,161
Unsecured	1,582
Total commercial, corporate and government loans	2,743
Consumer loans:	
Residential Mortgage	2,077
Credit card	1,343
Other consumer credit	1,675
Total consumer loans	5,095
Total non-performing loans	7,837
Allowance for loan losses	(15,744)
Total non-performing and Stage 3 portfolio net of allowance for loan losses	(7,907)

Grading of Loan Portfolio

We classify our loan portfolio according to the rules issued by the CNBV and by the methodology established by the CNBV. Such regulations establish the general methodology for grading our loan portfolio and estimating the loan loss allowance for each type of loan.

The commercial loan portfolio grading procedure requires that credit institutions apply the established methodology 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 may apply to the respective loan the grading methodology used at the close of the immediately preceding quarter, based on the outstanding balance of such loan in effect on the last day of the aforementioned months. The allowances for loan losses that have exceeded the amount required to grade the loan will be canceled against the period's results on the date of the following quarterly grading, additionally, recoveries on the previously written-off loan portfolios are recorded in the period's results.

General Description of Rules Established by the CNBV

The rules for grading consumer, mortgage and commercial loans (other than loans for investment projects having their own source of payment) provided that the loan losses allowance for such loans should be determined based on an estimate of the loan's expected loss over the next twelve-month period. The grading methodology requires that the estimation of such loss takes into consideration the probability of a default, the loss given default and the exposure at default. The result of multiplying these three factors is the estimated expected loan loss that is the same as the amount of the reserves needed in order to cover the loan loss.

The probability of default, the loss given default and the exposure at default are determined by type of loan considering the following:

- Probability of Default:
 - For non-revolving consumer loans, the probability of default is determined based on the number of days past due, the payments made on outstanding balances, the loan to asset value ratio, the type of consumer loan and the term to maturity, among others.
 - For revolving consumer loans, the probability of default is determined based on the current situation and historical behavior of the borrower regarding the number of past due payments, number of days past due, the payments made on outstanding balances, as well as the percentage of utilization of the authorized line of credit.
 - For mortgage loans, the probability of default is determined based on the number of days past due, highest number of past due payments over the last four periods, the borrower's willingness to pay and the loan to asset value ratio.

- For commercial loans, the probability of default is determined based on the type of borrower, the borrower's historical payment behavior, payment history with Infonavit, rating agencies' evaluation, financial risk, social-economical risk, financial soundness, country and industry risk, market positioning, transparency, standards and corporate governance.
- Loss Given Default
 - For consumer loans (non-revolving and revolving), the loss given default is determined based on the number of past due payments.
 - For mortgage loans, the loss given default is determined based on the outstanding balance of the mortgage loan, unemployment insurance and the state where the loan was granted.
 - For commercial loans, the loss given default is determined based on the value of the financial and non-financial collateral securing the loan, as well as guarantees granted by the borrower.
- Exposure at Default
 - For non-revolving consumer loans, the exposure at default is determined based on the outstanding loan balance as of the grading date.
 - For revolving consumer loans, the exposure at default is determined based on the current percentage of utilization of the authorized line of credit line, which is used to estimate how much such utilization would increase in the event of a default.
 - For mortgage loans, the exposure at default is determined based on the outstanding loan balance as of the grading date.
 - For commercial loans, the exposure at default (i) in the case of uncommitted lines of credit, it is determined based on the outstanding loan balance as of the grading date and (ii) in the case of committed lines of credit, it is determined based on the current percentage of utilization of the authorized line of credit, which is used to estimate how much such utilization would increase in the event of a default.

The regulatory loan classification and grading rules establish the following categories corresponding to levels of risk based on allowance percentage: Grade "A" loans, representing minimal risk of non-payment; grade "B" loans, representing low risk loans; grade "C" loans, representing loans with moderated risk; grade "D" loans, representing high risk loan; grade "E" loans, representing non-collectible loans.

% of Allowance for Loan Loss Reserves				
Risk Levels	Consumer Loans		Mortgage Loans	Commercial Loans
	Non Revolving	Revolving		
A-1	0 to 2.0	0 to 3.0	0 to 0.50	0 to 0.9
A-2	2.01 to 3.0	3.01 to 5.0	0.501 to 0.75	0.901 to 1.5
B-1.....	3.01 to 4.0	5.01 to 6.5	0.751 to 1.0	1.501 to 2.0
B-2.....	4.01 to 5.0	6.51 to 8.0	1.001 to 1.50	2.001 to 2.50
B-3.....	5.01 to 6.0	8.01 to 10.0	1.501 to 2.0	2.501 to 5.0
C-1.....	6.01 to 8.0	10.01 to 15.0	2.001 to 5.0	5.001 to 10.0
C-2.....	8.01 to 15.0	15.01 to 35.0	5.001 to 10.0	10.001 to 15.5
D.....	15.01 to 35.0	35.01 to 75.0	10.001 to 40.0	15.501 to 45.0
E.....	35.01 to 100.0	> 75.01	40.001 to 100.0	> 45.0

As of December 31, 2022 and December 31, 2023, the aggregate outstanding principal amount of our 15 largest loans (including loan exposures to a single corporate group or to an agency of the Mexican government) represented 18.3% and 15.8%, respectively, of our total loans. The largest single loan exposure by December 31, 2023 and September 30, 2024(excluding the Mexican government and our affiliates) accounted for 8.5% and 12.3% of our stockholders' equity, respectively.

The following table analyzes the grading of our commercial loan portfolio at the dates indicated. In accordance with the CNBV rules, loans are graded based on their outstanding balance at the end of the reported update. This table excludes loans to the Mexican federal government and the Mexican Central Bank or to any party that is guaranteed by these institutions,

but includes accrued interest, non-performing or Stage 3 interest and our off-balance sheet commitments (such as guarantees and letters of credit).

	As of September 30,		As of December 31,			
	2024		2023		2022	
	Amount	%	Amount	%	Amount	%
Total graded loans:			<i>(Ps. millions, except percentages)</i>			
A	1,024,567	89.1%	935,825	88.6%	840,419	89.8%
B	77,631	6.8%	73,081	6.9%	60,786	6.5%
C	31,564	2.7%	28,914	2.7%	19,861	2.1%
D	7,925	0.7%	9,678	0.9%	7,659	0.8%
E	7,610	0.7%	8,264	0.8%	7,643	0.8%
Total graded loans ⁽¹⁾	1,149,297	100.0%	1,055,762	100.0%	936,368	100.0%
Allowance grading of our loans:						
Additional allowances derived from grading:						
Commercial loans	4,148	21.9%	4,342	23.2%	4,789	28.2%
Mortgage loans	1,261	6.7%	1,252	6.7%	1,035	6.1%
Credit card	5,796	30.6%	5,234	27.9%	4,655	27.4%
Other consumer loans	7,177	37.9%	7,352	39.2%	5,784	34.1%
Stage 3 interest	-	0.0%	-	0.0%	-	0.0%
Excess over minimum regulatory requirements	568	3.0%	569	3.0%	700	4.1%
Total allowance for loan losses	18,950	100.0%	18,749	100.0%	16,961	100.0%
Total loans graded C, D or E	47,099	-	46,856	-	35,163	-
Allowances as a percentage of:						
Graded loans		1.6%		1.8%		1.8%
Total loans plus interest ⁽²⁾		1.7%		1.8%		1.9%
Total Stage 3 amounts		181.8%		187.4%		185.5%
Total loans graded C, D or E		40.2%		40.0%		48.2%
Total Stage 3 amounts as a percentage of total loans plus interest ⁽²⁾		0.9%		1.0%		1.0%
Total net Stage 3 loans (Stage 3 amounts less allowance) as percentage of net total loans plus interest		(0.8%)		(0.9%)		(0.9%)
Total loans graded C, D or E as a percentage of total loans		4.3%		4.6%		3.9%

(1) Total graded loans include our surety bonds and stand-by letters of credit, which are not included in the balance sheet.

(2) Interest includes non-performing or Stage 3 and outstanding interest.

As of December 31,		
2021		
	Amount	%
(Ps. millions, except percentages)		
Total graded loans:		
A	737,414	88.2%
B	63,110	7.5%
C	23,980	2.9%
D	7,990	1.0%
E	3,967	0.5%
Total graded loans ⁽¹⁾	836,461	100.0%
Allowance grading of our loans:		
Additional allowances derived from grading:		
Commercial loans	4,110	26.1%
Mortgage loans	1,076	6.8%
Credit card	3,674	23.3%
Other consumer loans	4,485	28.5%
Non-performing interest	186	1.2%
Excess over minimum regulatory requirements	2,213	14.1%
Total allowance for loan losses	15,744	100.0%
Total loans graded C, D or E	35,937	-
Allowances as a percentage of:		
Graded loans		1.9%
Total loans plus interest ⁽²⁾		1.9%
Total non-performing amounts		200.9%
Total loans graded C, D or E		43.8%
Total non-performing amounts as a percentage of total loans plus interest ⁽²⁾		1.0%
Total net non-performing loans (non-performing amounts less allowance) as percentage of net total loans plus interest		(1.0%)
Total loans graded C, D or E as a percentage of total loans		4.4%

(1) Total graded loans include our surety bonds and stand-by letters of credit, which are not included in the balance sheet.

(2) Interest includes non-performing and outstanding interest.

Allowance for Loan Losses

We provide for possible loan losses in accordance with the Loan Classification and Rating Rules as required by the CNBV and currently we are in compliance with the allowance for losses required to be set aside by such rules. The grading of loans determines the amount of the allowance for loan losses required to be set aside, which is determined based on the percent of the outstanding balance of such loans depending on their type of portfolio: between 0.0% and 0.99% for Grade “A” loans, between 1% and 19.99% for Grade “B” loans, between 20% and 59.99% for Grade “C” loans, between 60% and 89.99% for Grade “D” loans and between 90% and 100% for Grade “E” loans. Mexican government and the Mexican Central Bank loans or loans to a third party guaranteed by these institutions are not subject to the grading system and are effectively deemed to be Grade “A” loans for loan loss allowance purposes. See *“Risk Factors—Risks Relating to Our Business—We maintain lower levels of capital or reserves in connection with our loans to Mexican federal, state and municipal governments.”* The loan loss reserves are held in a separate account on our balance sheet and all write-offs of uncollectible loans are charged against this reserve. Mexican banks are required to obtain authorization from their boards of directors in order to write off loans. In addition, Mexican banks are required to inform the CNBV after such write-offs have been recorded.

During the nine-month period ended September 30, 2024, we recorded net provisions from liberation of reserves charged against earnings totaling Ps. 14,142 million. For the year ended December 31, 2023, we recorded net provisions from liberation of reserves charged against earnings totaling Ps. 15,782 million. Consequently, our allowance for loan losses amounted to Ps. 18,749 of Stage 3 loans as of December 31, 2023 compared to Ps. 16,961 as of December 31, 2022.

Analysis of Allowance for Loan Losses

The following table analyzes our allowance for loan losses and movements in loan charge-offs and recoveries for the periods indicated, as well as changes to income and period-end allowances for loan losses:

	For the nine-month period ended September 30, 2024	For the year ended December 31, 2023	For the year ended December 31, 2022
		<i>(Ps. millions)</i>	
Balance at beginning of year	18,749	16,961	15,744
Increase:			
Allowances charged to income	16,067	19,590	14,655
Appreciation of foreign currency items and UDIs	108	-	-
Recognized against retained earnings from prior years.....	-	-	662
Loan Purchase.....	-	-	-
Other	-	-	-
Sub-total.....	16,175	19,590	15,317
Decrease:			
Benefits and reductions granted to UDI loan programs	(39)	(31)	(15)
Losses and write-offs	(15,935)	(17,662)	(14,043)
Valuation of foreign currencies and UDIs.....	-	-	-
Other	-	(109)	(42)
Sub-total.....	(15,974)	(17,802)	(14,100)
Balance at year end	18,950	18,749	16,961

	For the year ended December 31, 2021
	<i>(Ps. millions)</i>
Balance at beginning of year	19,464
Increase:	
Allowances charged to income	13,745
Appreciation of foreign currency items and UDIs	-
Recognized against retained earnings from prior years.....	-
Loan Purchase.....	-
Other	13
Sub-total.....	13,758
Decrease:	
Benefits and reductions granted to UDI loan programs	(8)
Losses and write-offs	(17,470)
Valuation of foreign currencies and UDIs	-
Other	-
Sub-total.....	(17,478)
Balance at year end	15,744

Allocation of Allowance for Loan Losses by Category

	As of September 30,		As of December 31,			
	2024		2023		2022	
	Allowance	%	Allowance	%	Allowance	%
	<i>(Ps. millions, except percentages)</i>					
Commercial, financial and agricultural	4,148	21.9%	4,342	23.2%	4,789	28.2%
Residential mortgages	1,261	6.7%	1,252	6.7%	1,035	6.1%
Credit card	5,796	30.6%	5,234	27.9%	4,655	27.4%
Other consumer loans	7,177	37.9%	7,352	39.2%	5,784	34.1%
Stage 3 interest	-	0.0%	-	0.0%	-	0.0%
Excess over minimum regulatory requirements	568	3.0%	569	3.0%	700	4.1%
Total	18,950	100.0%	18,749	100.0%	16,961	100.0%

	As of December 31,	
	2021	
	Allowance	%
	<i>(Ps. millions, except percentages)</i>	
Commercial, financial and agricultural	4,110	26.1%
Residential mortgages	1,076	6.8%
Credit card	3,675	23.3%
Other consumer loans	4,485	28.5%
Non-performing interest	186	1.2%
Excess over minimum regulatory requirements	2,213	14.1%
Total	15,744	100.0%

Rules for the UDI Trusts require a minimum level of loan loss allowance based upon the Loan Classification and Rating Rules in the case of commercial loans, and in the case of mortgage loans the greater of the minimum required by the Loan Classification and Rating Rules or the percentage required under methodologies approved by the CNBV. This loan loss allowance forms part of the loan loss allowance shown in our Financial Statements included elsewhere in this offering memorandum.

Foreclosed Real Estate and Other Assets

As of September 30, 2024, the book value of real estate and non-real estate assets on which we foreclosed totaled Ps. 6,605 million and Ps. 2 million, respectively, an increase of 2.3% and an increase of 100%, respectively, from December 31, 2023.

As of December 31, 2023, the book value of real estate and non-real estate assets on which we foreclosed totaled Ps. 6,448 million and Ps. 1 million, respectively, an increase of 43.0% and a flat movement, respectively, from December 31, 2022.

Under the CNBV regulations, Mexican banks that are awarded title to foreclosed property in a judicial auction are required to account for such property at the lesser of the amount set in the auction and the appraised value. Real estate assets we received in a negotiated settlement with the borrower are required to be recorded at the lower of the appraised value of the property and the amount of the loan recorded in such settlement. Pursuant to CNBV rules, the loss in the value of foreclosed assets is recognized on the basis of the amount of time that has elapsed following the foreclosure proceedings or settlement.

The following table analyzes as of September 30, 2024 the ranges of elapsed times and the applicable provision for losses in connection with foreclosed real estate and other assets:

Other Foreclosed Assets	
Time Elapsed Since Foreclosure or Settlement (months)	% of Loss Reserve
up to 6.....	0.0%
6 to 12.....	10.0%
12 to 18.....	20.0%
18 to 24.....	45.0%
24 to 30.....	60.0%
More than 30	100.0%

Foreclosed Real Estate Assets	
Time Elapsed Since Foreclosure or Settlement (months)	% of Loss Reserve
up to 12.....	0.0%
12 to 24.....	10.0%
24 to 30.....	15.0%
30 to 36.....	25.0%
36 to 42.....	30.0%
42 to 48.....	35.0%
48 to 54.....	40.0%
54 to 60.....	50.0%
More than 60.....	100.0%

We have a special division that administers foreclosed real estate and manages all activities related to the administration, marketing and sale of properties.

The following tables set forth, by type of property, the book value of foreclosed real estate and non-real estate assets at the periods indicated. The book value does not include the assets foreclosed from credits sold to the Banking Fund for Savings Protection (*Fondo Bancario de Protección al Ahorro*) (“FOBAPROA”) and the IPAB.

	As of September 30, 2024	As of December 31, 2023 2022	
		(Ps. millions)	
Real estate:			
Rural land.....	485	462	322
Urban land.....	2,451	2,453	2,629
Single-family houses.....	871	827	859
Condominiums.....	2,238	44	26
Industrial plants.....	249	177	167
Commercial buildings.....	134	135	139
Other	176	2,351	367
Sub-total.....	6,605	6,448	4,508
Non-real estate.....	2	1	1
Provisions for losses.....	(1,715)	(1,658)	(1,665)
Total	4,892	4,792	2,844

	As of December 31, 2021 (Ps. millions)
Real estate:	
Rural land.....	319
Urban land.....	1,319
Single-family houses.....	918
Condominiums.....	15
Industrial plants.....	1,670
Commercial buildings.....	176
Other.....	404
Sub-total.....	3,320
Non-real estate.....	4
Provisions for losses.....	(1,607)
Total.....	1,717

Restructuring of Loans

When a loan is considered to have Stage 3 credit risk, the balance pending amortization of transaction costs, as well as commissions charged for the initial granting, restructuring, and renewal of credits, along with interest collected in advance, are recognized in the results. If applicable, any profit or loss effect from renegotiation pending amortization is applied against the current year's results.

Restructured or renewed loans are moved to the next immediate risk stage until there is evidence of sustained payment, which is defined as the Bank receiving three consecutive full payments on time for loans with amortization periods of 61 to 90 days, two payments for loans with amortization covering 61 to 90 days, or one full payment for loans where the amortization period exceeds 90 days.

For restructured credits renewed with a single principal payment at maturity, regardless of whether interest payments are periodic or due at maturity, sustained payment is considered to occur when the debtor has covered at least 20% of the original loan amount at the time of restructuring or renewal or has paid the accrued interest according to the restructuring scheme for a period of 90 days, with this period fully elapsed.

When a loan is restructured in Stage 1 or 2 and remains within one of these stages, the effect of renegotiation is calculated as follows:

- a) The book value of the loan, corresponding to the amortized cost at the renegotiation date, is established,
- b) The new future cash flows on the partially restructured or renewed amount are calculated, discounted at the original effective interest rate,
- c) The difference between the book value and the discounted cash flows calculated in (b) is recognized as a deferred charge or credit against the profit or loss from loan portfolio renegotiation in the statement of comprehensive income.

The determination of profit or loss from renegotiation does not apply to credit cards or loans with Stage 3 credit risk. If the Bank renews a loan, it is considered a new loan, and the previous loan is canceled in the event of a total renewal. Accrued interest during the period when the loan was included in Stage 3 is recognized as income only upon collection, and the recognition of interest income resumes when the portfolio is no longer classified as Stage 3. This occurs when the outstanding balances, including principal, interest, and any other items, are fully paid.

Restructured loans are those with modified terms due to the borrower's financial difficulties, and a concession was granted. These modifications may include interest rate reductions, debt discounts, or term extensions. The Bank regularly assesses whether a Stage 3 loan should remain in the Statement of Financial Position or be written off. Write-offs are executed by canceling the outstanding loan balance against the allowance for loan losses. The Bank may opt to remove from its assets Stage 3 loans that are fully provisioned according to the following parameters:

- Commercial loans: Classified as Stage 3 with an E risk rating, fully reserved, and unsecured.
- Consumer loans: 180 days or more overdue.

- Mortgage loans: 270 days or more overdue.

Write-offs and discounts, that is, amounts forgiven for partial or total loan payment, are recorded with a charge to the allowance for credit risks. If the forgiven amount exceeds the loan's allowance balance, adjustments are made up to the difference. When the allowance for credit risks surpasses the amount required by the General Rules Applicable to Mexican Banks, the excess is canceled in the period it occurs, affecting the allowance for loan losses.

Workout and Credit Recovery

Our workout unit handles debt recovery from borrowers with non-performing and Stage 3 loans. The workout unit focuses on consumer loan recovery, mortgage collections and commercial loan recovery.

Consumer Loan Recovery

As of September 30, 2024, the consumer loan recovery unit managed 159,394 Stage 3 loan accounts involving Ps. 15,419 million. As of December 31, 2023, this unit settled 213,800 Stage 3 loan accounts amounting to more than Ps. 16,460 million. As of December 31, 2022, this unit managed 227,718 accounts involving Ps. 14,500 million. Commencing in 2004, we adopted a policy to write-off Stage 3 consumer loans that are six months or more past due and Stage 3 mortgage loans that are nine months or more past due.

Mortgage Collections

As of September 30, 2024, 133,324 mortgage loans were settled in the aggregate amount of Ps. 4,695 million. For the year ended December 31, 2023, the unit settled 179,218 cases and represented an aggregate amount of Ps. 6,042 million. For the year ended December 31, 2022, the unit settled 183,255 cases and represented an aggregate amount of Ps. 6,301 million.

Commercial Loan Recovery

The commercial loan recovery unit focuses on recovering Stage 3 loans in excess of Ps. 0 million which have missed payments. For the year ended December 31, 2023, this unit had settled 963 loans representing total value of Ps. 3,914 million. As of September 30, 2024, this unit has negotiated 1,264 loans totaling Ps. 7,516 million.

For the year ended December 31, 2022 this unit settled 1,842 cases representing a total value of Ps. 3,212 million.

In the event that the credit recovery unit is unable to reach an agreement with a borrower in respect of Stage 3 loan amounts and the borrower fails to propose terms for an alternative restructuring agreement satisfactory to us, the unit submits the loan to our litigation department for the initiation of legal action to recover the amount outstanding on the loan. Foreclosure proceedings on collateral in Mexico can take a long time. The procedure requires the filing of a written petition with the competent court requesting the court's authorization to complete the foreclosure. This petition and the approval process are generally subject to significant delays and accordingly, the value of the collateral may be negatively affected. Loans with respect to which recovery has been unsuccessful despite the implementation of workout procedures and litigation are charged off.

Comparison of Banorte against Peers

By Loan Performance

The following tables present a comparison of the performance of our loans against those of our peers at the dates indicated:

	As of December 31, 2022	As of December 31, 2023	Nine month period ended September 30, 2024
Stage 3 Ratio			
Banorte	1.0%	1.0%	0.9%
Peer Average	2.2%	2.2%	2.4%
Loan Loss Expense as % of Avg. Gross Loans			
Banorte	1.4%	1.6%	1.7%
Peer Average	1.9%	2.4%	2.6%
Coverage Ratio			
Banorte	185.5%	187.4%	181.8%
Peer Average	166.2%	167.5%	152.2%
Operating Expenses/Total Revenues Pre-Loan Expense			
Banorte	41.1%	38.2%	36.1%
Peer Average	47.1%	46.2%	47.5%
Adjusted NIM/Average Earning Assets			
Banorte	5.1%	5.5%	5.4%
Peer Average	4.4%	4.5%	4.5%
ROA			
Banorte	2.2%	2.5%	2.5%
Peer Average	2.0%	2.0%	2.1%
ROE			
Banorte	24.7%	27.6%	29.0%
Peer Average	18.5%	18.5%	18.6%

BUSINESS

Overview

We are a multiple purpose bank (*institución de banca múltiple*) incorporated as a limited liability corporation (*sociedad anónima*) in accordance with the laws of Mexico and licensed by the SHCP to operate as a commercial bank. We are the largest bank in Mexico in terms of total assets, deposits and stockholders' equity, that is not controlled by or affiliated to a non-Mexican financial institution. As of September 30, 2024, we ranked second among all Mexican banks in terms of loan portfolio, second in core deposits (a combination of demand deposits and time deposits), and third in terms of total assets, in each case, according to information published by the CNBV. With more than 120 years of operation as a financial entity in the Mexican banking sector, we have developed an extensive experience and in-depth knowledge of the Mexican market, providing a full range of banking services to over 12.6 million customers in Mexico as of September 30, 2024.

We are the banking subsidiary of GFNorte, the second largest financial services holding company in Mexico in terms of total assets as of August 31, 2024, according to the latest information published by the CNBV. Through us and its other subsidiaries, GFNorte provides financial and related services primarily in Mexico, including banking products; annuities and insurance products; retirement savings funds; mutual funds; leasing and factoring; warehousing; and a wide array of broker-dealer services, including securities trading, offering and underwriting. We are GFNorte's most significant subsidiary, representing 73.4% of GFNorte's total assets and 60.3% of its total stockholders' equity, as of September 30, 2024.

As of September 30, 2024, we had total assets of Ps. 1,775 billion, total liabilities of Ps. 1,622 billion (including total deposits of Ps. 1,142 billion) and stockholders' equity of Ps. 153 billion. In the nine-month period ended September 30, 2024, we generated net income (Controlling) of Ps. 33,960 million and had a ROAE of 29.0% and a ROAA of 2.5%. In 2023, we generated net income (Controlling) of Ps. 41,946 million and had a ROAE of 27.6% and a ROAA of 2.5%. In 2022, we had a ROAE of 24.7% and a ROAA of 2.2%.

Our Capital Ratios were 19.23% for Total Net Capital, 19.00% for Tier 1 Capital and 13.87% for Core Equity Tier 1 Capital as of September 30, 2024, exceeding the minimum Capital Ratios that we are required to comply with under Mexican banking regulations, which are 14.65%, 9.40% and 7.90%, respectively. These Capital Ratios are inclusive of the Systemically Important Bank Capital Supplement. Given our status as a grade II domestic systemically important bank in Mexico, we are required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90%.

Over the years, we have successfully expanded our banking operations through strategic mergers and acquisitions, as well as consistent organic growth. This expansion has allowed us to increase our market share, especially in loans and deposits, as well as expand our geographic coverage and enhance the diversity and quality of our customer base. We have created a multi-channel network to provide a wide range of commercial and retail banking services, consisting of a network of 1,177 branches, 11,027 ATMs (61.1% of which are located outside of our branches) and 220,337 POSs, in each case, as of September 30, 2024. Our branch network extends throughout Mexico, with a particular focus on the areas with the highest concentration of economic activity, including the Northeast of Mexico and Mexico City. We have processed approximately 543 million transactions in ATMs and digital banking for the nine-month period ended September 30, 2024. We had 28,084 employees as of September 30, 2024.

The following tables present certain of our financial and operating data as of and for the years indicated:

	As of or for the nine-month period ended September 30,		As of or for the year ended December 31,		
	2024	2024	2023	2023	2022
	(U.S.\$ millions, except percentages) ⁽¹⁾	(Ps. millions, except percentages)	(U.S.\$ millions, except percentages) ⁽¹⁾	(Ps. millions, except percentages)	(Ps. millions, except percentages)
Total loan portfolio	56,109	1,104,898	59,947	1,017,105	905,914
Total assets	90,144	1,775,125	99,165	1,682,493	1,552,253
Total deposits	58,012	1,142,380	63,250	1,073,131	918,969
Total liabilities	82,392	1,622,462	90,267	1,531,527	1,407,576
Total stockholders' equity	7,752	152,663	8,898	150,966	144,677
Net income (Controlling) LTM	2,245	44,212	2,472	41,946	34,549
Return on average total assets (ROAA) ⁽²⁾	2.5%	2.5%	2.5%	2.5%	2.2%
Return on average equity (ROAE) ⁽³⁾	29.0%	29.0%	27.6%	27.6%	24.7%
Net interest margin ⁽⁴⁾	6.5%	6.5%	6.4%	6.4%	5.9%

(1) Solely for the convenience of the reader, Peso amounts as of September 30, 2024 have been translated into U.S. dollars at the exchange rate of Ps. 19.6921 per U.S.\$1.00 and as of December 31, 2023 at the exchange rate of Ps. 16.9666 per U.S.\$1.00. See "Exchange Rates and Currency."

(2) For Return on average assets, Net income of the last 12 months divided by the average of total assets, based on end-of-month balances, for the last 12 months.

(3) For Return on average equity, Net income of the last 12 months divided by the average of stockholders' equity, based on end-of-month balances (excluding minority interests), for the last 12 months.

(4) For Net interest margin, Net interest income of the last 12 months divided by the average of total interest-earning assets, based on end-of-month balances, for the last 12 months.

	As of or for the year ended December 31, 2021 <i>(Ps. millions, except percentages)</i>
Total loan portfolio	810,697
Total assets	1,236,490
Total deposits	806,213
Total liabilities	1,091,855
Total stockholders' equity.....	144,635
Net income (Controlling) LTM	26,086
Return on average total assets (ROAA) ⁽²⁾	2.1%
Return on average equity (ROAE) ⁽³⁾	18.6%
Net interest margin ⁽⁴⁾	5.8%

- (1) Solely for the convenience of the reader, Peso amounts as of September 30, 2024 have been translated into U.S. dollars at the exchange rate of Ps. 19.6921 per U.S.\$1.00 and as of December 31, 2023 at the exchange rate of Ps. 16.9666 per U.S.\$1.00. See "Exchange Rates and Currency."
- (2) For Return on average assets, Net income of the last 12 months divided by the average of total assets, based on end-of-month balances, for the last 12 months.
- (3) For Return on average equity, Net income of the last 12 months divided by the average of stockholders' equity, based on end-of-month balances (excluding minority interests), for the last 12 months.
- (4) For Net interest margin, Net interest income of the last 12 months divided by the average of total interest-earning assets, based on end-of-month balances, for the last 12 months.

The following map shows our network of branches in Mexico as of August 31, 2024, according with information published by the CNBV.



The following table sets forth our current market share in each region of Mexico in terms of the criteria specified below as of August 31, 2024.

	Banorte's Market Share							
	North	Central	West	Northwest	Mexico City	Peninsula	South	National
Branches	15.4%	12.8%	8.2%	10.0%	9.9%	8.4%	7.1%	9.9%
ATMs	24.3%	24.3%	14.2%	19.7%	14.1%	14.8%	12.8%	17.2%
Bank employees	30.2%	12.3%	8.3%	11.1%	8.2%	9.2%	6.8%	11.7%

Source: CNBV

Our History

We were founded in 1899 as Banco Mercantil de Monterrey, with a strong regional presence in Northeastern Mexico, particularly in the metropolitan area of Monterrey, Nuevo León, one of the country's most important industrial centers.

Together with other Mexican commercial banks, Banco Mercantil de Monterrey was nationalized by the Mexican government in 1982. In 1986, Banco Mercantil de Monterrey merged with Banco Regional del Norte, another financial institution with headquarters in Monterrey, and became Banco Mercantil del Norte, *Sociedad Nacional de Crédito*. In 1987, under a Mexican government privatization initiative, the government sold approximately 34% of our capital stock to the Mexican public. In 1990, the Mexican Constitution was amended to allow the total privatization of Mexican commercial banks, and the government enacted the Mexican Banking Law, which provided for private ownership of Mexican commercial banks. The privatization of Mexican commercial banks began in 1991.

GFNorte, our parent company, was incorporated in 1992 under the name "Grupo Financiero AFIN, S.A. de C.V." as part of the privatization process of the Mexican banking system. In 1993, our shareholders acquired AFIN through a stock-for-stock exchange. As a result of this exchange, we became a subsidiary of AFIN and AFIN changed its name to "Grupo Financiero Banorte, S.A. de C.V." GFNorte's common shares are publicly traded in the Mexican Stock Exchange (*Bolsa Mexicana de Valores, S.A.B. de C.V.*) and the Institutional Stock Exchange (*Bolsa Institucional de Valores, S.A. de C.V.*) under the ticker symbol "GFNORTEO."

The 1995 Mexican Peso crisis and the entrance of foreign institutions in Mexico prompted a consolidation of the Mexican banking system which resulted in the absorption of many smaller Mexican banks into larger institutions. In September 1997, we acquired Bancentro, increasing our market share in the Central and Western regions of Mexico and adding 195 branches. In August 1997, GFNorte acquired 81% of the shares of Banpaís, and in January 2000, we merged with Banpaís consolidating the banking activities of GFNorte under Banorte and enabling further expansion of our client base, geographical position and national coverage through the addition of 161 branches. In December 2001, GFNorte acquired Bancrecer and in September 2002 we merged with and into Bancrecer. The surviving entity was renamed "Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte."

In 2006, we expanded our operations into the United States, through the acquisition of INB, a regional bank based in Texas with primary presence in the Rio Grande Valley and headquartered in McAllen, Texas. We sold our equity interest in INB in March 2017. Also in 2006, we acquired UniTeller, a New Jersey-based remittances company, and in 2007 we acquired Motran, a money transfer company based in California.

In 2011, GFNorte merged with IXE in a stock-for-stock transaction. IXE conducted its business through its own subsidiaries, the largest one being IXE Banco, a commercial bank in Mexico focusing on middle- and upper-income customers. In 2012, GFNorte expanded its pension fund manager joint venture, first through a merger with Afore XXI, and later in 2013, with the acquisition of Afore Bancomer, resulting in the largest pension fund manager in Mexico. On April 15, 2013 and May 7, 2013, Fincasa, IXE's specialized mortgage lender, received the authorization from the CNBV to be merged with and into us, with Banorte as the surviving entity. On May 2, 2017, we consolidated our credit card operations by merging our wholly-owned subsidiary Banorte-Ixe Tarjetas, S.A. de C.V., SOFOM, E.R, with and into the Bank.

On July 13, 2018, the merger of GFInter into our parent company, GFNorte, became effective. Subsequently, on the same date, Banco Interacciones, the banking subsidiary of GFInter, merged into the Bank. As a result of the Interacciones Merger, at the time we consolidated our position as the fourth largest bank in Mexico in terms of total assets, performing loans and core deposits, according to information published by the CNBV, and we strengthened our government lending business.

On September 1, 2020, Inmobiliaria Interdiseño, S.A. de C.V., Inmobiliaria Mobinter, S.A. de C.V., Inmobiliaria Interorbe, S.A. de C.V. and Inmobiliaria Interin, S.A. de C.V. were merged with and into the Bank, with the Bank as the surviving entity.

On January 25, 2021, the Board of Directors of the Bank approved the spin-off of Banorte USA and the subsequent investment of Banorte USA's assets, including the total shareholders' equity of INBFC and the total shareholders' equity of Uniteller FS in Banorte FS. The spin-off and the transfer of these assets occurred in December 2021. This spin-off did not have any effect on our financial statements because the Bank consolidated both Banorte USA and Banorte FS as of December 31, 2021. Subsequent to the transfer of Uniteller FS and INBFC's assets to Banorte FS, on January 14, 2022, Banorte USA was liquidated.

Competitive Strengths

We believe the following competitive strengths differentiate us from our competitors:

Deep Knowledge of the Mexican Market and Strong Brand Recognition

We are part of GFNorte, which was the second largest financial group in Mexico as of August 31, 2024 in terms of assets and loan portfolio, according to CNBV data. GFNorte has operated in the Mexican financial industry for 38 years under the "Banorte" brand name. We believe GFNorte's long standing history in the Mexican market is recognized by our customers and the public, who associate GFNorte with quality and social responsibility within the Mexican financial industry, based on the various awards received by GFNorte.

From 2022 to 2024, GFNorte was recognized by Institutional Investor as "Most Honored Company in Mexico" and "Most Honored Company in Latin America (excluding Brazil)." GFNorte was also awarded Best CEO, Best CFO, Best IRO, Best IR Team, Best IR Program, Best ESG, and Best Company Board of Directors in 2023 and 2024. In addition, GFNorte was granted the "Best Corporate Governance in Mexico" award from 2021 to 2024 and the "Best Pension Fund in Mexico" award from 2021 to 2023 by World Finance. Euromoney awarded the "Best Service-Domestic, Trade Finance in Mexico" to award to GFNorte in 2024.

Banorte was recognized by World Finance as "Best Retail Bank in Mexico" from 2021 to 2024 as well as "Best SME Bank" and "Best Bank in Mexico" by Global Finance from 2022 to 2025 and in 2024, respectively. The Banker granted us the "Bank of the Year Mexico" award in 2022 and we were also named "Mexico's Best Bank for SME's" by Euromoney in 2024. In addition, we were awarded "Best Mobile Banking App" and "Best Consumer Digital Bank" in Mexico in 2023 by World Finance and "Most Innovative Bank in Latin America" in 2024 by The Banker, highlighting our digital transformation efforts.

GFNorte has an in-depth knowledge of the Mexican market and local efficient decision-making processes that allow us to provide timely, specialized and comprehensive responses to our clients' requests and rapidly adapt to changes in the Mexican banking sector. For instance, during the global financial crisis of 2008, while international groups retrenched to shore up capital, GFNorte seized the opportunity and filled the void by expanding its presence in Mexico. GFNorte focuses on providing comprehensive services to our clients through a multi-product, multi-entity strategy that seeks to meet all of its clients' banking, insurance, retirement saving and brokerage needs.

GFNorte has consolidated itself as a leading player in commercial banking, asset management, insurance and annuities, and brokerage services in Mexico. We are able to do this as a fully integrated financial group. As of August 31, 2024, GFNorte had the largest retirement fund manager (*administradora de fondos para el retiro*) ("Afore") in Mexico in terms of assets under management, with a market share of 19.3% of the pension system managed by Afores.

Leading Market Presence Across Core Businesses

We believe that our leadership position across our core businesses in Mexico allows us to offer a comprehensive suite of financial products and services to our customers, with access to a customer base of over 2,975 corporate clients and over 12.4 million individual customers as of September 30, 2024. This creates important synergies and efficiencies, as well as cross-selling opportunities.

Through the implementation of our organic growth strategy and acquisitions, we have transformed ourselves from being a regional bank with a 2.3% market share in terms of performing loans in 1992 to becoming the second largest bank in Mexico in terms of total assets, performing loans and total deposits, with nationwide presence and a 14.7% market share of total loans as of September 30, 2024, according to the CNBV.

We are the second largest operator of POSs in Mexico (representing a market share of 15.7%), the second in ATMs (representing a market share of 17.2%) and the fifth in branches (representing a market share of 9.9%), according to the CNBV, as of September 30, 2024. As of the same date, we had a 23.5% market share of the government banking sector, the second largest in the Mexican banking system. As of the same date, we had a market share of 19.1% and 14.3% of mortgage loans and commercial loans, both of which represent the second largest share in the Mexican banking system.

Profitable Business Platform Supported by Prudent Risk-Management Practices

We believe that the successful implementation of our business strategy has allowed us to become one of the most profitable banks in Mexico. We have maintained solid financial performance, evidenced by the consistent net income yearly growth we have experienced in 43 out of 51 operating quarters (considering the period from January 2010 through September 2024). During the same period, we maintained a strong capitalization profile and continue to benefit from prudent risk management practices. We serve our customers through an extensive network of branches and ATMs, alternate channels and a contact center with differentiated products and services. Clearly identifiable customer segments in our Retail Banking operations allows us to offer services according to customer-specific profiles and usage channels. This has allowed us to develop and strengthen our banking relationship with our clients, as well as increase our profitability by improving efficiency and following a value-oriented approach.

We plan to maintain a balanced growth profile, emphasizing an efficient use of capital, prudent financial and operational risk management and efficient operations.

Strong Capital Base and Capitalization Ratios

We believe our capital base is strong, as shown by our Capital Ratios, which compare favorably to our peers in both capitalization levels and capital composition. As of September 30, 2024, our Fundamental Capital ratio was 13.87%, Additional Tier 1 Capital was 5.13%, and Total Net Capital ratio was 19.23%. As of August 31, 2024, our Fundamental Capital ratio ranked fourth, Additional Tier 1 Capital ranked highest, and Total Net Capital ratio ranked third among the G-7 Mexican banks, based on CNBV data.

Our Tier 1 Capital ratio was 19.00% as of September 30, 2024 and exceeded by 9.60% the 9.40% minimum required by Mexican banking regulations to be classified as a grade II D-SIB.

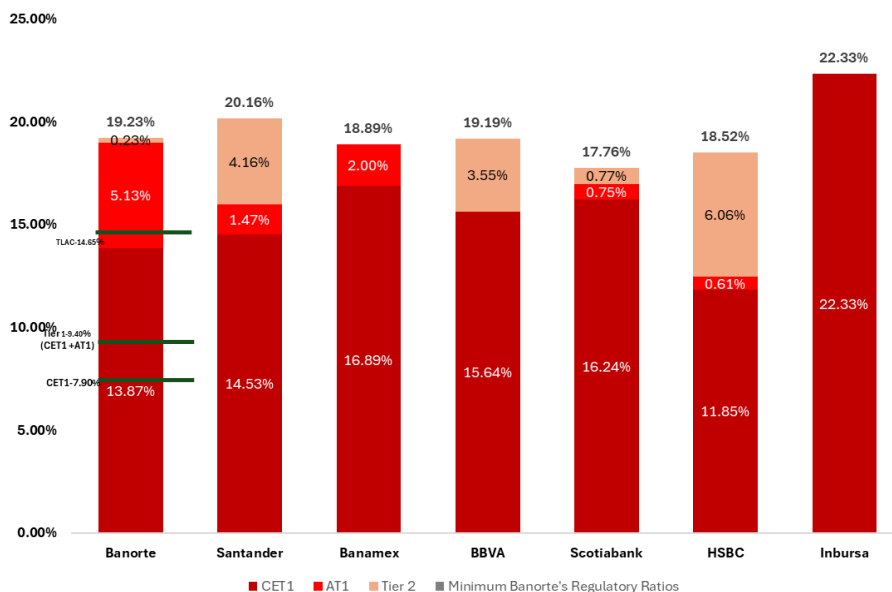
In May 2016, given our status as a grade II D-SIB in Mexico, we were required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90%. We were required to implement and comply with these Capital Supplements in four equal parts in December of each year, on a cumulative basis, from December 31, 2016 through December 31, 2019. In May 2024, the CNBV ratified this requirement, confirmed the Bank as a grade II D-SIB and required us to implement an additional Countercyclical Capital Supplement, which we have estimated would correspond to 0.004%. Given our strong capital base, our Capital Ratios as of September 30, 2024 are well above such Capital Supplement requirements.

On June 18, 2021, an amendment to the banking regulation was published in the Official Gazette, which sets forth that D-SIBs shall maintain an additional Net Capital Supplement that must be in addition to the minimum required Capital Ratios and Capital Conservation Buffer.

The new Net Capital Supplement will correspond to the greater of 6.5% of the total risk weighted assets and 3.75% of the adjusted assets, calculated according to the leverage ratio. The supplement will have a deferred implementation over a period of four years considering 25% of the total supplement per year, starting on December 2022 and ending with 100% of the total supplement by December 2025. As of the date of this offering memorandum, 50% of the Net Capital Supplement is required. For purposes of this offering memorandum, we have assumed that the applicable Net Capital Supplement of the Bank will be calculated based on the 6.5% of the total risk weighted assets as of each of December 31, 2024 and December 31, 2025.

The chart below presents the Capital Ratios for our main competitors by total assets as of September 30, 2024, ranked by Total Capital Ratio.

Capitalization Ratios of Largest Mexican Banks by Total Assets
As of September 30, 2024- Ranked by Total Capital Ratios



Source: Each bank's quarterly release

The tables below set forth the liquidity ratios and leverage ratios of the largest Mexican Banks as of September 30, 2024, as reported by these institutions in their quarterly earnings releases. For Banorte, as of September 30, 2024, the liquidity ratio was 156% and leverage ratio was 10.40%:

	Minimum Ratios	As of September 30, 2024					
		Banorte	Santander	BBVA	Banamex	HSBC	Scotiabank
Liquidity Ratios:							
Liquidity Coefficient Ratio (average)	100%	156%	176%	141%	220%	147%	171%

Source: Each bank's quarterly release

	Minimum Ratios	As of September 30, 2024					
		Banorte	Santander	BBVA	Banamex	HSBC	Scotiabank
Leverage Ratios:							
Leverage Ratio	3%	10.40%	8.08%	10.60%	9.92%	7.61%	8.88%

Source: Each bank's quarterly release

As of September 30, 2024, we reported a Net Stable Funding Ratio of 132%, calculated as total available stable funding divided by the total required stable funding a result that is above the minimum regulatory requirement of 100%.

Expanding Business Platform with a Focus on Customer-Oriented Multi-Channel Banking

We have made significant investments to develop what we believe is one of the broadest integrated financial services platforms in Mexico. Between January 1, 2013, and August 31, 2024, we increased the number of ATMs and POSs by 68.3% and 124.1%, respectively, reaching a total of 10,968 ATMs and 218,024 POSs, ranking second in number of ATMs and in number of POSs in the Mexican banking system. During the same period, we implemented a series of branch consolidations to improve efficiency, ranking third in terms of market share for number of branches. In addition, we have developed electronic distribution channels, such as *Banorte por Internet* and *Banorte Móvil*, which we believe are more cost-effective than traditional physical banking channels and provide a high degree of flexibility and convenience to our customers. As of September 30, 2024, we had approximately 7.0 million active internet banking customers and around 6.5 million of our customers utilized *Banorte Móvil*. We also consider ourselves to be pioneers in offering banking services through third parties in Mexico, reaching a total of 19,500 additional contact points as of September 30, 2024.

Over the years, we have moved from a product-oriented to a customer-oriented business approach. We believe our new focus provides us with more value by generating opportunities and providing our clients with more customized services. In 2013, we entered into a strategic agreement with IBM, which allows us to further align our information systems with our

customer-oriented business philosophy and benefit from increased cross-selling opportunities and a better overall experience for our customers.

Organic Growth and Successful Integration of Acquisitions

Our organic growth has been complemented with focused strategic and transformational acquisitions that have strengthened our market position across our different lines of business. Since 1996, we have consummated over 15 mergers and acquisitions, which have expanded our geographic reach and complemented our product portfolio and the quality of our professionals. We believe this demonstrates our track record of successfully integrating acquisitions into our platforms and our expertise in deriving important scale and efficiency benefits from acquired assets and businesses. Our acquisition strategy has traditionally been centered on:

- assets and businesses that are aligned with our business model and growth strategy;
- transactions that are accretive to earnings;
- operations that offer potential for significant synergies; and
- transactions with limited integration risk and disruption to our business.

Track Record of Product Innovation

We have a history of innovation and new product development that has been instrumental to our growth and competitive position. We have been leaders in the development of the banking sector in Mexico through new product launches. For instance, we introduced a 100% digital mortgage product, providing customers and collaborators full visibility of each stage of the process. Our Banorte mobile app offers streamlined authorization for auto loans, and we have further expanded our digital offerings with highly user-friendly products that can be accessed entirely online within minutes. These include checking accounts, credit cards, payroll loans, and investment funds, allowing customers to select funds based on their risk profiles. Additionally, we provide a wide range of life, protection, and medical insurance options, enabling customers to customize their protection level and additional coverages.

In June 2019, we finalized an agreement with Payclip, Inc. to strengthen our existing business alliance and continue to work together on our digital strategy and technology innovation. Through this alliance, we seek to bring important payment method innovations to the Mexican market and offer our customers easy-to-use, personalized and cutting-edge products.

Our innovations include enabling debit card replacements outside branches through bank correspondents 365 days a year, as well as offering cash withdrawals without a card, not only across Banorte's ATM network but also via bank correspondents. In 2023, we introduced hyper-personalized offers by automating analytical and risk models, and generating images and messages through AI. This has allowed us to create real-time, contextually tailored offers for each customer, fostering stronger customer relationships.

Our recent investments in artificial intelligence and automation have driven substantial improvements in both customer experience and operational efficiency. For instance, "Maya," our virtual assistant, handles over two million messages per month, reinforcing our leadership in AI and significantly enhancing the customer experience.

In 2024, Banorte continued deploying AI-based technology to automate foreign trade document review, which reduces processing times, minimizes human errors, and improves operational efficiency and responsiveness in international trade operations.

At the beginning of 2024 Bineo started its pilot-operation as a 100% owned subsidiary of Grupo Financiero Banorte, becoming the second licensed bank within the financial group, along with Banorte. It is aimed to become the first 100% digital, branchless, and cloud-based bank in Mexico oriented to young professionals, freelancers and unbanked individuals looking for digital financial services. Bineo's digital focus caters to evolving consumer preferences, providing a seamless and user-friendly banking experience and tailored financial solutions. We believe that this initiative will expand GFNorte's customer base, as well as enhance customer loyalty by addressing their needs in the digital age.

Experienced Leadership and Effective Governance

Our operations are supported by an experienced management team. Our senior management team has, on average, 19 years of experience with us and more than 27 years of experience in the financial services industry. In recent years, our management team has integrated multiple large-scale acquisitions and improved our competitive position, including throughout the global financial crisis, to become the third largest bank in Mexico in terms of total assets, generating significant profitability

while maintaining effective risk management and a merit-based corporate culture that permeates all levels of our organization. As a consequence of these acquisitions, key employees of acquired companies have remained with our organization, adding to our team's knowledge and expertise. We are also focused on attracting, developing and maintaining highly qualified personnel.

In addition, our Board of Directors is composed of a majority of independent directors (currently 61.5%), which ensures collegial decision-making for the benefit of our stakeholders. We also have several supporting committees, including an audit committee and a risk policies committee, each chaired by directors with recognized experience, the chairman of the audit committee being independent. The board composition also seeks to align with ESG standards, striving towards adequate gender diversity which currently stands at 15%. Similarly, our Board of Directors must constantly line up with GFNorte's strategy. Our corporate governance model not only complies with applicable standards but seeks to apply best practices used in world-class organizations. Over the last several years, we have taken important steps to further improve leadership and governance at all levels of our organization.

Strategy

Selectively Increase Our Market Share

We have been able to increase our market share in banking products in a competitive environment. Our market share in total loans and deposits has increased from 7.7% and 6.6%, respectively, as of December 31, 2000, to 14.7% and 14.1%, respectively, as of September 30, 2024. We intend to focus on increasing our market share in certain targeted segments through the following initiatives:

Expand Our Payroll Loan Business

We are enhancing the use of distribution channels, such as ATMs, mobile devices and internet banking to increase the origination of payroll loans in Mexico. As of August 31, 2024, we had a 20.9% market share of payroll loans in Mexico according to the CNBV. We also intend to continue to develop specialized sales forces, telemarketing efforts and *Banorte Visita*, through which we have more direct contact with companies in order to increase the channels through which we originate payroll loans. We intend to focus on cross-selling and same-time origination by encouraging customers to open payroll accounts when they request a loan and vice-versa. We intend to leverage our CCR database to better target our potential payroll loan customer base. Finally, we intend to continue to determine fees and pricing for our payroll loans based on thorough risk assessment models in order to maximize profitability.

Expand Our Credit Card Business

We have enhanced our fees and risk-based pricing strategy, improved our underwriting standards, implemented cross-selling initiatives in response to market demand and developed new sales channels to increase credit card issuance. We believe we have an opportunity to increase our market share in this segment through further product penetration of our existing banking customers.

We issue personal credit cards (associated with both MasterCard and Visa) and offer the following products to our customers depending on their needs: *Banorte Básica*; *Banorte Fácil*; *Banorte Clásica*; *Banorte Oro*; *Tarjeta de Crédito Mujer Banorte*; *Banorte Pachuca*; *Banorte Platinum*; *Banorte Infinite*; *Banorte Empresarial*; *Tarjeta 40*; *Ixe Clásica*; *Ixe Oro*; *Ixe Platino*; *Ixe Infinite* and *Banorte Por Ti*. We also have two credit cards which are co-branded with United Airlines, the Platinum and Universe – Infinite. In addition, we offer various rewards programs for our credit card holders.

Our market share in the Mexican credit card segment was 10.2% as of September 30, 2024, according to the CNBV. As of September 30, 2024, we had 2,566,059 credit cards outstanding an increase of 565,979 or 28.3% from 2,000,080 from September 30, 2022, with a Stage 3 loan ratio of 4.7% and 4.1%. We believe we can increase our credit card market share in the medium-term while maintaining prudent underwriting practices and monitoring our credit quality ratio through more active marketing and promotions to current customers. We believe we could increase our market share in the credit card segment to a level consistent with our market share in other products such as performing loans and deposits.

Expand Our Car Loan Business

We are expanding our car loan business to customers with lower credit risk by increasing our presence at car dealerships and expanding our business partnerships with automobile manufacturers and distributors in Mexico. As of September 30, 2024, our market share on car loans was 18.0% according to the CNBV, excluding financings by automobile manufacturers against whom we compete in this business. We also believe that, given the expected contraction in GDP in Mexico, the automobile sector, and consequently the automobile loan business will not experience growth in the coming years.

Increase Our Mortgage Originations

We offer long-term mortgage financing for individuals and families acquiring houses or apartments. Such financings are generally secured by the purchased property and are denominated in Pesos with fixed interest rates for the entire life of the mortgage. The term of a mortgage ranges from five to twenty years for financing of up to 90% of loan-to-value. We offer financings exclusively for residential mortgages. Other products we offer include home equity; home improvement; construction; land acquisition; and construction and land acquisition. For the nine-month period ended September 30, 2024, we originated 14,745 mortgages, and the aggregate outstanding balance due from our mortgage loan portfolio at the end of such period was Ps. 268,807 million. For the year ended December 31, 2023, we originated 22,724 mortgages, and the aggregate outstanding balance due from our mortgage loan portfolio at the end of such year was Ps. 255,315 million, compared to Ps. 228,797 million for the year ended December 31, 2022. The current average of the initial amounts of our mortgage loans is Ps. 2.6 million. We also have the lowest delinquency rate among the G-7 Mexican Banks with 0.76% as of September 30, 2024. We plan to continue to attract customers from these segments by providing high-quality service and quick approval response times, offering financings for purchases, refinancing and real estate improvements.

Strengthen Our Relationships with Government Entities and Their Employees

We intend to strengthen our relationship with Mexican federal, state and municipal governmental entities, which, as of September 30, 2024, together comprised 15.0% of our total loan portfolio. We see an opportunity to cross-sell other products and services to government employees, whose low levels of staff turnover minimize the risk of non-payment. This opportunity to cross-sell was enhanced by the merger with Banco Interacciones, whose government lending business has complemented our successful federal government banking operation. The suite of products and services we offer to government entities includes checking and payroll deposit accounts for employees, cash management services, payment of money orders, trust services, financings, investments and tax bill collection services, which are available through all of our branches as well as through our websites and ATMs. In addition, we believe that developing our relationships with government entities will provide us with access to a broader customer base to whom we can market our retail products and services, such as credit cards, payroll loans and mortgage products. We believe that this sector provides us with cross-selling and attractive return on equity opportunities.

Emphasize Multi-Channel Distribution Capabilities

Our customer-oriented business model emphasizes a multi-channel banking strategy aimed at more effectively reaching our target customer segments. We seek to implement this strategy by understanding the channels used by our diverse customer base and by leveraging each channel effectively to generate cost efficiencies. For example, for our broader customer base, we expect to leverage internet and mobile banking as well as our correspondent banking through different initiatives. The use of the internet to research and apply for personal loans, car loans, mortgage loans and credit cards is commonplace today. Our emphasis on multi-channel distribution is aligned with our paperless initiative, which was fully implemented by the end of 2019. In the last years the number of mobile banking transactions has increased.

For instance, Banorte Go is an add-on to Banorte Móvil, our mobile banking platform. Banorte Go allows our customers to check their account balances, transfer funds and make payments among users of Banorte Móvil through social media mobile applications or any mobile application where an alphanumeric keyboard is used without the need to login to the Banorte Móvil mobile application. This allows users to enjoy the benefits of our mobile banking capabilities without having to exit their favorite mobile application.

We intend to continue to develop new specialized sales forces and telemarketing efforts, and to use “*Banorte Visita*” in order to increase the channels through which we originate payroll loans. In addition, we have steadily increased the number of our ATMs, which has resulted in a 17.2% market share as of August 31, 2024, according to the CNBV.

Enhance Our Customer-Oriented Business Model

We seek to strengthen our customer-oriented organizational model, focusing on customer segments instead of product segments, optimizing and consolidating processes per business instead of per product and investing in IT infrastructure. We intend to stay connected with our customers and devote resources to learning more about their needs and expectations through banking relationships. Our strategic agreement with IBM is aimed at helping us increase our knowledge of our customers by creating a CCR database that consolidates all available customer information, enabling us to gain deeper insight into ways to build more loyal and profitable customer relationships. Our strategic agreement with IBM has redesigned business processes and applications around customer segments instead of around products and developed IT infrastructure to support these new processes.

We intend to improve our customers' experience through the implementation of internal working groups known as "Cells". This method of organization allows us to streamline connectivity between individuals within our internal structure and focus on the needs of our clients.

We believe this IT platform, which will allow us to manage large transaction volumes, will further improve the quality of service and segmentation as well as cross-selling, which will drive revenue increases, higher loyalty, cost efficiencies and increased profitability.

In June 2021, we also entered into a multi-annual strategic agreement with Google Cloud that we believe will accelerate the digital transformation of our business. The key initiatives that we expect to implement through this strategic partnership include the following:

- Modernization of Banorte's IT environment, leveraging Google's cloud technology to improve applications, infrastructure, and databases, thus gradually driving towards cost efficiency with the well-known flexibility and scalability offered by Google's operation.
- Cybersecurity centered on threat detection.
- Intensive use of data analysis together with Artificial Intelligence, which we expect will enable hyper-personalized experiences, as it will deepen our understanding of our customers' needs.
- Open Banking app development and new digital services.
- Knowledge sharing and strengthening of innovative culture. We expect that collaboration between Banorte and Google will offer continued learning and development opportunities to our employees and GFNorte's employees and will promote innovative solutions aimed at creating the best customer experience.

Expand Our Digital Presence and Promote Financial Inclusion and Bancarization

We are committed to continuing our digital transformation and have paved the way for the digitalization and personalization of our product offerings in recent years. During 2021, we entered into a strategic alliance with Google Cloud as a streamlining tool, which we believe will benefit our clients with a personalized design featuring the next generation of products and services, accelerating the offering of highly customized banking solutions. We believe that data-driven services, leveraged by social networks and a broad-range of technology offerings will allow us to create and maintain long-lasting relationships through a value-added proposition focused on our clients' specific needs and priorities.

We aim to consolidate our position as a digital player in the financial services industry with a fully digital offering, which we believe is fundamental to the bancarization process in Mexico. For instance, in our efforts to provide access to individuals in underserved markets and promote financial inclusion across Mexico, we partnered with CLIP in 2019, a leading digital payments and commerce platform in Mexico, to allow SMEs to access banking products. Through this partnership we aim to bring significant payment innovations to the Mexican market, while offering our clients friendlier, customized and cutting-edge products.

Alignment with Environmental, Social, Governance (ESG) Principles

The sustainability committee meets three times a year. Banorte has a series of principles, procedures, policies and standards that establish guidelines to be followed in regard to ESG matters. In addition, beginning in 2022, the Sustainability Committee has met semiannually. The committee is made up of twelve C-suite executives and a representative of our internal audit department. Its functions include the development of GFNorte's sustainability strategy and action plan, as well as consistent monitoring of ESG performance. Governance, sustainability projects for the financial group are executed through four cells or multidisciplinary working groups, ensuring their follow-up and implementation.

Banorte's sustainability strategy is based on a model that incorporates Environmental, Social and Corporate Governance pillars, and a central pillar called Sustainable Finance, which aims to synergize ESG principles with the overall business strategy. Each one contemplates a range of topics that are prioritized according to a materiality matrix, which is upgraded every two years. Topics include:

- Environmental: Environmental Awareness, Operational Efficiency and Climate Change. We also deal with Nature and Biodiversity topics.

- Social: Human Rights, Diversity and Inclusion, Gender Equality, Education and Financial Inclusion, Corporate Citizenship and Human Capital.
- Governance: Corporate Governance, Stakeholders, Ethics and Accountability, Risk Management, Information Security Technology and Innovation.
- Sustainable Finance: Socio-Environmental Risk Management in Lending Portfolios, Responsible Investment, Sustainable Insurance and Sustainable Financial Products.

The Bank is also aligned with different national and international initiatives that together form a framework representing the best global sustainability practices. Some of the key initiatives in the financial sector to which Banorte is a signatory include the Equator Principles (2012), the Principles for Responsible Investment (2017), the Principles of Responsible Banking (2019), and the Net-Zero Banking Alliance (commitment to decarbonize our loan portfolio by 2050), in which it is also a member of the Steering Group. Moreover, Banorte is part of the Steering Group of the Taskforce on Nature-related Financial Disclosures (“[TNFD](#)”) and we are committed to starting reporting under TNFD guidelines from 2025 onwards.

The Bank is dedicated to adopting and implementing global best practices in sustainability, drawing on frameworks and standards from the Global Initiative Report, the UN Global Compact, the Carbon Disclosure Project, IPC Sustentable, Empresa Socialmente Responsable, the Natural Capital Declaration, and the Equator Principles. Additional commitments include participation in the GEI2 Programme Mexico, the UNEP Finance Initiative, the Dow Jones Sustainability Index MILA, the Sustainability and Corporate Social Responsibility Committees of the Mexican Banks Association, the STOXX ESG Leaders Index, the Euronext Vigeo Emerging Markets 70, the FTSE4Good Emerging Index, the Bloomberg Gender Equity Index, and the Principles for Responsible Investment, among others.

Banorte has decarbonization targets for eleven sectors of its loan portfolio and offers sustainable products such as a green auto loan for hybrid or electric vehicles, as well as a green mortgage for EDGE or LEED certified buildings.

In addition to these initiatives, Banorte provides financial education programs and workshops for its clients and was recognized for Best Corporate Governance by World Finance in June 2024. As part of its dedication to global best practices, the Bank offers loans for SME-led women entrepreneurs.

Increase Wallet-Share Penetration with Corporate and SME Customers

We have developed a role as a “relationship banker” for our corporate and SME customers by offering a variety of transactional banking and investment banking products through our network of regional service centers dedicated to these customers. Our transactional banking team intends to offer liability management solutions in the foreign exchange markets as well as cash management services to support our customers’ international operations. Our investment banking team intends to offer a full range of services in advisory and capital markets transactions.

Continue to Increase Our Profitability

We intend to continue increasing profitability based on the following initiatives:

Improve the Profitability of our Branches and Optimize Cost Efficiencies

We seek to improve the profitability of our branches by:

- increasing loan origination, particularly in the areas of consumer loans, mortgage loans and credit cards;
- diversifying deposit base by increasing the volume of core deposits in order to achieve a lower cost of funding, based on our wide network of branches;
- increasing non-interest income through the offering of services and using cross-selling efforts;
- implementing continuous cost reduction initiatives, such as streamlining our senior management structure as well as headcount reduction; and
- channeling less value-added transactions to online and mobile services.

We will continue to review the profitability of our branch network in order to determine its optimal size and identify non-profitable units.

A central strategy to improving our cost efficiencies is to lower our IT and operational costs as a result of our customer-oriented business model. Another source of efficiency is to reduce personnel and administrative costs, as a result of rationalization efforts that are continuously implemented. For the nine-month period ended September 30, 2024, our efficiency ratio was 36.1%, as compared to 35.8% for the corresponding period in 2023, 38.2% for the year ended December 31, 2023 and 41.1% for the year ended December 31, 2022.

Promote Synergies Within the GFNorte Group

We intend to increase our market share and profitability by increasing cross-selling of services and products among our customers and customers of GFNorte's other subsidiaries. We have introduced processes that facilitate our ability to offer additional financial services to our customers and those of GFNorte's other subsidiaries, with an emphasis on service and innovation. We cross-sell consumer loan products, credit cards and mortgages to our checking and savings account customers and to GFNorte's insurance and pension fund customers. We also plan to continue improving synergies and efficiencies within GFNorte's other subsidiaries.

Increase our Non-Interest Income

Our non-interest income is comprised primarily of commissions and fees, income from trading and foreign exchange activities, income from advisory activities, income from trust activities and income from recovery bank activities. Increasing fee income is a central component of our business strategy. Subject to applicable law and to prevailing market conditions, we seek to increase our fee income by:

- continuously reviewing the fees associated with our products and services in order to find new opportunities or to adjust to market conditions and practices;
- increasing our cross-selling efforts within the GFNorte group;
- promoting the use of technological and electronic payment methods, as well as mobile and internet banking;
- establishing new relationships with businesses generating high volume point-of-sale transactions; and
- optimizing customer profitability by increasing fees and reducing transactional costs to low-value customers and increasing cross-selling within the affluent customer base.

Increase our Efficiency

We expect that our strategic mergers contribute to streamline our corporate government and management processes. The statutory merger between Sólida Administradora de Portafolios, S.A. de C.V., SOFOM, E.R., Grupo Financiero Banorte, as merging and subsisting entity and Arrendadora y Factor Banorte, S.A. de C.V., as merged entity became effective on July 1, 2020. The merging entity changed its name to that of the merged entity. This structure has improved the expense management, costs of funding and use of capital.

Principal Business Activities

One of our principal goals is to efficiently deliver services and products to our clients. In an effort to meet this goal, we have organized our business operations into the following businesses:

- Retail Banking, which includes, among others:
 - affluent banking;
 - personal banking;
 - SME banking; and
 - state and municipal government banking; and
- Wholesale Banking, which includes, among others:
 - corporate and enterprise banking;
 - transactional banking;

- federal government banking; and
- international banking.

These segments report to the main office in one of our eight territories in Mexico: Northern, Central, Mexico City North, Mexico City South, West, Northeast, North Border and South. In addition, our treasury and the money market divisions are responsible for, among other activities, managing our assets and liabilities while maximizing our income in accordance with certain risk policies and limits established by our Risk Policy Committee. See “—*Treasury and Money Market Divisions*.”

Retail Banking

The Retail Banking area is responsible for creating value propositions for each segment, in order for us to offer suitable products to each of our customers using diverse channels. Our Retail Banking area develops strategies to approach every customer in a unique manner, encourages cross-selling, shifts operations to digital platforms and constantly develops innovative products. There are four lines of business within our Retail Banking:

- **Affluent banking:** Since the last quarter of 2015, our aim has been and continue to be provide a differentiated service model and proposition to our high-value customers. By September 2024, we have installed the new Queue Manager System in all our branches, with the presence of at least one relationship manager. In total we had 45 relationship managers. The contact center connected with our affluent banking channel (Línea Preferente) is now a service referral in the market, which received more than 9.7 million calls in the first nine months of 2024, 37% of which were attended to by the IVR and 63% of which were attended to by telephone banking customer service specialists. As of September 30, 2024, our affluent contact center reached an 86.3% rate of solution response during the first call, compared to 85.1% as of September 30, 2023.
- **Personal banking:** As of September 30, 2024, this area, which has its own profit and loss, provided services to more than 12 million customers, focusing on total relationship balance and profitability by seeking to maintain high-value customers and by creating an exit strategy for low-value customers. We continuously work to migrate the operations of our customers in this area to self-service channels. As of September 30, 2024, personal banking represented 64% of the wholesale and retail banking of the Bank in terms of net income.
- **SME banking:** As of September 30, 2024, this area offered innovative and competitive financial products and services to 444,719 SMEs. As of September 30, 2024, SME banking represented 5.8% of the wholesale and retail banking of the Bank in terms of total loans.
- **State and municipal government banking:** We are one of the nationwide leaders in the state and municipal government banking segment in terms of deposits, loans and payroll. As of September 30, 2024, deposits and loans for the state and municipal government banking segment represented 10% and 2% respectively, of the total wholesale and retail banking of the Bank in terms of financial margin, and the state and municipal government banking segment contributed 26% of the total payroll served in the bank. We have full coverage in 31 states and over 1,506 municipalities. We believe this area offers unique products and services such as government funds, payroll services, public finance analysis, advisory services and credit risk analysis. We estimate that state and municipal local government banking sales will see significant growth in the following years.

Our Retail Banking segment targets individual customers and SMEs by providing them with non-specialized banking products and services through our distribution channels. See “—*Distribution Channels*.” Nearly all of the transactions taking place in this segment occur through our branches, telephone banking, on-line banking and ATMs.

Products and services offered through this segment include checking and deposit accounts, credit cards, mortgage loans and consumer loans. See “—*Products and Services*.” One of our main products in this segment, CrediActivo Comercial, is a loan issued in amounts of up to Ps. 2.5 million and is targeted towards SMEs.

We are increasingly becoming a more significant retail bank in the Mexican marketplace, and we believe the contribution of this business, particularly credit cards, payroll loans, SME financing and mortgage loans will grow significantly over the next three years.

Wholesale Banking

The Wholesale Banking division incorporates: Economic, Research and Fundamental Analysis; Private Banking and Wealth Management; Transactional Banking; Corporate and Enterprise Banking; Federal Government Banking; Trading and Institutional Sales; Warehouse, Leasing and Factoring; International Banking; and Treasury Management. Our Wholesale Banking area's contribution to our total net income may increase as we assume a more prominent position in Mexico's wholesale banking industry, and also as a result of its increasing share in our total loan portfolio.

Corporate and Enterprise Banking

Corporate and enterprise banking is committed to providing integrated financial solutions for our corporate customers through various types of specialized financing, including structured credits, syndicated loans, acquisition financing and financing of investment plans. Other products and services offered to our corporate customers include cash management services, collection services and fiduciary and payroll services. The customers in corporate banking generally consist of Mexican and non-Mexican multinational companies, large Mexican companies and emerging Mexican companies. Our corporate customers consist of 3,758 large corporations. As of September 30, 2024, the average outstanding individual balance of our 257 loans to corporations was Ps. 196,075 million.

In 2016, we created a team with a high degree of specialization and market recognition in the energy and infrastructure sectors to better position ourselves in light of the opportunities created by the reforms adopted in Mexico in these sectors. This has allowed us to increase our market penetration and further enhance our market share of these sectors with current and future clients.

Our enterprise banking segment specializes in high-margin credit products for medium-sized business customers. Our medium-sized business customers consist primarily of 15,932 enterprises, varying in size from medium businesses to sizable corporate enterprises operating in a broad range of industrial sectors. As of September 30, 2024, the average outstanding individual balance of loans to our enterprise customers was Ps. 112 million.

Our main products in this segment are:

- loans and lines of credit;
- *CrediActivo Empresarial*, a loan product partially guaranteed by NAFIN;
- cash management services;
- fiduciary services;
- checking account services; and
- payroll services.

In 2016, we implemented a new business model aimed at allowing our relationship managers to dedicate more time to attracting clients and increasing sales. This model is in constant evolution and in 2024 we expect to further enhance the business model by allowing the relationship managers to have client information on their mobile device.

Transactional Banking

Our Transactional Banking area is focused on deploying our cross-selling strategy through sales, implementation and post-sale support of transactional services, to strengthen and deepen our business relationship with existing clients. Through our Transactional Banking area we offer self-service cash solutions to our clients, including: remote deposits, cash counters, addressed payments and online foreign exchange transactions. We have also developed a new cross-selling strategy with Banorte Seguros (GFNorte's insurance subsidiary) to offer specialized insurance products.

As part of our focus on cross-selling opportunities, we deployed a client feedback system to assess our client's perception of our services and products (including NPS, market valuation, etc.) and to increase our new product allocation such as check counters, SWIFT, T2M checks and BTF Modules. This has allowed us to adapt our services in accordance to our clients' expectations, such as the SWIFT operations, which were unavailable on past years, but are now fully operational.

Federal Government Banking

Over the last four years, we have maintained our presence as a provider of financial services to Mexican federal governmental entities and their agencies, including social security institutions, unions, public trusts, public works and quasi-governmental entities. Through specialized attention, we expect to maintain our commitment to providing services to this important sector of the economy.

The products and services offered by our Federal Government Banking segment include, among others, checking accounts, loans (typically subject to a bidding process), payroll processing, cash management, collection and payment processing services to government agencies. Serving these institutions also allow us to cross-sell checking accounts, credit card services, loan products, insurance products and collection services to their employees.

As of September 30, 2024, the aggregate outstanding balance of our federal government loan portfolio was Ps. 50,920 million.

International Banking

Through this segment we offer products and services to our corporate and enterprise banking and SME clients to assist them with international trade needs, as well as provide correspondent banking services to foreign financial institutions. We have strategic agreements with financial institutions outside of Mexico, which allow us to offer highly competitive solutions and financial services to our clients both locally and globally. For instance, on November 15, 2022, Banorte became the first commercial bank in Mexico to sign a bilateral cooperation framework agreement with Sinore, Export Credit Agency of the Government of China. This agreement allows Banorte to provide short, medium, and long-term financing to Mexican companies for imports from China and allows Sinore to grant insurance and credit guarantees to support and encourage exports from China to Mexico. In addition, on January 27, 2023, Operadora de Fondos Banorte, S.A. de C.V., Sociedad Operadora de Fondos de Inversión, Grupo Financiero Banorte announced that it signed a non-discretionary investment advisory agreement with Bank Lombard Odier & Co. Ltd. ("Lombard"), appointing Lombard as its investment advisor to provide non-discretionary strategic and tactical asset allocation advice and recommendations in support of the investment strategy to be implemented by one of its funds. Casa de Bolsa Banorte also signed a memorandum of understanding with Lombard to develop a relationship focusing on the wealth management and private banking industries.

Among the products and services offered to our import and export clients as well as to those with international or risk mitigation needs are: import and export letters of credit, documentary collections, banking guarantees, stand-by letters of credit, letters of credit financing, cross-border financing for import and export transactions, as well as international transfer services. We also provide specialized local banking services to foreign-based companies with operations in Mexico.

Treasury and Money Market Divisions

Our treasury division is responsible for, among other activities, managing our assets and liabilities, minimizing funding costs and engaging in hedging transactions. Its goal is to maximize our income in accordance with certain risk policies and limits established by our Risk Policy Committee, as explained in "Risk Management—Risk Management Organizational Structure." The treasury division is also responsible for managing our liquidity requirements and cash flows, monitoring market risks and funding costs, obtaining funding for certain loans and obtaining funding in the international market. The treasury division monitors our positions in fixed income securities, foreign currencies and derivatives positions for hedging and liquidity purposes.

Our money market division is responsible for our repurchase transactions, investments in domestic fixed and floating rate securities and the promotion of instruments and investment alternatives to our high-net-worth clients. This division also purchases futures to hedge its open risk positions or for trading purposes.

The treasury and money market divisions are monitored on a daily basis by our risk management unit. See "*Risk Management—Market Risk*." Strategies relating to these divisions are assessed on bi-weekly basis by our Assets and Liabilities Committee. Our treasury division does not trade equity securities.

Products and Services

Checking and Deposit Accounts

We continually strive to develop innovative, high-quality products and services that meet our clients' financial needs.

Through our branch network, we offer deposit products which fall into four categories: time and savings deposits, demand deposits, installment deposits and certificates of deposit. Time deposits generally require the customer to maintain a deposit for a fixed term during which interest accrues at a fixed rate and withdrawals may not be made without penalty. Savings deposits allow customers to deposit and withdraw funds at any time and accrue interest at a fixed rate that, in certain cases, increases over time. Demand deposits, which either do not accrue interest or accrue interest at a fixed rate, which is lower than the applicable time and savings deposits rates, allow customers to deposit and withdraw funds at any time and, in the case of “current” deposit accounts, to issue checks against the deposited amount. Installment deposits allow customers to make deposits either on a periodic basis or at any time during a fixed term, during which interest accrues at a fixed rate and there is a penalty for withdrawals. Certificates of deposit, which are sold in a variety of denominations and maturities and are negotiable, require an initial deposit of a fixed amount for a fixed term, during which interest accrues at a fixed rate and withdrawals may not be made without penalty. We believe our products address all of our customers’ financial needs, regardless of their segment. Furthermore, we permanently develop special offers by which we aim to make our products more attractive to our customers than those of our competitors.

We have made significant efforts to increase traditional deposits through the Retail Banking segment in order to continue to reduce the cost of funds and to increase our net interest income.

During the nine -month period ended September 30, 2024, we experienced significant growth in the opening of checking accounts and demand deposits. Our focus on the sale of deposit products and related strategic initiatives put into place during 2021 and 2022 led to an aggregate amount of Ps. 1,142,380 million in total deposits as of September 30, 2024. We have placed particular emphasis on increasing deposits for our low-cost products.

Credit Card Operations

We issue personal credit cards (associated with both MasterCard and Visa) and offer the following products under the Banorte brand: Por Ti de Banorte, Banorte Clásica, Banorte Oro, Mujer Banorte, Banorte Básica, Tarjeta Platinum, Infinite, United and United Universe (co-branded with United Airlines), La Comer (co-branded with Grupo La Comer), Tarjeta 40, Ke Buena and W Radio (co-branded with Radiópolis), AT&T and AT&T Elite (co-branded with AT&T Corporation), Marriott Bonvoy and Marriott Bonvoy Inspire (co-branded with Marriott Hotels and Resorts).

As of September 30, 2024, we had 2,566,059 credit cards outstanding an increase of 565,979 or 28.3% from 2,000,080 from September 30, 2022, with a Stage 3 loan ratio of 4.7% and 4.1%. Credit card approvals are based on an internal credit scoring system, which we believe increases the quality of the portfolio and reduces approval response time. Our credit cards can be used in 11,027 ATMs across Mexico. Revenues from the credit card operations consist principally of merchant fees paid by retail and service establishments, cash advance fees, installment purchase fees, fees on late payments, variable and fixed interest rates charged on monthly account balances and annual membership fees paid by cardholders.

We currently rank fourth place, both in number of transactions and in total value of transactions in the Prosa system, an ATM and credit card processing system comprised of seven Mexican banking institutions. Our market share in the Mexican credit card sector was 10.2% as of September 30, 2024 in terms of performing loans according to the CNBV. Currently, the most important channel for promoting credit cards is our branch network; nevertheless, we are expanding our origination channels with main emphasis on digital way. Since last year, we accelerated deployment of new technologies, mainly in Banorte Móvil, providing customers with an entirely digital experience, from the point of acquisition to initial use of the digital credit card. In the nine-month period ended September 30, 2024, the digital channels accounted for 17% of all new accounts, which represents a decrease of 3% percentage points compared to the same period in 2023 due to an adjustment in the credit risk evaluation model. We also promote our credit cards by cross-selling them to customers across GFNorte’s entities.

We charge an average annual fee of Ps. 1,115 per credit card. Credit card loans, which are fully underwritten by us, are unsecured, have an initial maturity of one to two years and accrue interest at effective weighted average annual variable (fixed product interest rate + TIEEF) rates of 28.71%. The average credit limit of credit cards is Ps. 71,737; whereas limits typically range from Ps. 2,000 to Ps. 5,900,000. Moreover, the minimum required monthly salary for all new cardholders is Ps. 7,000. As of September 30, 2024, the past-due loan ratio on our credit card portfolio was 2.81% and gross charge-offs as a percentage of average receivables were 9.69% compared to 2.71% and 8.56% as of September 30, 2023, respectively. The annual attrition rate with respect to our credit card customers was 9.02% (annual voluntary attrition rate as of August 2024) for the nine-month period ended September 30, 2024.

We monitor our credit card accounts with an electronic system called “VISION,” which allows us to establish credit limit increases, pricing, credit card loan portfolio collection and overdraft protections on an individual cardholder basis.

Mortgages

We offer long-term mortgage financing for individuals and families acquiring houses or apartments. Such financings are generally secured by the purchased property and are denominated in Pesos with fixed interest rates for the entire life of the mortgage. The term of a mortgage ranges from one to 20 years for financing of up to 90% of loan-to-value. We offer financings exclusively for residential mortgages. Other products we offer include home equity; home improvement; construction; land acquisition; and construction and land acquisition. For the nine-month period ended September 30, 2024, we originated 14,745 mortgages, and the aggregate outstanding balance due from our mortgage loan portfolio at the end of such period was Ps. 268,807 million, compared to Ps. 255,315 million for the year ended December 31, 2023.

The current average of the initial amounts of our mortgage loans is Ps. 2.6 million. We also have the lowest delinquency rate among the G-7 Mexican Banks with 0.76% as of September 30, 2024. We plan to continue to attract customers from these segments by providing high-quality service and quick approval response times, offering financings for purchases, refinancing and real estate improvements.

Consumer Loans

We offer two main personal consumer loans: automotive financing and payroll loans. We provide automotive financing through loans that bear interest at a fixed rate with maturities of up to six years. As of September 30, 2024, the aggregate outstanding balance due from our automotive financings was Ps. 50,086 million, an increase of 22.6% compared to the same period for 2023 with an aggregate outstanding balance due from automotive financings of Ps. 40,861 million.

Commercial Loans

We offer various loan products, including general commercial loans, syndicated loans and letters of credit, to our business customers. Our business customers vary from SMEs to large companies that have revenues in excess of Ps. 300 million. As of September 30, 2024, our total Stage 1 and Stage 2 commercial loans amounted to Ps. 631,058 million, 24.6% of which were unsecured.

Collection Services

In 2002, we established an automatic payment collection processing service. This service allows individuals and companies to make payments for telephone bills, school tuition and cellular phone bills, among others, through our branch network and alternative distribution channels. In the first nine months of 2024, we handled 9.8 million transactions, representing a 0.2% increase compared to the same period in 2023. Collection services are complemented by invoice distribution through the Internet or mobile banking app.

Payroll Services

Since 1993, we have offered our corporate, enterprise, SME and government customers *Nómina Banorte*, a service through which they can pay their personnel payrolls via direct deposits. As of September 30, 2024, over 49,000 corporate, enterprise, SME and government customers processed payrolls of over 5.9 million active employees with us, managing a portfolio of Ps. 129,989 million. We believe that *Nómina Banorte* improves customer retention and reduces risk in consumer lending by strengthening customer relationships. Every employee that is paid through *Nómina Banorte* may obtain a personal loan of up to nine months of salary and preferential conditions on other types of loans.

Cash Management Services

Cash management services include collecting and disbursing funds on behalf of companies and their suppliers, distributors, clients and employees in order to facilitate cash flow, reduce operating costs and improve information management.

Money Transfer and Remittances Services

At UniTeller, we specialize in cross-border money transfers and remittance payment services, proudly ranking among the largest remittance payers in the United States. In 2024, we significantly expanded our global footprint and cross-border product capabilities through the acquisition of MORE, a leading cross-border payment provider based in Uruguay, with operations in eight other countries across South America, Europe, and Africa. This strategic move enhances our ability to serve a wider range of markets while reinforcing our global network, now spanning 120 countries, and strengthening UniTeller's position as a leader in international payment solutions.

UniTeller maintains long-term processing agreements with key institutions such as Wells Fargo, JPMorgan Chase, Walmart México, Farmacias Guadalajara, Western Union, PayPal, Remitly, and others. These partnerships continue to position UniTeller as one of the most relevant processors of wire transfers in the industry, currently handling 14% of total transactions in the US-Mexico corridor as of August 31, 2024.

UniTeller also leads the industry with its remittance-as-a-service digital platform, enabling companies, fintechs and neobanks to provide competitive digital solutions to their customers. Additionally, with uLink, its own branded digital platform, UniTeller offers users a top-rated mobile remittance service. These digital capabilities align with our mission to provide affordable and efficient remittance solutions across multiple channels, expanding our reach and impact.

Distribution Channels

We conducted 2,094 million transactions during the three month period ended on September 30, 2024, of which 57% of transactions carried out by customers were placed through mobile banking; 22% were carried out through POS; 9% were made in an ATM, 10% through online banking using a web browser and 2% through other means.

Branch Networks

We seek to create an outstanding multi-channel experience for our customers. Towards that end, in 2017 we established an operating model which has improved, and we believe will continue to improve all direct channels, customer experience and operational efficiency and, eventually, increase our market share. According to the CNBV, as of August 31, 2024, our branch network accounted for 9.9% of the Mexican market in terms of number of branches as of such date.

As of September 30, 2024, we had 1,177 branches. During the period beginning on December 31, 2023 and ended in December 2024, we plan to open a small number of additional branches, with a greater focus on regions where our market share is relatively low. We are also planning to continue strengthening alternative channels such as ATMs, contact centers, online and mobile banking. We believe that many of our customers have taken advantage of the developments in our ATMs and digital channels, given that as of September 30, 2024, we recorded 543 million transactions through ATMs and digital banking, representing an increase of 23.8% compared to the nine months ended September 30, 2023.

ATMs

Our ATM network has grown from 6,713 ATMs as of December 31, 2008 to 10,968 as of August 31, 2024. According to the CNBV, as of August 31, 2024, we had the second largest ATM network in the Mexican market. As of September 30, 2024, our ATMs served 13 million customers monthly, representing a 5.2% increase compared to September 2023 and equivalent to 543 million transactions annually. In order to further increase the number of transactions conducted through this channel, we are developing a platform providing personalized offers, functionalities and upgrades for each customer, and we believe that most of our products and services will be available through this channel, which will initially be tested with our corporate and SME customers. In addition, we aim to continue strengthening our debit card initiative, which can be used at all of our ATMs as well as other ATMs worldwide through our participation in the Visa and Plus ATM networks.

Contact Center

Our contact center allows our customers to check balances, transfer funds between their accounts in Banorte and other banks, pay credit card bills and receive account statements. We differentiate affluent and personal customers, to provide them with appropriate assistance and to implement a customized selling strategy for each group.

Currently the system receives nearly 32.8 million interactions per month. Approximately 61% of calls are handled through interactive voice recording systems and 39% by telephone banking customer service representatives. For the nine months ended September 30, 2024, our contact center responded to 9.7 million incoming calls and 2.2 million outgoing calls, maintaining favorable levels of efficiency and customer care, compared to 10 million incoming calls and 1.8 million outgoing calls for the same period in 2023, which represented a decrease of 4% on incoming calls and an increase of 17.3% on outgoing calls respectively. Our affluent contact center (Línea Preferente) is now a service referral in the market, which received more than 1.6 million calls in the first nine months of 2024, 37% of which were attended to by the IVR and 63% by telephone banking customer service specialists. As of September 30, 2024, our affluent contact center reached an 86.3% rate of solution response during the first call, compared to 85.1% as of September 30, 2023.

POS Terminals

As of September 30, 2024, our network increased to 220,237 POS terminals, an increase of 17.4% as compared to September 30, 2023. During these first nine months, the amount transacted increased to Ps. 752,897 million, which represented

a 20.0% increase compared to Ps. 627,336 million for the same period in 2023. During 2023, the amount transacted increased to Ps. 864,854 million, which represented a 12.6% increase compared to Ps. 767,887 million in 2022. Banorte’s POS network is the fourth largest in Mexico. Total transactions increased to 1,489 million in 2023, representing an increase of 8.3% compared to 1,375 million in 2022, mainly as a result of our strategy to change our target customer to a higher-level customer profile resulting in a large number of transactions and transactions of greater amounts.

Online Banking

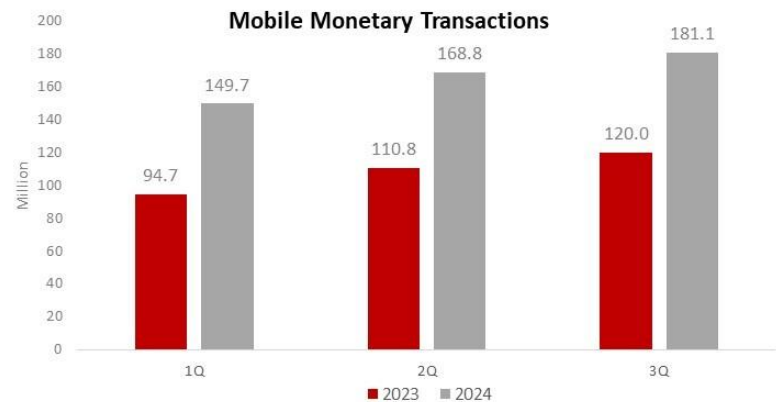
Our online banking services allow customers to utilize the Internet to access their credit card and other account balances by means of a 24-hour customer service website, which is constantly being updated. Through online banking, our more than 6.5 million customers are able to carry out various operations and transactions, such as checking their accounts; transferring funds domestically and internationally; paying taxes, credit cards and other bills; and investing in funds and certificates of deposit. This service is offered to our customers at no additional cost. Online banking transactions are carried out through “Banorte by Internet” (*Banorte por Internet*). Most of our customers are signed up for paperless banking services and their monthly bank statements are sent to them through e-mail. “Banorte in your Business” (*Banorte en su Empresa*) is our corporate online banking service focusing on companies and government entities. Through this service, our corporate customers can access many of the banking services typically offered at our branches, such as transfers of funds, payroll services and payments to suppliers.

In addition, BEP “Banking Electronic Pyme” (*Banca Electronica Pyme*) focuses on PFAEs (individual person with a business) and Pymes (medium-size companies).

“Banorte Connection” (*Conexión Banorte*) is a host-to-host direct connection with the enterprise resource planning (“ERP”) of our customers. We launched this service in June 2015.

Mobile Banking

Banking service via mobile banking offers a global, efficient, secure and sustainable solution to a wide segment of our customers. Our platform is compatible with almost any smartphone, which increases customer reliance on our services and makes branch visits unnecessary for many transactions. Our mobile banking service has grown over time, increasing the number of clients and therefore the number of transactions.



Through the development of new functionalities, the use of technological development and the transformation of internal processes Banorte Móvil has become a dynamic transactional and contact channel between the client and the Bank, showcasing innovation in customer experience, for example, its new digital onboarding process for mobile banking that allows potential customers to become customers of Banorte in minutes. Likewise, current customers just need to download the app from their corresponding branch and activate it on their mobile phone with worldwide security and fraud prevention standards. The ease at which clients can access these technologies has contributed to the depressurization of branches, as customers no longer lose time by going to a branch to activate their digital banking. Another example of Banorte Móvil’s value is the investment functionality, which allows customers to directly manage the various kinds of investment instruments available through Banorte from the palm of their hands. New services included in Banorte Móvil include saving goals tools and temporal credit and debit cards.

The *Contact us* feature of Banorte Móvil makes our Contact Center available to customers in a more convenient manner, as customers can request a call-back, rather than waiting on hold for a representative. In addition, preferred customers, are able to interact with their executives in a digital-face-to-face manner through a videocall functionality. Further, Banorte

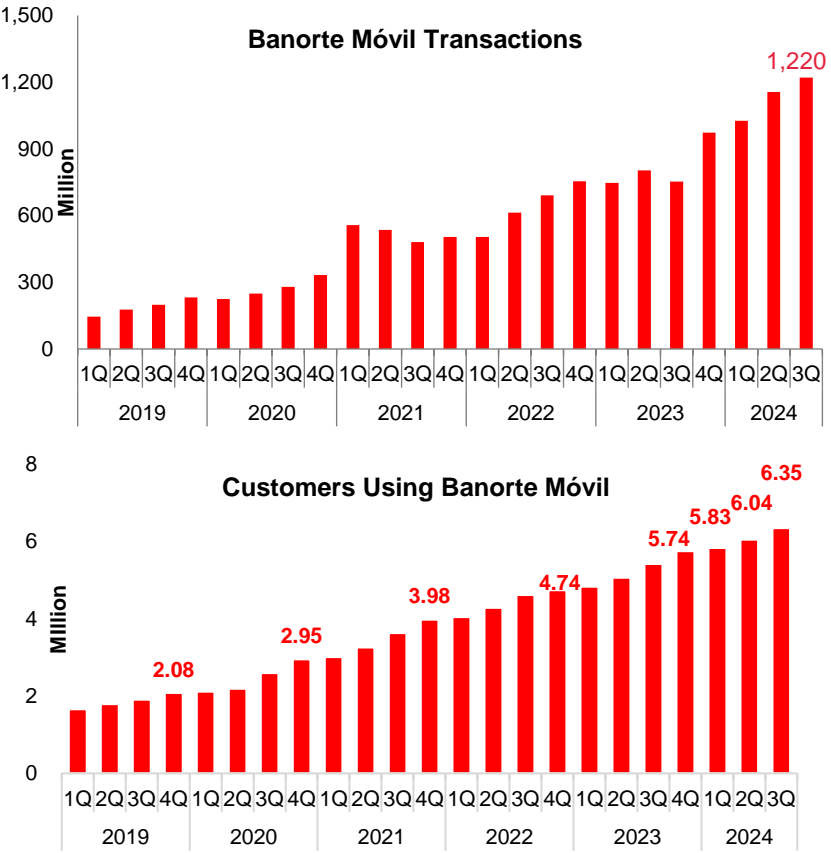
Móvil uses biometric data as a reliable authentication method, keeping customer information secure. By focusing on the customer in creating Banorte Móvil, we have successfully designed a mobile channel which allows customers to have all of the bank’s products and services at their fingertips, while prioritizing security.

GFNorte has implemented a strategy to develop its digital channels and to further transform banking for the benefit of its customers through the provision of more personalized service.

Banorte became the first bank in Mexico to schedule appointments at branches through WhatsApp in order to increase efficiencies and minimize contact. In December 2020, Banorte reduced the volume of branch transactions with its mobile application, Banorte Móvil. Mobile application transactions grew by 224%, from 1,085 million at the end of 2020 to 3,402 million at the end of September 2024.

In December 2020, Banorte was recognized by The Banker, a prestigious international publication, as “Bank of the Year 2020” for its profitability and results driven by growth in its digital service channels.

The following graphs represent the growth of Banorte Móvil over the years:



Third-party Correspondent Banking

Through third-party correspondents, we are able to offer service to a large segment of the Mexican population that could not otherwise access financial services, and we believe we have positioned ourselves as an important player in this segment. By focusing on the formation of strategic alliance, we have been able to increase our participation in the market.

In October 2023 we entered into a strategic alliance with Oxxo and Super Kiosko, which became strategic allies of Banorte by providing cash withdrawal services and the possibility for customers to obtain and replace their debit cards at their more than 21 thousand stores, thus providing clients with more access points to our banking services.

In May 2024, we implemented a cardless cash withdrawal service through Super Kiosko by using a code that customers can generate in their Banorte Móvil banking app.

As of September 30, 2024, we had 19,556 banking points through banking agents, with 5,643 located in Yastas stores, 3,043 in Walmart stores, 2,053 in 7-Eleven stores, 1,625 in TELECOMM-Telégrafos facilities, 1,194 in Extra convenience stores, 2,791 in Farmacias Guadalajara, 1,799 in Farmacias del Ahorro, 786 in Soriana stores, 486 in Chedraui stores and 136 in Grupo DSW. We currently cover 68.0% of the municipalities in Mexico, which represents a decrease of 0.5% compared to our 69.1% coverage rate of the municipalities in Mexico as of September 30, 2023.

As of September 30, 2024, Ps. 13.9 million in operations were carried out through these third-party correspondent banking points of contact.

The chart below shows the average time, in minutes, it takes our customers to complete transactions using the methods described:

Service	Average Time (minutes)	Net Promoter Score
New claim	4	86
Mobile payroll loan	3	92
Digital advanced payroll	3	93
Opening a digital enlace account	5	70
ATM Withdrawal	0.05	85
Opening a new account on Tablet	5	85
Portability Tablet	3	84
Opening account in branches	9	86
Digital wallet	3	87
Digital fund	4	73
Mobile credit card	3	89
Instant credit card Tablet	3	91
Payroll Loan Tablet	3	88
Instant credit card Branch	5	92
Card purchase at Correspondent	3	90
Payroll portability	3	82
Digital promissory note	2	87
Mobile insurance purchase	4	83
Digital remittances collection	2	84
Investment account - opening	4	87
Insurance purchase - Tablet	4	86
Withdrawal without card in ATM	2	88
WhatsApp turn	0.1	89
Accounts & savings	3	94
Digital auto loan	4	85
Digital card	5	82
Maya mobile service	0.05	90
Credit card auto-pay	3	83
Card replacement	5	88
Remittances collection in Branch	4	85
Tipper sale POS	2	-
Opening payroll account table	5	88

The GFInter Merger

On October 25, 2017, GFNorte signed a binding merger agreement by which GFInter merged into GFNorte. On December 5, 2017, the shareholders of GFNorte approved the merger of GFNorte, acting as merging entity, with GFInter,

acting as merged entity. GFInter's shareholders received a combination of a cash payment of Ps. 13,700 million and 109,727,031 shares of GFNorte, representing 4.0% of the then current shares outstanding of GFNorte.

On June 28, 2018, the Mexican Antitrust Commission granted its unconditional approval to carry out the merger. Similarly, on July 10, 2018, GFNorte and GFInter received the necessary authorizations from the SHCP, which considered the opinion of the Mexican Central Bank, the CNBV and the CNSF, to carry out the merger of: (i) GFInter, as the merged company, with GFNorte, as the merging company; (ii) Banco Interacciones, as the merged company, with the Bank, as the merging company; (iii) Interacciones Casa de Bolsa, S.A. de C.V., as the merged company, with Casa de Bolsa Banorte, S.A. de C.V., Grupo Financiero Banorte, as the merging company; (iv) Aseguradora Interacciones, S.A. de C.V., as the merged company, with Seguros Banorte, S.A. de C.V., Grupo Financiero Banorte, as the merging company; and (v) Interacciones Sociedad Operadora de Fondos de Inversión, S.A. de C.V., as the merged company, with Operadora de Fondos Banorte Ixe, S.A. de C.V., Sociedad Operadora de Fondos de Inversión, as the merging company.

On July 13, 2018, the GFInter Merger became effective. Subsequently, on the same date, Banco Interacciones, the banking subsidiary of GFInter, merged into the Bank.

Banco Interacciones specialized in the financing of basic infrastructure projects through the making of loans to states, municipalities and companies related to the public sector and in the provision of deposit, financing and financial advisory services to all Mexican, federal, state and municipal, government entities, as well as state productive companies. We believe that Banco Interacciones' business and operations complement ours, in particular its government lending business, and we expect that after the full integration of our operations this will contribute to increases in our market presence in Mexico and to further diversification of our loan portfolio with a higher commission generating power.

Since the Interacciones Merger took place, we have made significant progress in its integration, particularly related to three key aspects: infrastructure business model, IT migration and operating expenses and cost of funding reduction. As a result of the Interacciones Merger, at the time we consolidated our position as the fourth largest bank in Mexico in terms of total assets, performing loans and core deposits, according to information published by the CNBV, and we strengthened our government lending business.

Anti-Fraud Measures

Our branches have sophisticated tools and procedures to minimize fraud in connection with credit and debit cards, checks, branch transactions and internet banking. We use a central system that was deployed ten years ago and has been recently updated. Anti-fraud programs for credit and debit cards examine transactions in real time or near real time occurring at the respective POS or ATM, while anti-fraud programs for checks, branch transactions and internet banking are based on an examination of certain parameters and customer profiles. In each case, alerts as to possible fraud are immediately transmitted and evaluated by a team of our specialists. Any confirmed fraud in connection with credit and debit cards is reported to Visa or MasterCard, and as applicable, to regulatory authorities, and is subject to our internal procedures to block cards or accounts and reissue cards. Our anti-fraud department operates 24 hours a day, seven days a week, and is linked with other internal departments, such as investigations, audit, legal, security information and human resources, which are available to provide support for anti-fraud activities. In 2022, we invested U.S. \$168 million in technology, procedures and training to continue improving our anti-fraud processes. In 2023, we invested U.S.\$253 million in our cybersecurity program. In 2024, we expect to invest U.S.\$140 million in our cybersecurity program during the remaining quarter of 2024. We continuously work on new projects to enhance and integrate our anti-fraud management.

Cybersecurity

Our Cybersecurity team, as part of its continuous improvement approach to processes, procedures, and technology, has been executing biennial Programs (a set of projects with common benefits) since 2015, aimed at evolving the Security function to meet emerging needs and align with Business Objectives. The programs executed to date include: FORTSEC (2015–2017), TASKFORCE (2016–2018), QUANTUM (2018–2021), and, most recently, RESOLUTION (2021–2024).

Within the RESOLUTION Program, a Subprogram called CTIR was implemented from 2023 to its conclusion this year. Through this, we developed the CTIR (Cyber Threat & Incident Response) operational model to tackle organizational challenges such as digitalization, the rise in cyber threats, and process automation. This model has enabled us to integrate advanced capabilities for targeted threat hunting across specific areas: cyber fraud, servers, networks, authentication, and data. Key achievements from this program include:

- Creation of the AS-IS models for First Responder and Threat Management Operational Models.
- Development of the To-Be Model for Cyber Threat Management.

- Development of an Automation Model.
- Implementation of a new platform to strengthen Cultural Transformation at Banorte.
- Implementation of solutions to enhance database monitoring and protection capabilities.

In 2024, we introduced the VIGILANT Program, which focuses on:

- **Vulnerability Management:** An annual program must be generated to address technical vulnerabilities in the Bank's platforms and applications.
- **Automation:** One of the main pillars and part of the Security vision is the automation of Information Security processes, allowing the identification of possible deviations from operational thresholds, generating reports from Security technological tools, etc.
- **Strengthening the adoption of cloud challenges (IAAS, PAAS, SAAS).**
- **Infrastructure growth:** Focused on expanding resources such as storage and disk to keep security tools and platforms available and operational.
- **Increase of controls:** Associated with existing Information Security solutions, aiming to cover the remaining scope.
- **Technological renewal and strengthening required to keep Information Security technologies operational.**

Currently, the VIGILANT Program is underway (May 2024 – December 2025) and includes 12 projects, with 8 focused on strengthening practices and controls, and the remaining 4 targeting annual vulnerabilities.

Strategic Alliances

During 2020, we completed the migration of services to our Data Center in Querétaro, reinforcing the reliability, continuity, and growth capacity to meet present and collaboration demand for digital experiences. This migration was achieved thanks to collaboration across multiple divisions within the financial group, resulting in significant operational impact and, more importantly, an improved user experience. Additionally, we strengthened our Digital Banking strategy by partnering with leading fintech companies to accelerate the adoption of digital financial services in Mexico. This alliance aimed to provide seamless, efficient, and secure solutions, empowering clients with tools to manage their finances more intuitively. By embracing digital transformation in our processes, products, and services, we sought to meet the evolving financial needs of our clients. Furthermore, our collaboration with Google Cloud enabled us to modernize our infrastructure by integrating over 1,300 virtual machines, ensuring a flexible, scalable environment to support business continuity. With the support of Google Cloud's VMware Engine, we migrated our data to Google's network, enhancing the security and accessibility of our systems. Moreover, our portfolio includes comprehensive policies and information security procedures, reflecting our commitment to rigorous data protection standards and best practices. These policies are based on guidelines from international standards like ISO, ensuring robust data protection across the organization. We also launched the Cyber Threat Intelligence Center (CITIC) in 2022, a proactive approach to detecting and mitigating potential threats, while positioning us to tackle the cybersecurity challenges ahead. Our Data Protection Policy outlines the safeguards we apply across the group, ensuring that all personal data is handled with the utmost respect and in compliance with privacy regulations.

ATM Multivendor Solution

In June 2022, the strategic-commercial relationship with NCR (main provider of ATMs in Banorte) related to the Multivendor platform was formalized. This partnership aims to streamline time-to-market developments and enhance the ATM channel's strategic objective of achieving excellence and customer satisfaction. In 2024, through the personalization and digitization of ATM services, Banorte has implemented improvements such as language customization to English, HTML interface redesign, and reengineering of transaction flows in a phased approach. These enhancements, along with efficient integration into the back-end systems and alignment with the multichannel architecture, have significantly improved the customer experience and operational flexibility at ATMs.

Competition

We face strong competition in all aspects of our business from other Mexican financial groups, commercial banks, insurance companies and brokerage firms, as well as from non-Mexican banks and international financial institutions. Given

our focus on commercial and retail banking, we compete for both commercial and retail customers with large Mexican banks, including subsidiaries of foreign banks, which, like Banorte, are part of financial groups. We compete with the subsidiaries of foreign banks (principally those based in the United States and Spain). Our main competitors in Mexico are Scotiabank Inverlat, BBVA México, Banamex, Santander, HSBC and Inbursa. In some areas of Mexico, we also compete with regional banks, such as Banregio and Banco del Bajío.

Competition is also likely to increase as a result of the entrance of new participants into the banking sector. The Mexican banking authorities have recently granted a number of banking licenses for the establishment and operation of several new banking institutions, including:

- ABC Capital, S.A., Institución de Banca Múltiple
- Banco Base, S.A., Institución de Banca Múltiple, Grupo Financiero Base
- Banco Covalto, S.A., Institución de Banca Múltiple
- Banco Forjadores, S.A., Institución de Banca Múltiple
- Banco KEB Hana México, S.A., Institución de Banca Múltiple Filial
- Banco Sabadell, S.A., Institución de Banca Múltiple
- Banco Shinhan de México, S.A., Institución de Banca Múltiple
- Banco S3 Caceis México, S.A., Institución de Banca Múltiple
- Banco Bancrea, S.A., Institución de Banca Múltiple
- Bank of China México, S.A., Institución de Banca Múltiple
- BNP Paribas México, S.A., Institución de Banca Múltiple
- Consubanco, S.A., Institución de Banca Múltiple
- Fundación Dondé Banco, S.A., Institución de Banca Múltiple
- Mizuho Bank México, S.A., Institución de Banca Múltiple
- Industrial and Commercial Bank of China México, S.A., Institución de Banca Múltiple
- Bankaool, S.A., Institución de Banca Múltiple
- Revolut Bank, S.A., Institución de Banca Múltiple
- Banco Bineo, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte

The CNBV continues granting banking licenses to new participants.

The table below sets forth our rank in, and market share of, the Mexican banking industry in the following categories as of September 30, 2024, December 31, 2023 and as of December 31, 2022:

	September 30, 2024		December 31, 2023		December 31, 2022	
	Rank	Market Share	Rank	Market Share	Rank	Market Share
Total Assets	3	12.5%	3	12.7%	3	12.4%
Commercial loans ⁽¹⁾	2	14.3%	2	14.0%	2	14.1%
Consumer loans ^{(1) (2)}	4	12.1%	4	12.4%	4	12.2%
Mortgage loans ⁽¹⁾	2	19.1%	2	19.5%	2	19.1%
Total Deposits ⁽³⁾	2	14.1%	2	13.8%	3	13.0%
Demand deposits	2	13.3%	3	13.2%	3	12.6%
Time deposits	1	15.8%	2	15.0%	3	14.0%

Source: CNBV.

(1) Commercial, consumer and mortgage loans include only Stage 1 and Stage 2 loans.

(2) Include credit cards.

(3) Deposits do not include funding through money market, interbank loans or any other sources of wholesale funding.

Mexican law allows for 100% foreign ownership of the equity of Mexican financial groups and commercial banks and any individual or corporation is permitted to acquire control, through one or more transactions, of Mexican financial groups and commercial banks; *provided, however*, that the authorization of the SHCP or the CNBV, for financial services holding companies or banks, respectively, is obtained if the acquired interest exceeds 5% of the total capital stock of such an institution.

Commercial banks in Mexico also compete in the retail market Sofoles and Sofomes, both of which focus primarily on offering consumer and mortgage loans to middle- and low-income individuals and limited purpose banks (known as *bancos de nicho*). Until recently, the commercial credit market for middle- and low-income individual customers has been serviced almost exclusively by Sofoles and Sofomes. Currently, Sofoles and Sofomes are licensed to operate in Mexico. Sofoles and Sofomes may engage in certain specific lending activities and may, in certain circumstances, be supervised by the same regulatory authorities as commercial banks, but are prohibited from engaging in many banking operations, including foreign trade financing, receiving deposits, offering checking accounts and engaging in foreign currency operations. Traditional banks have begun to extend their credit services to the markets previously dominated by Sofoles and Sofomes.

Commercial banks also face increasing competition from other financial institutions that can provide larger companies with access to domestic and international capital markets as an alternative to bank loans. To the extent permitted by the Mexican Banking Law, we maintain a competitive position through our investment banking activities.

We acquired three U.S. based banking entities (INB in 2006, UniTeller in 2006 and Motran in 2007). We sold INB in March 2017, however we face strong competition in the United States from U.S.-based financial groups, commercial banks and other financial institutions as a result of these acquisitions. In particular, we expect to face competition from Wells Fargo & Company, Bank of America Corporation, J.P. Morgan Chase & Company and Banco Bilbao Vizcaya Argentaria, each of which has a significant presence in the regions covered by UniTeller.

Employees and Labor Relations

As of September 30, 2024, we had 28,084 employees of which 31.7% of our employees were unionized as of such date. All upper-level management positions are held by non-union employees. During each of the years ended December 31, 2023 and 2022 we had 27,370 and 25,535 employees, respectively. In general, we consider labor relations with our employees to be good. Since our privatization in 1992, we have never experienced a work stoppage or strike.

Under Mexican labor law, we are liable for severance payments to employees terminated without cause, being obliged to pay the corresponding seniority premiums to those employees. After 15 years of service, these seniority premiums are paid even in voluntary departures. In addition, we voluntarily provide benefits to qualified retired employees and disability and life insurance coverage on behalf of qualified employees. According to Mexican labor law, employees have the right to participate in business profits for which the provisions of the law are complied with annually. Furthermore, we have instituted certain other employee benefits and incentive programs to upgrade our workforce.

Properties

As of September 30, 2024, the book value of our real property was Ps. 12,803 million. Our principal executive offices are located in Mexico City and Monterrey, Mexico. We also have offices located throughout Mexico on 133 properties, comprising an aggregate of 319,477 square meters, of which we own 56 properties and lease 77 properties. Our aggregate branch space is 489,681 square meters. As of September 30, 2024, we owned 184 of the properties on which our branches were located and leased 955 of the properties.

Litigation and Regulatory Proceedings

Due to the nature of our transactions, we frequently encounter judicial, administrative and arbitration proceedings. Customers, users or suppliers may also take legal action against us. We are currently subject to a number of other legal and regulatory proceedings, including tax and labor claims, arising in the ordinary course of our business, none of which our management believes is reasonably likely to have a material adverse effect on our financial position or results of operations. See Note 35 to our Audited Consolidated Financial Statements and Note 25 to our Unaudited Condensed Consolidated Interim Financial Statements.

OUR CAYMAN ISLANDS BRANCH

General

The Cayman Islands branch of the Bank (“Banorte Cayman”) became a part of our branch network as a result of our merger with Bancreer. Banorte Cayman was initially registered under Part IX of the Companies Act (As Revised) of the Cayman Islands on February 22, 1991 as Banco de Crédito y Servicio, S.N.C. By Special Resolution dated February 9, 1993, the name of that entity was changed to Bancreer. On March 31, 2002, Banco Mercantil del Norte, S.A., which was registered under Part IX of the Companies Act (As Revised) on November 23, 1989, was merged into Bancreer, the surviving entity, subsequent to which the surviving entity was renamed “Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.” The registered office of Banorte Cayman is at CIBC Caribbean Bank and Trust Company (Cayman) Limited, CIBC FirstCaribbean House, 25 Main Street, P.O. Box 694, Grand Cayman KY1-1107, Cayman Islands. Banorte Cayman is the holder of a category “B” Banking License issued by the Cayman Islands Monetary Authority (“CIMA”), under the Banks and Trust Companies Act (As Revised) (the “CI Banking Law”) of the Cayman Islands. Holders of a category “B” banking license may have an office in the Cayman Islands and conduct business with other licensees and offshore companies but, except in limited circumstances, may not do business locally with the public or residents in the Cayman Islands. This license does not allow Banorte Cayman to take deposits from residents of the Cayman Islands or invest in any asset representing a claim on any person resident in the Cayman Islands, subject to certain exceptions such as exempted or ordinary non-resident companies and other licensees.

Activities

The main activities of Banorte Cayman are:

- to obtain funding, principally for the purposes of lending to Mexican clients; and
- to a lesser extent, to buy and sell securities in the international market and securities issued for funding purposes (such as Eurobonds and certificates of deposit).

Regulation of Banorte Cayman

Under Mexican law, the obligations of Banorte Cayman are obligations of Banorte as a whole. Indeed, Banorte Cayman is subject to the regulations issued by the CNBV and the Mexican Central Bank, including liquidity requirements. See “*Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities.*”

CIMA reviews all applications and is solely responsible for the licensing of banks and trust companies under the CI Banking Law.

Under the CI Banking Law, there are two basic categories of bank licenses:

- a category “A” license, which permits unrestricted domestic and offshore business; and
- a category “B” license, which permits only off-shore business. A category “B” license may be restricted to dealings with certain clients.

Banorte Cayman has been granted an unrestricted category “B” License.

Branches of foreign banks, such as Banorte Cayman, are not subject to separate capital adequacy requirements, but must maintain the minimum capital adequacy requirements required by their home jurisdictions.

CIMA’s enforcement powers under the CI Banking Law include the imposition of conditions (or further conditions) on a bank’s license; revocation of a license; appointing an adviser to advise a bank on the proper conduct of its affairs; appointing a controller to assume control of a bank’s affairs; and petitioning for a bank to be wound up by the court. These powers are exercisable if: (i) a bank is or appears likely to become unable to pay its obligations as they fall due; (ii) a bank is carrying on business that is, or is likely to be detrimental to the public interest or the interests of depositors or other creditors; (iii) a bank contravenes the regulatory laws or anti-money laundering regulations of the Cayman Islands; (iv) a bank fails to comply with a condition of its license, or any rule imposed by CIMA; (v) the direction and management of a bank’s business has not been conducted in a fit and proper manner; (vi) a director, manager or officer of the bank’s business is not a fit and proper person to hold his/her respective position; or (vii) a person acquiring control or ownership of the bank in accordance with the law is not a fit and proper person to have such control or ownership.

RISK MANAGEMENT

General

Our risk exposure comprises credit, liquidity, operational (including legal and technological), market and reputational risks.

- Credit risk is defined as the potential loss caused by the partial or total failure of a counterparty or issuer to perform an obligation to us. Credit risk can affect the performance of both our loan portfolio and investment portfolio.
- Liquidity risk encompasses funding liquidity risk, which refers to the inability to renew liabilities or acquire new ones at normal market conditions; and market liquidity risk, which refers to the inability to unwind or offset positions due to a lack of market depth, thereby affecting the value of an asset.
- Operational risk is the potential loss caused by failures or deficiencies in information systems and internal controls, or errors while processing transactions.
- Market risk is the potential loss due to adverse changes in market prices of financial instruments as a result of movements in interest rates, foreign exchange rates or equity prices, and the adverse effect on our traditional banking activities of interest rate and foreign exchange rate fluctuations.
- Reputational risk is an unquantifiable risk included in our risk management's manual, defined as the potential loss in the development of the institutional brand caused by a deterioration in stakeholders' perception, internal and external, on our solvency and viability.

We consider risk management an essential activity that requires continuous improvement and adjustment according to our operations.

Mexican financial authorities have formulated rigorous risk management regulations for the banking sector. The CNBV issued a set of requirements regarding risk management practices for all banking institutions in Mexico. Pursuant to the CNBV regulations, the management process must include sound measurement and monitoring methods. We have implemented policies and procedures, approved by our Board of Directors, that our management believes comply with the CNBV requirements.

Risk Management Organizational Structure

To help ensure adequate risk management, in 1997 our Board of Directors created the Risk Policy Committee in order to manage the risks we are exposed to and to ensure that the performance of our operations adheres to the established risk management objectives, guidelines, policies and procedures.

Furthermore, the Risk Policy Committee provides oversight on the global risk exposure limits approved by the Board of Directors and also approves the specific risk limits for exposure to different types of risk.

Our Risk Policy Committee designs the strategies to be followed in order to accomplish risk-return objectives and to this end it:

- decides on the strategies and policies related to mitigating financial risks, including the setting of risk limits;
- evaluates Banorte's overall risk-return ratio;
- analyzes sensitivities and stress testing scenarios;
- defines and monitors the general strategy for asset and liability management;
- defines our general pricing processes and monitors their effectiveness; and
- analyzes the impact of operational risk events.

Our Board of Directors reviews and approves the risk management strategies and limits set by our Risk Policy Committee. Our Risk Policy Committee includes three members of our Board of Directors (one of whom serves as Chairman), our Chief Executive Officer, Corporate General Director, Chief Risk Officer, Business Area Directors (without voting power)

and our Audit General Director (without voting power). Our Risk Policy Committee meets on a monthly basis or more frequently, as needed.

Our Risk Policy Committee receives information on a monthly basis with respect to credit risk, market risk, operational risk, reputational risk and liquidity risk. The policies and procedures of our internal operating committees are subject to approval by our Risk Policy Committee. These internal operating committees also report to our chief executive officer and are comprised of:

- Credit Committees and Workout Committees, which review credit risk;
- the Treasury Committee, which reviews market risk;
- the Assets and Liabilities Committee, or the ALCO Committee, which reviews liquidity risk, interest rate risk, and capital adequacy; and
- each of the Technology and Operations Committee, the Communications and Control Committee, the Fiduciary Business Committee, the Security Committee and the Integrity Committee, to review operational risks.

Credit Risk

Credit Policies

Credit risk management is an essential activity for banks. Banorte's credit policies and procedures are designed to centralize credit decisions to increase uniform application of credit criteria and minimize the risks associated with individual decision-making. Banorte's credit policies include quantitative criteria to ensure minimum credit quality standards.

Individual Loan Credit Risk Evaluation

Individual Loan Risk for Consumer Lending

We perform credit analyses of our individual consumer loans through a parametric credit scoring system. This scoring system considers factors such as the borrower's income, expenses, repayment capacity, demographic data, personal assets and credit history. The implemented scoring systems were developed using internal statistical data for each product.

This scoring system is available in each of our branches and is used to evaluate a wide array of consumer credit applications, including applications for residential mortgages, automobile loans, personal loans, credit cards and SME loans. Within each type of credit application, there can be several specially designed risk evaluation models. In addition, the scoring system has online access to credit bureau information and Banorte's internal records.

Loan applications are rejected if, based on the risk level assigned by the scoring system, the applicant is deemed to pose an unacceptable credit risk.

In addition to the scoring system used in origination, we use certain risk evaluation models and behavioral risk models in order to estimate increases in credit limits and assess the probability of non-fulfillment with respect to credit cards.

Individual Loan Risk for Commercial Lending

The evaluation process of a potential commercial borrower focuses primarily on the credit history of the owners and management, quality of production processes and facilities, historical and projected financial statements and collateral provided in connection with the loan. With respect to loans intended to finance a particular project, our evaluation relies primarily on the existence of technological alliances, the analysis of market conditions and the projected financial position of the borrower.

Account officers are responsible for reviewing commercial loan applications. Each commercial loan application is classified according to its industry sector and is then reviewed by a credit officer. In the case of loans exceeding Ps.40 million, the account officer must present a proposal to either:

- one of our Territorial Credit Committees,
- our National Credit Committee ("NCC"), or
- our Central Credit Committee, or

- depending on the loan amount approval limits as indicated below:

Credit Committee	Authority (Millions of Pesos)
Board of Directors	Related Loans Art. 73 LIC
Central Credit Committee	Greater than the NCC Authority
National Credit Committee (NCC)	685
Territorial Credit Committees	185

Loans for less than Ps. 40 million do not need committee approval, but must be approved by two of Banorte's officers, one of whom must be a senior credit officer. Loans above 10% of our net capital and loans to a related party must be approved by our Chief Executive Officer and must be presented to our Risk Policy Committee and our Board of Directors. In addition to our internal lending limits, we are also subject to certain lending limits imposed by law. For a discussion of these regulatory requirements, see "*Supervision and Regulation—Lending Limits*."

Individual Loan Credit Risk Measurement

Individual risk for wholesale loans is identified, measured and controlled through the use of target markets, criteria for risk acceptance, early alerts and Banorte's internal risk rating system ("CIR").

The target markets, criteria for risk acceptance and early alerts are tools that, together with the internal risk rating, are part of our loan strategy and support the estimated level of credit risk.

The target markets are categories of economic activity, separated by region, in which we are interested in granting loans based on economic research and loan behavior analysis as well as by expert opinions.

The risk acceptance criteria refer to 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 risks observed in the risk acceptance criteria are: financial, operational, market, enterprise's life cycle, legal and regulatory Risks, in addition to credit experience and management quality.

Early alerts are a set of criteria based on borrower information and indicators, as well as their environment, established as a mechanism for timely prevention and identification of a probable deterioration in the loan portfolio, thereby enabling us 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 4,000,000 UDIs in Pesos equivalent on the qualification date or borrowers with sales or incomes equal or greater than the equivalent of 14,000,000 UDIs in Pesos equivalent on their last annual financial statements.

Internal Advanced Model for Credit Card

On November 15, 2017, GFNorte received the approval from the banking regulator (CNBV) to use Internal Rating Based Models ("IM") to establish the credit card's reserve and the credit risk's regulatory capital requirements with an advanced approach (Document 111-3/706/2017).

The IMs improve credit risk management by estimating risk parameters from the bank's own experience and have been applied since February 2018. The aforementioned parameters are:

- Probability of Default.
- Severity of Loss.
- Default Exposure.

Basic Internal Model for Corporations

On November 30, 2021, GFNorte received approval from the banking regulator (CNBV) to use Internal Model (IM) for Corporations for reserves constitution and regulatory capital requirements by credit risk with a Basic Approach (Document 111-3/1472/2021) in Banco Mercantil del Norte, and on March 1, 2022 for Arrendadora y Factor Banorte (Documents 111-

1/160/2022 and 111-1/161/2022). 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 above 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 2022 (with January figures) at Banco Mercantil del Norte and starting in March 2022 (with February figures) at Arrendadora y Factor Banorte. The parameter authorized under the Basic Internal Model for Corporations is probability of default.

Monitoring

We operate a central compliance operations center in Monterrey, Mexico, that monitors compliance with the terms and conditions of loans. This central compliance operations center monitors the dates and payments of the loans, the conditions and covenants of the loans and any authorized exceptions to standard procedures.

The monitoring process also includes verification of the use of proceeds and contractual conditions, financial analysis of the borrower and guarantors, on-site visits to the borrower's place of business, confirmation of credit bureau information and analysis of the economic environment, among others.

Collections

The collection and recovery of Stage 3 loans is performed through a specialized collection unit (referred to as the Recovery Bank) with the established aim of maximizing the recovery of Stage 3 loans, as well as foreclosures and execution on collateral.

We have been improving our established program to transfer Stage 3 loans to our collection unit at earlier stages of loan deterioration in order to optimize their recovery and maximize our collection resources, while also allowing business areas to concentrate their efforts on more preventive measures and enhanced monitoring of performing customers in order to avoid credit problems.

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 risk of the different types of originators/issuers and counterparts. Credit risk is allocated through a risk rating obtained with an internal methodology, evaluations of external rating agencies or a combination of both. Maximum parameters of operation are also defined depending on the type of originator/issuer or counterpart, rating and type of operation.

The appropriate credit 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 relevant committee who, if considered appropriate, issues its authorization. Nevertheless, the Unit for the Comprehensive Risk Management ("UAIR" by its acronym in Spanish) is empowered to authorize counterparty credit lines (mainly financial entities) that comply with certain criteria through a parametric methodology approved by the Risk Policy Committee (or CPR by its acronym in Spanish).

In the case of derivative contracts, and in line with best practices, we use a methodology for calculating potential exposure of credit lines, which are analyzed and approved within the appropriate credit committee and are monitored on daily and monthly basis in the CPR, where guarantee analysis for derivative transactions is performed both for clients and financial counterparties.

The National Credit Committee has the authority to approve credit lines for derivatives with clients (except with respect to certain facilities for which the UAIR has the authority). For these transactions, the use of derivatives with margin calls is privileged in order to mitigate the risk of potential exposure to these transactions.

A potential exposure adjustment is considered to determine which lines of credit are adversely correlated (Wrong Way Risk, "WWR").

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 parameters:

- (i) 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 compared to the instrument of an equivalent government bond, the lower the probability of default and vice versa.
- (ii) The loss given default that could be experienced with respect to the total of the operation in the event of default, 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 default, the counterparties have signed ISDA contracts and netting agreements, in which credit lines and the use of collateral to mitigate loss in the event of default are implemented.

Portfolio Risk

We developed a portfolio credit risk methodology that, besides including international standards for identifying, measuring, controlling and monitoring risk, has been adapted to function within the context of the Mexican Financial System.

This credit risk methodology provides current value of the entire loan portfolio at Banorte, 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 take action to improve diversification, which will maximize profitability with the lowest risk.

The methodology considers the balance of each of the loans as the exposure of the loan portfolio, while for the financial instruments portfolio the exposure is calculated taking into account the present value of instruments and their future cash flows. This exposure is sensitive to changes in the market, thereby facilitating calculations under different economic scenarios.

The methodology also takes into consideration the probability of default, recovery rate associated to each client and the modeling of the debtor based on the Merton model. The probability of default is the probability that the debtor will not fulfill his or her debt obligation with the institution according to the originally agreed terms and conditions. The probability of default is based on transition matrixes based on the migration of the debtors through different risk rating levels. The recovery rate is the percentage of total exposure that is estimated to be recovered if the debtor defaults. The modeling 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 average 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 losses given the distribution of losses, at a specific confidence level that for our institution is 99.95% and the 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 our strategy. The individual risk identification tools and the portfolio credit risk methodology are periodically reviewed and updated in order to include new techniques that may support or strengthen them.

Liquidity Risk

Our liquidity risk management objectives are to:

- Comply with the risk appetite, as defined by the Board of Directors.
- Properly monitor our liquidity risk.
- Inform the senior management in a timely manner of the Liquidity Risk exposure and on any limits' and risk profile's deviation.
- Measure Bank's vulnerability to extreme market conditions and consider such results for decision making.
- Monitor 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.

Our liquidity risk policies include:

- Establishment of global and specific limits of our liquidity risk management.
- Measurement and monitoring of liquidity risk.
- Information and disclosure of liquidity risk to risk-taking areas, ALCO, Risk Policy Committee, the Board of Directors, Financial Authorities and to investors.

Liquidity risk is managed through a series of fundamental pillars that include the use of key indicators such as the LCR, liquidity gaps, as well as stress testing. The latter is based on a framework of policies and manuals, including a funding contingency plan and a contingency plan to preserve solvency and liquidity. Similarly, it is enhanced with monitoring limits and risk appetite metrics of Liquidity Risk.

The disclosure of metrics and indicators and their compliance with the established limits and the risk appetite are reviewed through monthly reports to the Risk Policy Committee, weekly reports to the ALCO and quarterly reports to the Board of Directors. The LCR measures liquidity risk based on 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. During the nine-month period ended September 30, 2024 and 2023, the average LCR was 156.34% and 175.26%, respectively. The aforementioned levels are above the risk appetite and the regulatory minimum standards. These results show that we can meet all of our short-term obligations in a crisis scenario.

Interest Rate Risk

Interest rate risk entails estimating its impact on the financial margin as well as on equity's economic value. Financial margin is the difference between interest income and costs associated to interest bearing liabilities (interest expense). Depending on the balance sheet structure, variations in interest rates may have either a positive or negative impact. On the other side, economic value measures variations on equity due to changes on interest rates.

Given that both financial margin and equity's economic value follows the structure of assets and liabilities in the balance sheet, the model used to estimate those metrics is a re-pricing gap 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.

Financial Margin Sensitivity

Financial Margin sensitivity is a metric that takes into consideration a twelve-month period. Only the bands with duration lower than one year are impacted by interest rate simulated fluctuations and consider a parallel and symmetric shift for both active and passive interest rates. Relevant considerations behind margin sensitivity calculations are:

- All financial assets and liabilities in the balance sheet are considered. The trading book is monitored separately.
- This metrics takes into consideration balance sheet behavioral models, such as mortgage prepayments and deposit attrition.

The balance sheet is regarded as static and constant through time. Neither organic growth nor structural or mix changes are considered.

Operational Risk

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 to:

- Enable and support the organization to reach its institutional objectives through prevention and management of operational risks.
- 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.
- Ensure that operational risks are properly quantified in order to adequately allocate capital taking into account the operational risk.

As part of our institutional regulations, we have documented policies, objectives, guidelines, methodologies and areas that have been designated responsible for managing operating risk.

The operational risk management directors maintain 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:

- internal control validations;
- institutional regulations management and control;
- monitoring of operating processes' internal control by means of control indicator reports, which are reported by the process comptrollers in the various areas;
- money laundering prevention process management;
- control and monitoring of the regulatory provisions; and
- 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.

Market Risk

Our objectives regarding market risk are to:

- Adequately monitor market risk.
- Maintain the senior management adequately informed.
- Quantify our exposure to market risk through the use of various methodologies.
- Define the maximum risk levels we are willing to maintain.
- Measure our vulnerability to extreme market conditions and consider such results when making decisions.

Our market risk policies include the:

- Operation of financial instruments exclusively through authorized markets and approved products.
- Establishment of global and specific limits of market risk.
- Measurement and monitoring of market risk through the Potential Loss commonly known as "expected shortfall" Back Testing, Sensibility Analysis and Stress Testing, among others.
- Information and disclosure of market risk to risk-taking areas, Risk Policy Committee, the Board of Directors, Financial Authorities and to the investors.

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, Sensibility Analysis and Stress Testing, which are used to measure the risk of traded products and portfolios in the financial markets. Based on Basel requirements referred in the document “Minimum Capital Requirements for Market Risk”, Banorte implemented during January the estimation of expected shortfall, thus substituting the estimation of VaR. In addition, it was implemented the valuation of derivatives using RFRs curves and curves adjusted by 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 our top executives, related to the market risk risk-taking.

Market Risk Exposure

Exposure of the Bank’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, foreign exchange and derivatives) classified for accounting purposes as trading assets.

The average Expected Shortfall of the Bank’s portfolio for the three months ended September 30, 2024 was Ps. 166.0 million, which means that our potential loss will be above Ps. 166.0 million in one out of a hundred days.

The following table sets forth the average, maximum and minimum values of the Expected Shortfall for the three-month period ended September 30, 2024:

	Three Months Ended September 30, 2024		
	Average	Maximum (Ps. millions)	Minimum
Interest rate	188	208	159
Foreign Exchange	41	65	16
Equity	-	-	-
Others (Spreads over yield, vega, CDS)	146	193	107
Diversification effect	(209)	(225)	(177)
Total	166	232	154

Complementary to expected shortfall and for strengthening risk analysis, Banorte tests under extreme conditions, also 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 Bank’s positions of extreme movements in risk factors.

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 it is necessary to make the required adjustments to the parameter.

Local Legal Risk

Banorte, as well as all financial institutions in Mexico, must be on compliance with the Mexican laws and regulations thereunder, in order to continue being part of the Mexican Financial System and carry out its operations, particularly rendering banking services. Therefore, and considering that Mexican banking activities are subject to several laws, there might be risks of probable significant changes or new reforms to the existing banking regulation, which have occurred in the past and may represent uncertainty in the future. Nevertheless, we believe that no significant changes that may adversely affect Banorte will occur in the foreseeable future. Mexico, as a country, has adopted, and tends to adopt, international standards and makes significant efforts to implement best domestic and international practices. As is the case for Total Loss-Absorbing Capacity (TLAC), which has recently been adopted by the Mexican Financial System.

On June 18, 2021, an amendment to the banking regulation was published in the Official Gazette, which sets forth that D-SIBs shall maintain an additional Net Capital Supplement that must be in addition to the minimum required Total Net Capital ratio and Capital Conservation Buffer.

The new Net Capital Supplement corresponds to the greater of 6.5% of the total risk weighted assets and 3.75% of the adjusted assets, calculated according to the leverage ratio. The supplement will have a deferred implementation over a period of four years considering 25% of the total supplement per year, starting on December 2022 and ending with 100% of the total supplement by December 2025. As of the date of this offering memorandum, 50% of the Net Capital Supplement is required. For purposes of this offering memorandum, we have assumed that the applicable Net Capital Supplement of the Bank will be calculated based on the 6.5% of the total risk weighted assets as of each of December 31, 2024 and December 31, 2025.

MANAGEMENT

Board of Directors

Management of our business is vested in our Board of Directors, which is currently composed of 14 regular members, each elected for a one-year term at our annual ordinary general meeting of shareholders, and is responsible for the management of our business.

The following table sets forth our current directors and their alternates:

<u>Directors</u>	<u>Alternate Directors</u>
Carlos Hank González (Chairman)	Graciela González Moreno
Juan Antonio González Moreno	Juan Antonio González Marcos
David Juan Villarreal Montemayor	Alberto Halabe Hamui (Independent)
José Marcos Ramírez Miguel	Gerardo Salazar Viezca
Carlos de la Isla Corry	
Alicia Alejandra Lebrija Hirschfeld (Independent)	Roberto Kelleher Vales (Independent)
Clemente Ismael Reyes Retana Valdés (Independent)	Cecilia Goya de Riviello Meade (Independent)
Mariana Baños Reynaud (Independent)	José María Garza Treviño (Independent)
Federico Carlos Fernández Senderos (Independent)	Manuel Francisco Ruiz Camero (Independent)
David Peñaloza Alanís (Independent)	Carlos Césarman Kolteniuk (Independent)
José Antonio Chedraui Eguía (Independent)	Humberto Tafolla Núñez (Independent)
Alfonso de Angoitia Noriega (Independent)	Carlos Phillips Margain (Independent)
Thomas Stanley Heather Rodríguez (Independent)	Diego Martínez Rueda-Chapital (Independent)

Members of our Board of Directors receive cash fees per meeting equal to the market value of two Ps. 50 gold coins commonly referred to as *centenarios*.

Our bylaws provide that the Board of Directors may designate committees. Our principal committees are the following:

Audit Committee

The purpose, composition, authority and responsibilities of our Audit Committee have been established in a charter approved by the Board of Directors in accordance with Mexican law. The Audit Committee's primary purpose is to assist the Board of Directors in defining, verifying and assessing the effectiveness of our internal control system, overseeing the management and conduct of our business, and fulfilling shareholder resolutions. The Audit Committee is responsible for following up on external and internal audit activities and keeping the Board of Directors informed about their performance. Moreover, the Audit Committee oversees the preparation of financial reports in accordance with regulations and accounting principles applicable to financial institutions. The Audit Committee is also responsible for overseeing cybersecurity. The current members of the Audit Committee, all of whom are independent, are Thomas S. Heather Rodríguez (Chairman), Clemente Ismael Reyes Retana Valdés, Alicia Alejandra Lebrija Hirschfeld and Diego Martínez Rueda-Chapital.

Risk Policy Committee

Our Risk Policy Committee is comprised of voting members. The objective of the Risk Policy Committee is to manage our risk. The current voting members are: Carlos de la Isla Corry (Chairman), Clemente Ismael Reyes Retana Valdés, Thomas S. Heather Rodríguez, Diego Martínez Rueda-Chapital, José Marcos Ramírez Miguel and Gerardo Salazar Viezca. The Risk Policy Committee can invite guests that shall not have voting privileges and will include our internal auditor.

Human Resources Committee

Our Human Resources Committee aims to appropriately compensate our staff, protect our integrity, stability, competitiveness and financial soundness and to support our Board of Directors in its functions relating to our compensation system, through the approval of determinations in connection with its human resources and the establishment of a regulatory framework. Our Human Resources Committee is responsible for the implementation, maintenance and evaluation of activities regarding our compensation system. The current members of our Human Resources Committee are: Thomas S. Heather Rodríguez (Chairman), Diego Martínez Rueda-Chapital, Gerardo Salazar Viezca, Javier Beltrán Cantú, Rafael Arana de la Garza and Isaías Velázquez González (non-voting member).

Alternate Directors

Alternate Directors have been appointed at our annual shareholders' meeting to substitute for Directors in cases of permanent or temporary absences. An Alternate Director attends meetings of our Board of Directors when called to substitute for a Director.

Statutory Auditors

In addition to the Board of Directors, our bylaws provide for a statutory auditor to be designated at a Board of Directors meeting with previous recommendation from the Audit Committee and, if determined at such meeting, an alternate statutory auditor. Under Mexican law, the duties of statutory auditors include, among other things, the examination of the operations, books, records and any other documents of a company, the determination of whether accounting standards and policies have been followed, and the presentation of a report of such examination at the annual ordinary general meeting of shareholders. Our statutory auditors are Galaz, Yamazaki, Ruiz Urquiza, S.C., affiliated member firm of Deloitte Touche Tohmatsu Limited.

Principal Officers of Banorte

The following persons are our principal officers:

Name	Position	Years with Banorte	Age
Carlos Hank González.....	President and Chairman of the Board	10	53
José Marcos Ramírez Miguel	Chief Executive Officer	14	61
Rafael Arana de la Garza.....	Managing Director, Chief Operation Officer and Chief Financial Officer	13	72
Carlos Eduardo Martínez González.....	Managing Director, Government Banking	25	60
Jose Armando Rodal Espinoza.....	Managing Director, Wholesale Banking	32	54
Mario Alberto Barraza Barrón	Managing Director, Commercial Banking	27	62
Héctor Avila Flores	Managing Director, Legal	10	57
José Francisco Martha González	Managing Director, Digital Business	10	54
Isaías Velázquez González.....	Managing Director, Audit	26	62
Gerardo Salazar Viezca	Managing Director, Chief Risk Officer	5	63
Sergio García Robles Gil.....	Managing Director, Corporate Officer	30	63
Fernando Solis Soberón.....	Managing Director, Product Development	17	63
Javier Beltrán Cantú	Managing Director, Administration and Human Resources	28	56

Each of our principal officers has extensive experience in the banking industry. Set forth below is biographical information for each of our principal officers.

Carlos Hank González, 53, Mr. Hank González holds a Bachelor's Degree in Business Management with specialization in Finance from Universidad Iberoamericana. Currently he is Chairman of GFNorte's Board of Directors, a position he has held since January 1, 2015. In Gruma, a global leader in corn flour and tortilla production with operations in more than 100 countries, Mr. Hank González has played a key role since December 2012, when he became Vice President of the Board of Directors and joined the Executive Committee to design a healthy and responsible financial strategy that generated value for the company. Mr. Hank González is a member of the board of directors of the Mexican Stock Exchange (*Bolsa Mexicana de Valores, S.A.B. de C.V.*) and Grupo Televisa, S.A.B. and the chairman of the board of directors of Cerrey, S.A. de C.V.

José Marcos Ramírez Miguel, 61, Mr. Ramírez Miguel holds a Bachelor's Degree in Actuarial Science from Universidad Anahuac, a Postgraduate Degree in Finance from Instituto Tecnológico Autónomo de México ("ITAM") and an MBA from Escuela Superior de Administración y Dirección de Empresas (E.S.A.D.E.) in Barcelona. Mr. Ramírez Miguel is the Chief Executive Officer of GFNorte and the Bank since November 2014.

Rafael Arana de la Garza, 72, Managing Director, Chief Operation Officer and Chief Financial Officer. Mr. Arana joined us in September 2011 and has a bachelor's degree in Electrical Mechanical Engineering. He has previously worked as Grupo Financiero HSBC, S.A. de C.V.'s Managing Director, Personal Banking, for Latin America and the Caribbean, as well as Associate Managing Director for HSBC México.

Carlos Eduardo Martínez González, 60, Managing Director, Government Banking. Mr. Martínez joined us in 1996 and has a master's degree in Banking. He previously worked at Grupo Financiero Santander Serfin, S.A. de C.V.

José Armando Rodal Espinosa, 54, Managing Director, Wholesale Banking. Mr. Rodal joined us in April 1993 and has a master's degree in Business Administration. He has previously worked as Managing Director of Executive Corporate and Enterprise Banking in Banorte.

Héctor Ávila Flores, 57, Managing Director, Legal. Mr. Ávila holds a Bachelor's Degree in Law from Universidad La Salle, with a specialization in Finance Law from ITAM. He has been Secretary of GFNorte's Board of Directors since April 2011. Currently, he is GFNorte's Managing Director, Legal and has more than 13 years of experience in the Mexican financial system.

José Francisco Martha González, 54, Managing Director, Methods of Payment, IT & Digital. Mr. Martha joined us in 2014. He is a Chemical Engineer in Processes of the Universidad Interamericana and has a master's in Economics Project Management and Control at the ITESM-México. He previously worked as General Director of IT in Scotiabank from 2008 to 2014. On January 25, 2024, Mr. Martha was appointed as General Manager of Digital Business Development of GFNorte.

Isaías Velázquez González, 62, Managing Director, Audit. Mr. Velázquez holds a Bachelor's Degree in Public Accounting from Instituto Politécnico Nacional. He has previously worked as Executive Director - Secretary of GFNorte's Audit & Corporate Practices Committee.

Gerardo Salazar Viezca, 63, Managing Director, Chief Risk Officer. Mr. Salazar holds a Bachelor's Degree in Economics from Universidad Iberoamericana. He has also stood out in academics as a teacher and by virtue of his graduate studies, including a PhD, master's degrees and specializations in Economics, Business Administration, Finance and Social Science in institutions such as ITESM, Universidad Iberoamericana (of which he was the Economics Department Director), ITAM, Harvard University and New York Institute of Finance. Formerly, CEO of Banco Interacciones from 2004 to 2018 and Risk Management Corporate Director of Grupo Financiero Interacciones from 2002 to 2004. Previously, he was Corporate Banking Director, both at Bancomer and BBVA México.

Sergio García Robles Gil, 63, Chief Managing Director, Corporate Officer. Mr. García joined us in October 1994 and has a master's degree in Business Administration. He has previously worked at Fina Consultores.

Fernando Solís Soberón, 63, Managing Director, Long Term Savings. Mr. Solís joined us in July 2007 and has a bachelor's degree and master's degree and a Ph.D. in Economics. Other entities for which he has worked include Grupo Nacional Provincial, the CONSAR, and CNSF. On January 25, 2024, Mr. Solís was appointed as General Manager of Product and Segment Development, previously integrated under Commercial Banking of GFNorte.

Javier Beltrán Cantú, 56, Managing Director, Administration and Human Resources. Mr. Beltrán joined us in 1996 and has a master's degree in administration from Instituto Tecnológico EGADE – Graduate School in Business Administration and Management. He also has a master's degree in Accounting from the University of Texas. He has previously worked as Deputy Managing Director, Administration and Human Resources in Banorte.

Mario Alberto Barraza Barrón, 59, Managing Director Comercial Banking. Mr. Barraza joined us in October 1997. He is Computer Systems Engineer and has a bachelor's degree in Business and Finance. He has previously worked in the Financial Planning area at Grupo Maseca, in Corporate Finance in Operadora de Bolsa Grupo Financiero Serfin, as well as Grupo Industrial Saltillo. On January 25, 2024, Mr. Barraza was appointed as General Manager of Commercial Banking, of GFNorte, reporting to its CEO and taking on the responsibilities of Branches, Contact Center, Management Channels and Planning and Commercial Comptroller.

Compensation

For the nine-month period ended September 30, 2024, the aggregate compensation paid by us to the members of our Board of Directors was Ps. 7.22 million. Excluding any amounts received as members of our Board of Directors, the gross amount of salaries and bonuses we paid to members of our senior management for the nine-month period ended September 30, 2024, was Ps. 250.5 million.

For the year ended December 31, 2023, the aggregate compensation paid by us to the members of our Board of Directors was Ps. 9.01 million. Excluding any amounts received as members of our Board of Directors, the gross amount of salaries and bonuses we paid to members of our senior management for the year ended December 31, 2023, was Ps. 335.9 million.

RELATED PARTY TRANSACTIONS

Loans to Related Parties

Pursuant to Mexican rules and regulations, no loans may be made to:

- any bank officer or employee, except in connection with certain employee benefits;
- statutory auditors, including alternate statutory auditors;
- external auditors; and
- certain close relatives of any of the persons mentioned in the bullets above.

In addition, the Mexican Banking Law regulates transactions by a bank with affiliates and other “related party transactions” and limits the aggregate amount of these transactions to 35.0% of our Tier 1 Capital. Related party transactions may only be undertaken by Mexican banks if agreed upon on market terms. The CNBV may, upon request, grant exemptions from these provisions. As permitted by Mexican Banking Law, we currently provide loans to our employees at favorable rates.

Articles 73, 73 Bis and 73 Bis 1 of the Mexican Banking Law regulate and limit our loans to related parties, including loans to:

- holders of 2% or more of our shares or the shares of GFNorte or of an affiliate of GFNorte;
- principal and alternate members of our Board of Directors, or of the Board of Directors of GFNorte or of an affiliate of GFNorte;
- relatives of a Board of Directors member or of a 2% or more shareholder mentioned in the above categories;
- any person not an officer or employee who, nevertheless, is empowered to bind us contractually; and
- an entity in which we or any of our directors or officers, or any of the above persons holds, directly or indirectly, 10% or more of the outstanding capital stock, and board members, officers and employees of entities mentioned in any such entity.

A three-fourths majority of non-conflicted members of our Board of Directors present at the relevant Board meeting must approve such loans. Prior to such approval, however, the loan must undergo our customary review procedures for loans, which vary depending on the nature and amount of the loan, except that such loans must always be reviewed and recommended by the Credit Committee. Loans for amounts of less than 2,000,000 UDIs, or 1% of our Tier 1 Capital, whichever is greater, do not require approval by the Board of Directors. In addition, certain filings must be made with the CNBV with respect to such loans.

As of September 30, 2024, our loans to related parties under Articles 73, 73 Bis and 73 Bis 1 totaled Ps. 28,634 million, which comprised 2.6% of our total loan portfolio at such date. Our loans to related parties are made on terms and conditions comparable to other loans of like quality and risk. Of all the related party loans outstanding on September 30, 2024, 100% were graded “A” under the Loan Classification and Rating Rules. See Note 24 to our Audited Consolidated Financial Statements and Note 10 to our Unaudited Condensed Consolidated Financial Statements for further information regarding our related party transactions with our parent, subsidiaries and other affiliated companies.

PRINCIPAL SHAREHOLDERS

As of September 30, 2024, 98.26% of our capital stock was owned by GFNorte. Accordingly, GFNorte is in a position to elect all of the members of our Board of Directors and otherwise control the management and affairs of Banorte. The table below sets forth the ownership of our capital stock as of September 30, 2024:

Shareholder	Series O Shares Owned	Percentage
Grupo Financiero Banorte, S.A.B. de C.V. ⁽¹⁾	141,692,531,318	98.26%
Other ⁽²⁾	2,506,490,934	1.74%
Total	144,199,022,252	100.00%

- (1) As of April 29, 2024, the date of GFNorte's latest annual ordinary general shareholder's meeting, 9.64% of the shares of Grupo Financiero Banorte S.A.B. de C.V. were held by investment vehicles of the González Family, 2.66% were held by other directors, officers and trusts for GFNorte's employees and the remaining 87.70% was held by non-affiliated third parties.
- (2) These shares are held by various third parties.

THE MEXICAN FINANCIAL SYSTEM

General

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, popular financial entities, foreign exchange houses, factoring companies, bonded warehouses, financial leasing companies, mutual fund companies, pension fund management companies, limited purpose financial institutions and financial technology institutions ("Fintech Institutions"). In 1990, the Mexican government adopted the Financial Groups Law (aimed at achieving the benefits of universal banking, which permits a number of financial services companies to operate as a financial services holding company). The Financial Groups Law was amended and restated on January 10, 2014, as a consequence of the Financial Reform. 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. This is the model currently prevailing in Mexico.

Nationalization and Subsequent Privatization

In September 1982, Mexico's president decreed the nationalization of private Mexican commercial banks. Effective November 1982, a constitutional amendment was adopted to implement the nationalization, which granted the Mexican Government a monopoly on banking and credit services. The number of banking institutions was reduced from 68 to 29 in the first two years of nationalized banking. By virtue of the nationalization of the banks, the *Ley Reglamentaria de Servicio Público de Banca y Crédito* was published in the Official Gazette on December 31, 1982, replacing the *Ley General de Instituciones de Crédito y Organizaciones Auxiliares* of 1941. By 1988, the number had been further reduced to 18, of which six had national coverage, five were regional banks and seven were multi-regional banks. Only two banks, Banco Obrero, S.A. and Citibank N.A., were excluded from the nationalization and continued limited operations as privately-owned commercial banks.

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 Mexican 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, including foreign sovereigns, have been made more flexible.

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 Financial Groups Law (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 strengthened 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 Financial Groups Law 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 us, and made up of a number of financial operating entities.

On January 10, 2014, a new Financial Groups Law was published in the Official Gazette, which replaced the Financial Groups Law of 1990. The operations of financial services holding companies are generally restricted to holding shares

representing the capital stock of financial services operating subsidiaries. Such subsidiaries, whether direct or indirect, may include Mexican banks, broker-dealers, insurance companies, bonding companies, mutual fund operators, mutual funds, ancillary credit organizations (such as factoring, financial leasing and bond-warehousing companies), Sofomes, foreign exchange service providers, Afores, financing companies that provide credit to low-income borrowers (*sociedades financieras populares*), and Fintech Institutions. As a general rule, financial services holding companies must maintain a majority participation and effective control of at least two financial subsidiaries, provided that the holding of two Sofomes only will not constitute a financial services group.

The Financial Groups Law allows entities controlled by the same financial services holding company:

- 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;
- maintain common files, for anti-money laundering purposes, that may be used by all entities part of the financial group;
- use similar corporate names (except for Fintech Institutions); and
- conduct their activities in the offices and branches of other entities part of the same group.

In addition, the Financial Groups Law requires that each financial services holding company enter into an agreement (*convenio único de responsabilidades*) with each of its financial services subsidiaries 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.

Recent changes included in the Financial Groups Law of 2014 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, that are partially regulated and not subject to specific capitalization requirements.
- *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 to officers and directors, among other measures.
- *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 the duties provided in the Mexican Securities Market Law (*Ley del Mercado de Valores*) for public 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.
- *Investments by Foreign Governments*. Foreign governmental entities to acquire controlling interests and indirect interests in financial services holding companies and banks, and in circumstances such as financial distress.

On March 9, 2018, the Financial Groups Law was modified to permit Fintech Institutions to be part of Financial Groups; provided that Fintech Institutions that are part of a financial group may not use denominations or names similar to those used by the other financial institutions member of a financial group.

Authorities of the Mexican Financial System

The principal authorities that regulate and supervise financial institutions in Mexico are the Mexican Central Bank, 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 regulations that govern their regulatory, supervisory and other powers. Also, these entities continually enact administrative regulations within the scope of their respective authority for the regulation of the corresponding financial entities, as further mentioned below. We, as a banking institution, are subject to the supervision and regulation of the CNBV and CONDUSEF, particularly as related to retail consumer banking. In addition, our parent company (GFNorte) and its other financial subsidiaries are subject to the supervision and regulation of the mentioned CNBV and other corresponding financial authorities and are in constant interaction with such authorities during their normal course of business.

Mexican Central Bank

The Mexican Central Bank is an autonomous entity (*organismo constitucionalmente autónomo*) that is not subordinated to any other body in the Mexican federal government. Its primary purpose is to issue the Mexican currency, as well as to maintain the acquisition power of such currency, to establish reference interest rates, to approve fees and commissions charged by banking institutions, to regulate derivatives and to ensure that the banking and payments systems perform under safe and sound principles.

Monetary policy decisions are taken by the members of the Governing Board of the Mexican Central Bank. The Governing Board is composed of a Governor and four Deputy Governors, who are appointed by the President and ratified by the Senate or the Permanent Commission of Congress, as applicable.

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 regulator in charge of proposing, conducting and controlling the economic policy of the Mexican government in matters of economics, tax, finance, public budget, public debt and income. Together with the CNBV and the Mexican Central Bank, it is the primary regulator of commercial banks and national development banks. The SHCP participates in the process of incorporation, revocation, operation, merger, control and stock purchase of financial institutions, by providing opinions in each process.

CNBV

The CNBV is a governmental body subordinated to the SHCP and has independent technical and executive powers. The CNBV is in charge of the authorization, supervision and regulation of financial entities, 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, including imposing and supervising capitalization requirements and requirements for the creation of loan-loss reserves. The primary financial entities regulated by the CNBV are commercial banks, national development banks, regulated multiple purpose financial institutions, brokerage firms, as well as publicly traded companies and other entities that have issued securities to the public. The CNBV is also in charge of granting and revoking banking, securities brokerage and fintech licenses in Mexico.

CONSAR

The CONSAR is a governmental body under the SHCP and has independent technical and executive powers. The CONSAR was created in 1994 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, entities that manage independent retirement accounts, and *Siefores*, specialized pension funds. The CONSAR evaluates risks borne by the participants in the retirement savings system (*sistema de ahorro para el retiro*) and makes sure these participants are solvent and maintain adequate liquidity levels.

CNSF

The CNSF is a governmental body subordinated to the SHCP and has 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 financial support 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 subordinated to 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, suspend the distribution of information regarding financial services and products that it considers confusing, establish regulations and impose sanctions to financial institutions in order to protect consumers.

The History of the Banking Sector

Banking activities in Mexico have been and continue to be affected by prevailing conditions in the Mexican economy, and 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 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 and Stage 3 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 had assumed or intervened in the operations of 13 banks and had 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 the Mexican Central Bank to help banks with dollar liquidity problems;
- increasing the level of required 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 debtors (including debt restructuring and conversion support programs); and
- broadening the ability of foreign and Mexican investors to participate in Mexican financial institutions.

Reforms to Mexican Banking Law

On January 10, 2014, several amendments to the Mexican Banking Law were published in the Official Gazette, 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 granted 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, capitalization and loan classification, systems of internal control and risk management among other elements that may affect the financial position of banks.

Increasing requirements for the granting of loans to customers. For the granting of loans, 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 creditworthiness and ability of timely payment of the loan. 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 supervisory powers for 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:

- request any information and documentation related to the services rendered;
- practice inspection visits;
- require the attendance of partners, legal representatives and other employees; and
- 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 bylaws. The minimum required capital of limited-purpose banks can vary depending on the activities carried out by such entities, from a range of 90,000,000 UDIs to 36,000,000 UDIs. UDIs are *Unidades de Inversión*, a Peso-equivalent unit of account indexed to Mexican inflation.

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, in cases where Mexican commercial banks receive financial support or are rescued, when indirect investments are made or when control is acquired. 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," "Fundamental 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.

Adoption of the TLAC regulation in the Mexican banking system. On November of 2015, the Financial Stability Board (FSB) issued the Principles on loss-absorbing and recapitalization capacity of global systemically important banks (G-SIBs) in resolution, this included the total loss-absorbing capacity (TLAC) that intends to ensure that global systemically important banks (G-SIBs) have enough equity and bail-in debt to pass losses to investors and minimize the risk of a government bailout.

As a consequence of the global financial crisis and considering that Mexican authorities are part of the Financial Stability Board (FSB), on June 18, 2021, an amendment to the banking regulation was published by the CNBV in the Official Gazette. The CNBV adopted several measures in accordance with the FSB, such as classification of banks as Systemically Important Domestic Banks and requirements to absorb losses or conduct recapitalization when in resolution, without affecting critical and main functions of the bank and without disposing of accounts resources.

The standards of TLAC indicate that Global Systemically Important Banks (G-SIBs) must keep a minimum level of 6.5% of loss-absorbing capacity from total risk weighted assets. Furthermore, Systematically Important Domestic Banks (D-SIBs) should also adopt international standards and incorporate a supplement to the Net Capital that must be additional to the minimum required Capital Ratio and the Capital Conservation Buffer.

The new Net Capital Supplement will correspond to the greater of 6.5% of the total risk weighted assets and 3.75% of the adjusted assets, calculated according to the leverage ratio. The supplement will have a deferred implementation over a period of four years considering 25% of the supplement per year, starting on December 2022 and ending with 100% of the supplement by December 2025. Banorte expects to comply with the Net Capital Supplement requirements set forth in the Mexican Banking regulation.

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 Judicial Liquidation/Bank Bankruptcy Rules. The early warning, preventive and corrective action system changed. The Financial Reform 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 and the initiation of criminal proceedings against offenders. 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.

In addition, on March 9, 2018, the Mexican Banking Law was amended to (i) establish the regulation of the use of advanced electronic signatures and any other form of electronic authentication for the execution of transactions between banks and their customers, provided that such means comply with CNBV requirements and (ii) allow fintech institutions to be

organized and operate, including to be funded by the public. In addition, the definition of banking crimes was expanded to include more specific scenarios in which identity fraud occurs.

On April 17, 2023 the General Rules Applicable to Mexican Banks were amended in order to, among others, (a) strengthen the provisions that limit the maximum loss to a counterparty or group of interconnected counterparties that, due to their size, could jeopardize the solvency and continued operation of credit institutions and, therefore, avoid the possible dispersion between local or global systemically important banking institutions, (b) establish measures that allow credit institutions to identify and control the levels of concentration of exposures to counterparties or group of counterparties that could be related to each other to assess and limit the maximum loss that such institutions could have in case of insolvency of the respective counterparties or group of counterparties, (c) consolidate exposures for common risk groups that include those assumed for the financial subsidiaries of the debtors, by establishing new maximum funding limits, including a specific limit for risk groups associated with local or global systemically important banking institutions (see “*Supervision and Regulation—Lending Limits.*”), and (d) regulate a standardized and homogeneous treatment in the deduction of regulatory capital for computation purposes, in terms of international best practices, providing entries for prepayments and deferred charges with a term of more than, or equal to, twelve months.

Amendments to the Rules applicable to Derivative Transactions

On March 14, 2023, Mexican Central Bank published Official Communication 2/2023 (*Circular 2/2023*) in the Official Gazette, directed, among others, to credit institutions and other financial institutions regarding amendments to the rules applicable to derivative transactions set forth in Official Communication 4/2012 (*Circular 4/2012*), including the obligation of such financial institutions to post and receive initial and variation margins that would allow to decrease the counterparty risk in derivative operations and, therefore, minimize the systemic risk in the Mexican derivative market. Particularly, the modifications to Official Letter 4/2012 consist, among others, of the following: (a) the inclusion of the concept of “Non-Centrally Cleared Over the Counter Derivative Transactions,” which are defined as those whose clearing or settlement is not settled through clearinghouses or central counterparties; (b) the inclusion of the concept of initial margin and variation margin for derivative transactions that are not cleared or settled through clearinghouses or central counterparties; (c) within the margins, the establishment of guidelines for their creation and perfection, determination for their calculation, the models that can be used for their calculation, the obligations that must be met for the use of the calculation models, exceptions for the exchange of margins, thresholds for the exchange of initial margins, assets that can be accepted for the exchange of margins, as well as the requirements that the master agreements must meet for the exchange of margins; and (d) the identification of the entities that have to carry out the administration and custody of the assets that are received as collateral of initial margins, as well as the requirements for their contracting. Pursuant to the second transitory article of this official letter, the master agreements were required to be amended by March 15, 2024. The goal of these changes was to establish a procedure by which the exchange of margins will be carried out with respect to derivative transactions that are entered into over-the-counter markets and that will be subject to the exchange of margins.

Funding TIE (TIE de Fondo)

On April 13, 2023, the Mexican Central Bank published in the Official Gazette (i) Official Communication 3/2023 (*Circular 3/2023*) addressed to financial institutions, related to the amendments to Official Communication 14/2007 (*Circular 14/2007*) and (ii) Official Communication 4/2023 (*Circular 4/2023*), regarding the amendments to Official Communication 3/2012 (*Circular 3/2012*), in order to consider the recommendations of the Financial Stability Board, the Basel Committee on Banking Supervision and the International Organization of Securities Commissions, by establishing the transition from the TIE for terms longer than one banking business day to the Funding TIE (*TIE de Fondo* - i.e., to the TIE for terms of one banking business day), as well as the dates as of which the use of the TIE in local currency for terms longer than one banking business day, will be restricted as a reference for new transactions.

As per the second and third transitory articles of the Official Communication 3/2023, respectively, (i) as of January 1, 2024, financial institutions that enter into new financing agreements shall refrain from using as reference interest rate TIE for 91 and 182-day terms; however, financial institutions may continue using 91-day and 182-day term TIE as published by the Mexican Central Bank only for such loans granted before January 1, 2024 up until the maturity of such loans, and (ii) from January 1, 2025, financial institutions that enter into new loans or similar financing agreements shall refrain from using as reference interest rate TIE for 28-day terms; however, financial institutions may continue using 28-day term TIE as published by the Mexican Central Bank only for such loans granted before January 1, 2025 up until the maturity of such loans. For this purpose, Mexican Central Bank will continue to publish the TIE at 28, 91 and 182 days, but these rates will be determined based on a new methodology, which will no longer be based on a survey.

The Funding TIE shall be determined and calculated by the Mexican Central Bank, and is expected to better reflect the cost of funding in the Mexican financial markets.

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 bankruptcy law, which implies benefits for the Bank with respect to the operations and activities entered into with its clients.

Collateral Mechanisms

On June 13, 2002, the Mexican Commerce Code (*Código de Comercio*), the General Law of Negotiable Instruments and Credit Transactions (*Ley General de Títulos y Operaciones de Crédito*), the Mexican Securities Market Law, the Mexican Banking Law, the replaced Insurance Companies Law (*Ley General de Instituciones y Sociedades Mutualistas de Seguros*), the replaced Bonding 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 Crédito*) were amended with the purpose of providing 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; changes to these laws also permit the non-judicial foreclosure of collateral.

Laws regarding the perfection and enforcement of security interests include mechanism for pledging without transferring possession, as well as a common security device known in Mexico as the security trust. All personal property being used in a debtor's main business activity may be pledged, by making only a generic description of such property. The provisions regulating the security trust are similar to those governing pledges of personal property, except they provide that title to the collateral must be held by the trustee.

Also, for security pledges, there are provisions allowing the transfer of title to pledgee of the pledged assets, if agreed by the parties. Under the Mexican Securities Market Law, if the transfer of property over the pledged securities is agreed upon by the parties, the pledgee may apply the market value of the pledged securities to the payment of the corresponding obligation in the event of default, without requiring the enforcement of such pledge before a court.

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.

Reforms to the Bankruptcy Law

The Mexican Bankruptcy Law (*Ley de Concursos Mercantiles*) was published in the Official Gazette on May 12, 2000, and since such date it has undergone several reforms, including those published in the Official Gazette on January 10, 2014. By virtue of such reforms, and pursuant to Article 245 of the Mexican Bankruptcy Law, the insolvency of Mexican banking institutions is subject to the provisions of the Mexican Banking Law.

The Mexican Bankruptcy Law provides for a single insolvency proceeding encompassing two successive phases: a conciliatory phase of mediation between creditors and bankrupt debtor, and bankruptcy, which is only applicable to persons that carry out commercial activities, including individuals. The insolvency procedure applicable to persons that do not carry commercial activities, is regulated by the applicable Civil Code (*Código Civil*).

The Mexican 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 in respect of two or more creditors, and the existence of any of the following two conditions: (i) 35.0% or more of a debtor's outstanding liabilities are 30 days past due; or (ii) the debtor fails to have certain specifically defined liquid assets and receivables to cover at least 80.0% of its obligations which are due and payable.

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 comptroller (*interventor*), conciliator (*conciliador*), who mediates between creditors and the bankrupt debtor, and receiver (*síndico*).

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 Mexican Bankruptcy Law mandates the netting of derivative transactions upon the declaration of insolvency.

The Mexican Bankruptcy Law provides for a general rule 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, but which may be extended, up to three years, at the request of creditors, if the bankruptcy hypotheticals were presented at a prior time. This period is referred to as the retroactivity period. Nevertheless, upon the reasoned request of the conciliator, the comptroller, 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 Mexican Bankruptcy Law was amended to incorporate provisions relating to pre-agreed insolvency proceedings, frequently used in other jurisdictions 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.

On January 2014, the Mexican Bankruptcy Law was further amended. Relevant changes include the following:

- First, the law introduces the concept of a statutory "subordinated creditor." "Subordinated creditor" is defined to include an unsecured creditor who has the same board members as the bankrupt debtor, or which is controlled by the debtor or is under common control with the debtor.
- The amendment authorizes the debtor to enter into credit facilities (similar to debtor-in-possession financings), if it is indispensable to continue the operation of the debtor.
- The amendments provide that the automatic stay is not applicable with respect to collateral consisting of real property collateral, unless such real property is strictly indispensable for the operation of the debtor's business.

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 seeks to improve disclosure standards as they relate to derivative transactions.

The Federal Law for Protection of Personal Data Held by Private Persons (*Ley Federal de Protección de Datos Personales en Posesión de Particulares*) that protects personal data collected by private individuals or entities was published

on July 5, 2010 and is now fully effective along with its Regulations. Under such law, we are required to ensure the confidentiality of information received from clients. We have modified our processes, procedures and systems as required to implement this law and the supervision of our activities thereunder and as a means to obtain the consent of our customers prior to using any personal information provided by them. We may be subject to fines and penalties in the event of violations to the provisions of such law.

On January 9, 2015, the General Rules Applicable to Financial Entities and Other Entities that Provide Investment Services (Disposiciones de Carácter General Aplicables a las Entidades Financieras y Demás Personas que Proporcionen Servicios de Inversión) (the “Investment Services Rules”) were published in the Official Gazette. The purpose of the Investment Services Rules, among others, was to have a single body of rules applicable to brokerage firms, credit institutions and investment advisors, companies that operate mutual funds and companies or entities that distribute shares of mutual funds.

In accordance with the Investment Services Rules, banks and brokerage firms rendering advisory services in connection with investments shall ensure that any advice, recommendation or suggestion given to the client is reasonable for such client, and consistent with the client’s investment profile.

The Investment Services Rules establish an obligation for banks and brokerage firms to create a committee which shall be responsible for the analysis of financial products offered by such entities, and whose members shall be independent from the structuring area of the relevant entity, or an equivalent institution or responsible person.

The Investment Services Rules also require the creation of an Analysis Committee. The Analysis Committee shall maintain minutes for each committee meeting held together with the relevant presentations, which documentation shall be kept by the entity and made available to the CNBV for at least five years.

The Analysis Committee shall approve each financial product offered, compensation of investment portfolios, guidelines in respect of the provision of services, and prior to its delivery, all information given to any client regarding any investment recommendation, which information shall include at least the prospectus or memorandum describing the relevant securities or offering.

The Investment Services Rules also provide that the board of directors of the relevant bank or brokerage firm shall approve the policies and guidelines required for each entity to:

- approve the terms and policies for such financial institutions to make the assessment of the client profile;
- carry out the analysis of the financial products to be offered to the clients; and
- comply with the evaluation of the “reasonableness” of recommendations, required to render advisory investment services.

Such policies and guidelines must be submitted to the CNBV within 10 days from its approval date, and the CNBV may order the relevant entity to incorporate corrections in order to make them consistent with the Investment Services Rules.

The Investment Services Rules provide that each bank and brokerage firm must appoint an officer to verify compliance of each firm with the Investment Services Rules.

Reforms to the Mexican Securities Market Law

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

Offerings of Securities Abroad. The CNBV must be notified of any type of securities’ offerings made outside of Mexico, in the case of securities issued by Mexican entities, 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, based upon guidelines approved by the board of directors.

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

Capitalization Rules for Broker-Dealers. The capitalization of broker-dealers has been harmonized to that of the banking institutions.

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 modified rules for the application of payments of securities pledged, without any judicial proceeding, and permitting the transfer of title to pledged securities.

Additionally, on December 29, 2023, several amendments to the Mexican Securities Market Law and the Investment Funds Law came into effect. These amendments are primarily aimed at expediting the registration of securities for new market participants.

Some of these amendments also pertain to publicly traded corporations, publicly traded investment promoting corporations, and structured instruments, which are mainly associated with easing legal constraints related to shareholder structure, poison pill provisions, mandatory conversion, and capital increases, where applicable.

Simplified Issuers. A new legal category called the “simplified issuer” has been established, along with specific regulations for the registration and management of its securities in the RNV to permit small and medium-size companies to place registered securities solely with institutional and accredited investors. Any entity that is not currently classified as an issuer (any person with securities registered in the RNV) may qualify as a simplified issuer and proceed to register its equity or debt securities in the RNV, however, it will not be applicable to shelf registration programs. The criteria for attaining the status of a simplified issuer will be defined by the CNBV through secondary provisions. The main features of the simplified issuer framework include: (i) simplified issuers will not be required to adhere to the corporate legal framework of a publicly-traded company (*sociedad anónima bursátil*) nor will they be subject to regulation related to mandatory tender offers, (ii) securities may only be offered to institutional and qualified investors, (iii) simplified issuers will not fall under the supervision of the CNBV, and neither their legal nor auditing advisors will be subject to the CNBV’s inspection and oversight powers, (iv) the registration process will be streamlined, requiring only a favorable opinion from the relevant Mexican stock exchange and a substantial participation of (and liability applicable to) Mexican *casas de bolsa*, (v) the prospectus and the offering documents will not be subject to review by the CNBV, (vi) the CNBV will issue general provisions to outline the required information to be included in the prospectus, as well as the underwriter’s responsibility to adhere to guidelines during its preparation, and (vii) underwriters will assume increased responsibility and oversight in the public offering process of securities issued by simplified issuers, including the structuring, auditing, and ensuring compliance with applicable regulations. This new rules are expected to permit Mexican small and medium sized companies, to tap capital from Mexican institutional investors.

ESG. To promote, inform, and evaluate the adoption of enhanced corporate practices by participants in the securities market, these amendments mandate the establishment of specific regulations related to sustainable development, which will include provisions aimed at advancing gender equity. Such regulations have not been enacted.

Shareholder Structure. The limitations on establishing restricted series or series with differentiated economic voting rights and non-voting shares have been removed after having been effect for decades, with the sole requirement being the disclosure of the relevant capital structure; it is expected that certain industries, such as fintechs, will use the limited or non-voting share mechanism, as a means to replicate structures currently available in markets different from the Mexican market. Restrictions concerning the offering and sale of stapled securities or *CPOs*, have also been lifted.

Change of Control Provisions. Specific restrictions on measures aimed at limiting the acquisition of shares in public companies or takeover attempts have been lifted. The new provisions are more flexible, as long as such provisions are not opposed to by more than 20% of the existing shareholders.

Capital Increases. Enhanced flexibility is provided to publicly traded companies regarding capital increases, which are not subject to mandatory preemptive rights or the necessary approval by shareholders. If the shareholders’ meeting opts to delegate authority to issue shares to the board of directors, the board may approve capital stock increases, without preemptive rights being applicable, and set disclosure exemptions for offerings.

Hedge Funds. Hedge funds are now regulated to enhance buy-side market participants.

Judicial Reform

On September 15, 2024, the executive branch of the Mexican government enacted an amendment to the Mexican Constitution, intended to implement significant changes to the structure and functioning of the judiciary branch. The Mexican judicial reform became effective on September 16, 2024, after its publication in the Official Gazette.

The Mexican judicial reform has four main objectives: (i) Mexican Supreme Court new composition; (ii) election by popular vote of all justices, magistrates and judges; (iii) substitution of the current Federal Judicial Council (*Consejo de la Judicatura Federal*), and the creation of a new judiciary tribunal with the ability to sanction judges, and (iv) new procedural rules, to be implemented in general terms as follows:

- A reduction in the number of justices on the Mexican Supreme Court from 11 to nine, a reduction in tenure from 15 to 12 years, the institution of biannual reviews of the Chief Justice and a single deciding body (instead of two chambers) whose sessions will be public, and the elimination of rights to retirement pension and to re-election.
- Replacement of the current Federal Judicial Council (*Consejo de la Judicatura Federal*, or CJF) with two new bodies independent from the Mexican Supreme Court, one administrative and one disciplinary, respectively. The Judicial Disciplinary Tribunal (*Tribunal de Disciplina Judicial*), comprised of five members elected by popular vote, and the Judicial Administration Body (*órgano de administración judicial*), comprised of five members, one appointed by the President, one by the Senate and three by the Supreme Court. The members of such bodies would serve a non-renewable term of six years and their chair will be renewed biannually.
- Election by popular vote for a nine-year term of all justices, magistrates and judges in Mexico and reduction of professional qualifications and elimination of judicial expertise, with re-election being possible. All justices and half of the current magistrates and judges will be renewed through an extraordinary election in 2025, in terms of the reform.
- Establishment of a maximum six-month period for the resolution of judicial matters, with sanctions imposed for violations. The Judicial Disciplinary Tribunal may investigate and impose sanctions if not resolved within the deadline, unless justifiable reasons exist.
- Prohibition to issue injunctions with general effects with respect to constitutional controversies, actions to control constitutionality, and *amparo* lawsuits filed against general laws or regulations.

The Mexican federal and local legislatures will have a period of 90 calendar days and 180 calendar days, respectively, from the effective date to make the necessary amendments to the relevant federal and local laws in order to enact the Mexican judicial reform. No assurance can be given as of the date of this offering memorandum regarding the final implementing legislation to be enacted by Mexican federal and local legislatures. For more information on the potential risk we may face due to changes in laws and related regulations, see “Risk Factors—Risks related to Mexico— Political and economic events in Mexico and Mexican governmental policies, including the recently approved judicial reform, may result in disruptions to, or interferences in, our business operations and financial condition”.

Reforms to Financial Laws in Administrative Procedure

On January 24, 2024, the SHCP published in the Official Gazette, the “Decree amending, adding, and repealing various provisions of financial laws in matters of administrative procedure” (*Decreto por el que se reforman, adicionan y derogan diversas leyes financieras en materia de procedimiento administrativo*, the “Decree”), which modifies the administrative sanctioning procedures and rules on the statute of limitations for financial regulators by amending several articles of the Mexican Transparency and Regulation of Financial Services Law (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*), the Mexican Protection and Defense of Financial Services Users Law (*Ley de Protección y Defensa al Usuario de Servicios Financieros*), the Mexican Banking Law, the Mexican Securities Market Law (*Ley del Mercado de Valores*), the Mexican Law to Regulate Financial Groupings (*Ley para Regular las Agrupaciones Financieras*), the Mexican General Credit Organizations and Auxiliary Activities Law (*Ley General de Organizaciones y Actividades Auxiliares del Crédito*), the Mexican Law to Regulate Credit Information Companies (*Ley para Regular las Sociedades de Información Crediticia*), the Mexican Investment Funds Law, (*Ley de Fondos de Inversión*), the Mexican Savings and Popular Credit Law (*Ley de Ahorro y Crédito Popular*), the Mexican Law to Regulate the Activities of Savings and Loan Cooperative Societies (*Ley para Regular las Actividades de las Sociedades Cooperativas de Ahorro y Préstamo*), the Mexican Credit Unions Law (*Ley de Uniones de*

Crédito), the Fintech Law, the Mexican Insurance Institutions Law (*Ley de Instituciones de Seguros*) and the Mexican Retirement Savings Systems Law (*Ley de los Sistemas de Ahorro para el Retiro*).

The purpose of the amendments is primarily to provide more certainty to the process whereby Mexican financial regulators may sanction financial entities, following previous criteria issued by the Supreme Court as to the unconstitutionality of certain legal provisions governing such sanction process. Accordingly, the Decree amends primarily: (i) the expiration period for financial regulators to impose sanctions (i.e., five years) and specific rules clarifying the starting point to compute such period (which mainly consist in computing such period from the time in which the illegal conduct was committed), as well as the interruption or suspension of such period in case that (i) the financial institution potentially subject to the respective sanction is not located in its registered address, and (ii) such financial institution appeals the acts related to the procedure to impose the sanction; and (ii) the period available to financial regulators to issue and notify a decision on the sanction or revocation procedures after such procedure is concluded (i.e., up to 180 business days).

SUPERVISION AND REGULATION

The following is a summary of certain matters relating to the Mexican banking system, including provisions of Mexican law and regulations applicable to financial institutions in Mexico, and of certain matters related to the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act's regulation of derivatives. This summary is not intended to constitute a complete analysis of all laws and regulations applicable to financial institutions in Mexico or of U.S. regulations applicable to such financial institutions.

Introduction

Our operations are primarily regulated by the Mexican Banking Law and the rules and regulations issued by the SHCP, the CNBV, the Mexican Central Bank and the IPAB. The authorities that supervise us and our operations are the SHCP, the Mexican Central Bank, CONDUSEF and the CNBV.

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. 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 correct, order a bank to correct, modify and, as precautionary measure, republish such balance sheets.

Additionally, each bank must publish on its website, among other information:

- the bank's 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 respective 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 the notes thereto;
- any information requested by the CNBV to approve the special accounting criteria, specific measures for loan-loss classifications and special registries;
- a detailed explanation of the main differences in the accounting standards used by the bank 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 bylaws.

The CNBV has the authority to impose sanctions for failure to comply with the provisions of the Mexican Banking Law, or the regulations issued thereunder. In addition, the Mexican Central Bank has authority to impose certain fines and administrative sanctions for failure to comply with the provisions of the Law of the Mexican Central Bank (*Ley del Banco de México*) and its regulations and the Law for the Transparency and Ordering of Financial Services, 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 and indirect acquisitions, 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 Mexican 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 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.

Provisions were 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. The Mexican Banking Law now includes a specific procedure for the dissolution and liquidation of Mexican banks.

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 certain 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.

Licensing of Banks

An authorization of the Mexican government is required to be organized and to conduct banking activities. The CNBV, with the approval of its Governing Board and subject to the prior favorable opinion of the Mexican Central Bank, 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*) of a banking institution pursuant to Articles 129 through 141 of the Mexican Banking Law (a "CNBV Intervention"). In addition, the Governing Board of the IPAB may also appoint a peremptory manager (*administrador cautelar*) if the IPAB provides liquidity, in accordance with applicable law, to a banking institution.

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 does not pay three or more checks for a total amount of two million UDIs, that have been excluded from a clearinghouse for causes attributable to the drawee institution in terms of the applicable provisions, 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 appointed by the IPAB will assume the authority of the Board of Directors and the shareholders. The peremptory manager will have the authority to represent and manage us with the broadest powers under Mexican law, will prepare and submit to the IPAB the bank's budget (for approval), will be authorized the contract liabilities, make investments, undertake acquisitions or dispositions and incur expenses, is authorized 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 License; Payment of Guaranteed Obligations

Revocation of Banking License. In the case that the CNBV revokes a license to be organized and operate as a banking institution, the IPAB's Governing Board will determine the manner under which the corresponding banking institution shall be liquidated in accordance with Articles 165 through 220 of the Mexican Banking Law. In such a case, the 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 set up for such purposes;
- constitute, organize and manage a new banking institution owned and operated directly by the 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 the IPAB considers as the best and least expensive option to protect the interests of bank depositors.

As described above, amendments to the Mexican Banking Law approved by the Mexican Congress will substitute these provisions.

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

- if the bank does not start operations within the term of thirty days as from the notification of such authorization;
- if the banking institution is dissolved or initiates liquidation according to the procedure in the Mexican Banking Law;
- 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 Ratios required under the Mexican Banking Law and the Mexican Capitalization Requirements;

- 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 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; 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 of such resolution 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 Banking Deposit Insurance Law (*Ley de Protección al Ahorro Bancario*) (“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 the Mexican Central Bank;
- 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, repurchase transactions 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 liabilities;
 - tax liabilities;
 - liabilities to the IPAB, as a result of the partial payment of obligations of the banking institution supported by the 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 the IPAB different from those referred to above;
- any other liabilities (other than those referred to below);
- preferred subordinated debentures;
- non-preferred subordinated debentures (such as the Notes); and
- the remaining amounts, if any, shall be distributed to stockholders.

Financial Support

Determination by the Banking Stability Committee. The Banking Stability Committee (the “BSC”), includes representatives of the SHCP, the Mexican Central Bank, the CNBV and the IPAB. In the case that the BSC determines that if a bank were to default on its payment obligations and such default may (i) generate, directly or indirectly, severe 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 BSC 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 resulting from the issuance of subordinated debentures, be covered or paid by the IPAB or any other Mexican governmental agency.

Types of Financial Support. In the case that the BSC makes the determination referred to in the prior paragraph, then the 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 options described below:

- If the BSC determines that the full amount of all of the outstanding liabilities of the relevant troubled bank (guaranteed and non-guaranteed) must be paid, then the financial support may be implemented through (a) capital contributions granted by the IPAB in accordance with Articles 151 through 155 of the Mexican Banking Law, or (b) credit support granted by the IPAB also 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 BSC 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, or transferring the assets and liabilities of such bank to a third party, as set forth in Articles 194 or 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 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 with respect to 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 minimum subscribed and paid-in capital for banks is set in accordance with three different components: credit risk, market risk and operational risk. Pursuant to the Mexican Banking Law and the General Rules Applicable to Mexican Banks, banks may participate in any of the activities and render the services as provided under Article 46 of the Mexican Banking Law, as well as those permitted under other laws.

In accordance with the capitalization rules in effect on the date of this offering memorandum, the minimum equity capital required for banks that engage in all banking activities under the Mexican Banking Law (such as Banorte) is 90,000,000 UDIs (Ps. 742 million as of September 30, 2024).

The Mexican Capitalization Requirements set forth the methodology to determine the net capital (*capital neto*) relative to market risk, risk-weighted assets incurred in its operation, and operations risk, which may not be less than the capital required in respect of each type of risk. 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. The Mexican Capitalization Requirements provide capitalization standards for Mexican banks similar to international capitalization standards, particularly with respect to the recommendations of the Basel Committee which includes the supervisory authorities of twelve major industrial countries.

Adoption of Basel III Standards in Mexico

On July 26, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, reached a 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 other things, 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.

On November 28, 2012, the CNBV published an amendment to the Mexican 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. 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 Fundamental Capital. The minimum Fundamental 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 Fundamental Capital standard to 7%. 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 Fundamental Capital, when the CNBV judges that a credit growth is resulting from an unacceptable build-up of systemic risk, and is based on the credit activities carried by the financial institution in foreign markets. The CNBV also has the authority to require any and all banks to hold additional countercyclical capital designed to cover adverse economic cycles, in the event that the aggregate financing received by the Mexican private sector grows at a higher level as compared to the level of growth of the Mexican economy.

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 Fundamental Capital requirement ranging from 0.60% to 2.25%, depending on a bank's systemic importance. In addition, D-SIBs shall maintain a Net Capital Supplement which must be additional capital to that required to meet the minimum Net Capital Ratios and the Capital Supplement.

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

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

In addition, for the classification of D-SIBs in categories, the Net Capital Supplement will also be considered.

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 Total Net Capital will include a Tier 1 Capital (*capital básico*) and a Tier 2 Capital (*capital complementario*). The minimum Total Net Capital ratio required for each bank shall be equal to 10.5%, including the Capital Conservation Buffer (or 8%, but subject to certain corrective measures) plus the applicable capital supplements.
- The Tier 1 Capital shall include:
 - a Tier 1 Capital ratio of at least 6%;
 - a Fundamental Capital coefficient of at least 4.5%; and
 - (a) a Capital Conservation Buffer equivalent to 2.5% of the risk-weighted assets, (b) in case of D-SIBs, the Systemically Important Bank Capital Supplement, and (c) the Countercyclical Capital Supplement.
- The Tier 1 Capital of the Total Net Capital will be divided into a Fundamental Capital (*capital básico fundamental*) and a Non-Core Tier 1 Capital (*capital básico no fundamental*).

For clarification purposes, Tier 1 Capital refers to the basic portion (*parte básica*) 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.

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

Total Net Capital consists of Tier 1 Capital (which, in turn, consists of Fundamental Capital and Non-Fundamental Capital) 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 Fundamental Capital, 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). Non-Fundamental Capital 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% of the outstanding amount of the instruments 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 (*fondo de reserva de capital*), 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 remainder 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.

In May 2016, given our status as a grade II D-SIB in Mexico, we were required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90%. We were required to implement and comply with these Capital Supplements in four equal parts in December of each year, on a cumulative basis, from December 31, 2016 through December 31, 2019. In May 2024, the CNBV ratified this requirement, confirmed the Bank as a grade II D-SIB and required us to implement an additional Countercyclical Capital Supplement, which we have estimated would correspond to 0.004%. Given our strong capital base, our Capital Ratios as of September 30, 2024 are well above such Capital Supplement requirements.

On June 18, 2021, an amendment to the banking regulation was published in the Official Gazette, which sets forth that D-SIBs requiring domestic banks to constitute a capital supplement to Total Net Capital equivalent to the maximum of (i) 6.50% of total risk-weighted assets and (ii) 3.75% of adjusted assets. The Net Capital Supplement is in addition to the already existing Capital Supplements and the Capital Conservation Buffer and has the objective to require domestic systemically important banks to have a minimum level of capacity to absorb losses and restore capital (known as “TLAC requirements”). Given our status as a grade II domestic systemically important bank, the Bank is required to implement and comply with this additional Net Capital Supplement in four annual steps, one fourth each December, from December 31, 2022 to December 31, 2025.

As a result of the foregoing, the minimum Capital Ratios applicable to the Bank as of the date hereof, to remain classified as Class I pursuant to the Mexican Capitalization Requirements, assuming the application of 6.50% of total risk-weighted assets as Net Capital Supplement, are as follows:

	Cap. Ratios	Minimum Capital Ratios				
	As of	Before				
	September	December				
	30,	31,	Commencing December 31,			
	2024	2025	2025	2026	2027	2028
Total Net Capital (<i>capital neto</i>) including Net Capital Supplement	19.23%	16.28%	17.90%	17.90%	17.90%	17.90%
Total Net Capital (<i>capital neto</i>)	19.23%	11.40%	11.40%	11.40%	11.40%	11.40%
Tier 1 Capital (<i>capital básico</i>)	19.00%	9.40%	9.40%	9.40%	9.40%	9.40%
Fundamental Capital (<i>capital básico fundamental</i>)	13.87%	7.90%	7.90%	7.90%	7.90%	7.90%

As of September, 2024, the Bank’s Capital Ratios were (i) 19.23% in the case of Total Net Capital, (ii) 19.00% in the case of Tier 1 Capital and (iii) 13.87% in the case of Fundamental Capital. Given our strong capital base, our Capital Ratios as of September 30, 2024 already comply with the additional Net Capital Supplement requirement as if it were to be fully implemented as of the date hereof.

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, within five business days after Mexican Central Bank has notified the CNBV the capitalization ratio of the bank, as well as verify its compliance with the corrective measures imposed. Class I is exempted from any corrective measure, but for the remainder of the categories such corrective measures 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 Total Net Capital 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 Capital Ratios 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 Capital Ratios 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.

In addition to the corrective measures applicable to Class II, 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 Capital Ratios, 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

In addition to the corrective measures applicable to Class II and III, 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 Capital Ratios;
- 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 Risk -Weighted Assets or may cause a higher deterioration on the Capital Ratios.

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 the Mexican Central Bank's monetary policy is to maintain the stability of the purchasing power of the Peso and in this context, to maintain a low inflation level. Given the historic inflation levels in Mexico, the efforts of the Mexican Central Bank have been directed towards a restrictive monetary policy.

Under this policy, the Mexican Central Bank has elected to maintain a short-term financial creditor stance with respect to the Mexican financial money markets, where every day, market commenced operations with a liquidity deficit which is then compensated by the Mexican Central Bank through daily operations in the money market to provide adequate liquidity and stability to those markets. The Mexican Central Bank's own experience has shown that its implementation of monetary policy is more effective if it starts from a deficit liquidity position at the beginning of each market day.

In order to manage its maturity exposures to the Mexican financial markets, the Mexican Central Bank 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 (*Depósitos de Regulación Monetaria*), and into

investment securities such as longer-term government bonds (*Bon-des*) and compulsory monetary regulatory bonds (*Brems*). At the same time, the Mexican Central Bank 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.

The Mexican Central Bank 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 additional reserve and compulsory deposit requirement on Mexican commercial banks. Bulletin 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 Ps. 10.4 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.

In 2020, the Mexican Central Bank reduced the reserve and compulsory deposit requirements of the Mexican Banks by Ps. 50 billion so that credit institutions could have additional resources to strengthen the continuity of their lending operations. Bulletin 7/2020 published on April 1, 2020 stated the amount of the deposit that each bank would receive. Ps. 15 billion was distributed pro rata among each of the development Banks and Ps. 35 billion was distributed pro rata among each of the commercial Banks.

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 the Mexican Central Bank, each banking institution receives interest on such deposits every 28 days. The Mexican Central Bank 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.

To promote the sound development of the financial system and improve monetary policies, on May 12, 2016, the Mexican Central Bank published in the Official Gazette the rules for auctions of *Bonos de Regulación Monetaria Reportables* ("BREMS R"), as an alternative for the banking institutions to comply with the compulsory deposit reserves (through the purchase of BREMS R). The BREMS R may only be acquired by Mexican banks, through auctions carried out by the Mexican Central Bank or through *reportos* (repurchase transactions). Thus, there is no secondary market for BREMS R. The BREMS R maintained by banking institutions may only be sold directly or through *reportos* to the Mexican Central Bank or to other banking institutions. Furthermore, on June 13, 2019, the Mexican Central Bank issued Bulletin 9/2019, allowing banking institutions to use its BREMS R to secure overdrafts (*sobregiros*) of their sole accounts (*cuenta única*) maintained with the Mexican Central Bank.

Classification of Loans and Allowance for Loan Losses

Non-performing and Stage 3 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.

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.

Renewed loans in which the borrower has not paid on time or when the accrued interest balance equals at least 25% of the original loan amount are considered past-due until evidence of sustained payment is obtained.

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.

We regularly evaluate 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

The loan portfolio is classified according to the rules issued by the SHCP and the methodology established by the CNBV. Our internal methodology authorized by such CNBV may also be used. In the case of consumer mortgage and commercial loans, we apply the General Rules Applicable to Mexican Banks for rating the loan portfolio as issued by the CNBV and published in the Official Gazette on June 24, 2013.

On June 24, 2013, the CNBV issued changes to commercial loan rating provisions. Such changes state that in order to rate a loan, the likelihood of default, gravity of the loss and exposure to noncompliance should be taken into account, as indicated later in this section.

Such provisions also establish general methodologies for rating and calculating the allowance for each type of loan, where also allowing credit institutions to classify and calculate allowances based on internal methodologies, when previously approved by the CNBV.

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 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 canceled 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 CNBV

The rules for grading 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 that estimate of such loss evaluates the probability of breach of contract, 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 hedges that need to be created in order to face the loan risk.

Depending on the type of loan, the probability of default, loss given default and exposure to default are determined by considering the following:

Probability of Default

- For non-revolving consumer loans, the probability of default is determined based on the number of days past due, the payments made on outstanding balances, the loan to asset value ratio, the type of consumer loan and the term to maturity, among others.
- For revolving consumer loans, the probability of default is determined based on the current situation and historical behavior of the borrower regarding the number of past due payments, number of days past due, the payments made on outstanding balances, as well as the percentage of utilization of the authorized line of credit.
- For mortgage loans, the probability of default is determined based on the number of days past due, highest number of past due payments over the last four periods, the borrower's willingness to pay and the loan to asset value ratio.
- For commercial loans, the probability of default is determined based on the type of borrower, the borrower's historical payment behavior, payment history with Infonavit, rating agencies' evaluation, financial risk, social-economical risk, financial soundness, country and industry risk, market positioning, transparency, standards and corporate governance.

Loss Given Default

- For consumer loans (non-revolving and revolving), the loss given default is determined based on the number of past due payments.
- For mortgage loans, the loss given default is determined based on the outstanding balance of the mortgage loan, unemployment insurance and the state where the loan was granted.
- For commercial loans, the loss given default is determined based on the value of the financial and non-financial collateral securing the loan, as well as guarantees granted by the borrower.

Exposure at Default

- For non-revolving consumer loans, the exposure at default is determined based on the outstanding loan balance as of the grading date.
- For revolving consumer loans, the exposure at default is determined based on the current percentage of utilization of the authorized line of credit line, which is used to estimate how much such utilization would increase in the event of a default.
- For mortgage loans, the exposure at default is determined based on the outstanding loan balance as of the grading date.
- For commercial loans, the exposure at default **(i)** in the case of uncommitted lines of credit, it is determined based on the outstanding loan balance as of the grading date and **(ii)** in the case of committed lines of credit, it is determined based on the current percentage of utilization of the authorized line of credit, which is used to estimate how much such utilization would increase in the event of a default.

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 be done by analyzing the risk of projects in the construction stage and operation evaluating the work's over-cost and the project's cash flows.

Liquidity Requirements for Foreign Currency-Denominated Liabilities

Pursuant to regulations of the Mexican Central Bank, the total amount of maturity-adjusted (by applying a factor, depending upon the 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), is 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 maintaining 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 the Mexican Central Bank;
- treasury bills, treasury bonds and treasury notes issued by the United States government or debt certificates issued by agencies of the U.S. government, which have the unconditional guarantee of the U.S. 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 or similar funds or companies approved by the Mexican Central Bank, that satisfy certain requirements; 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.

We comply with the applicable reserve requirement and liquidity coefficients in all material aspects.

Mexican Banking Regulation has incorporated Basel III best practices for liquidity risk, so Banks must report the *Coficiente de Cobertura de Liquidez* ("CCL") on a daily basis and also publish the average quarterly CCL. This measure is similar to LCR from Basel. The regulation establishes a minimum level for CCL of 100%.

Liquidity Requirements for Mexican banks

On August 23, 2021, the General Guidelines on Liquidity Requirements for Banking Institutions issued jointly by the CNBV and Mexico's Central Bank, were published in the Official Gazette (the "Guidelines"), which were amended on March 1, 2022.

The Guidelines were issued in accordance with the guidelines established by the Committee on Banking Liquidity Regulation for the implementation of the liquidity coverage ratio and the net stable funding ratio (the "New Liquidity Ratios") and intend to be consistent with the standards issued by the Basel Committee on Banking Supervision in terms of liquidity requirements, as long as the Mexican legal framework permits it. The main objective of the Guidelines is to promote the short-term resilience of banks' liquidity risk profiles by ensuring they have sufficient high-quality liquid assets to meet 30-day cash outflows during a significant stress scenario.

Pursuant to the Guidelines, Mexican banks shall submit to the Mexican Central Bank the results of the calculation of the New Liquidity Ratios, as well as the information necessary for their verification, in the form determined by the Mexican Central Bank through the Financial System Information Directorate and by means of computer systems or by any other means, including electronic means indicated for this purpose by the Mexican Central Bank, for which purpose it may prepare forms and operating aids.

The Mexican Central Bank will verify the calculations of the New Liquidity Ratios and will communicate the corresponding results to the CNBV. However, the CNBV may request the Mexican Central Bank, at any time, to verify the calculation of the New Liquidity Ratios, based on the information that the CNBV has obtained in the exercise of its inspection and oversight powers. Mexican banks will be required to maintain all documentary evidence of the information considered for the calculation of the New Liquidity Ratios, which must be made available to the Mexican Central Bank or the CNBV, upon their request.

Lending Limits

In accordance with the General Rules Applicable to Mexican Banks, on October 1, 2023, the application of large exposures regulatory framework came into effect (for global and domestic systemically important banks (GSIBs or D-SIBs) and on January 1, 2024 for the rest of the institutions), in order to limit the potential losses of banks against counterparty or group of interconnected counterparties, which due to their size would damage their solvency and operations. In this way, restrictions related to the diversification of financing operations are established as follows:

- The new general maximum financing limit for a counterparty or group of interconnected counterparties is 25.0% of the bank's Tier 1 Capital, and in the case of GSIBs or D-SIBs is 15% if the exposure is with another GSIBs or D-SIBs.
- Maximum limit of 100.0% of the Tier 1 Capital of the lending bank with the following persons:
 - The sum of the four largest debtors of the bank.
 - Sofomes of which the bank owns 99% of their capital.
 - State-owned companies.
 - Entities and agencies that are part of the Federal Public Administration.
 - Public trusts created by the Federal Government for economic development.

The above limits will not be applicable to the amount of loans drawn, or to the coverage of guarantees provided by individuals or groups of individuals representing common risk, which the bank has entered into prior to October 1, 2023, as long as they do not carry out restructurings or renewals of such loans. For these operations, the applicable limits are as follows:

- a Total Net Capital ratio greater than 8.0% and up to 9.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank, is limited to 12.0% of the bank's Tier 1 Capital;
- a Total Net Capital ratio greater than 9.0% and up to 10.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 15.0% of the bank's Tier 1 Capital;
- a Total Net Capital ratio greater than 10.0% and up to 12.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 25.0% of the bank's Tier 1 Capital;
- a Total Net Capital ratio greater than 12.0% and up to 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 30.0% of the bank's Tier 1 Capital; and
- a Total Net Capital ratio greater than 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 40.0% of the bank's Tier 1 Capital.

These lending limits are required to be measured on a quarterly basis. The CNBV has discretion to reduce the aforementioned limits, if internal control systems or the risk management of the bank is inadequate.

The following financings are exempt from these lending limits:

- financings guaranteed by unconditional and irrevocable security interests or guarantees, that may be enforced immediately and without judicial action, granted by Mexican credit institutions or foreign financial institutions with investment grade ratings and established in a country member of the European Union or the Organization for Economic Cooperation and Development (which guarantees must be accompanied with a legal opinion as to their enforceability);

- securities issued by the Mexican government and financings made to the Mexican government, Mexican local governments (subject to such financings being guaranteed by the right to receive certain Federal taxes), the Mexican Central Bank, the IPAB and development banks guaranteed by the Mexican government; and
- cash (transferred to the bank lender under a deposit that may be freely disposed of by the lender).

However, such financings may not exceed 100% of a bank's Tier 1 Capital.

Likewise, financings granted to Sofomes for which the bank owns at least 99% of its capital stock, are exempted from the aforementioned limits, but such financings may not exceed 100% of a bank's Tier 1 Capital. In turn, the controlled Sofomes maintain or grant financing (regardless of the origin of the resources) to a person or a group of persons representing common risk; such financing shall comply with the aforementioned limits.

The aggregate amount of financings granted to the three largest borrowers of a bank, may not exceed 100.0% of the bank's Tier 1 Capital.

Banks are not obligated to comply with the aforementioned limits with respect to financings granted to the Mexican federal government, local governments (subject to such financings being guaranteed by the right to receive certain Federal taxes), the Mexican Central Bank, the IPAB and development banks guaranteed by the Mexican government. The aforementioned guidelines do not apply to financings made to Mexican banks. The aggregate financings to Mexican banks and to government-controlled companies and decentralized agencies may not exceed 100.0% of such bank's Tier 1 Capital.

Banks are required to disclose, in the notes to their financial statements for Mexican Banking GAAP purposes, (i) the number and amount of financings that exceed 10.0% 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 diversify their funding 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 the case of loans and revocable credits, only the disposed amount will be counted. See *"Related Party Transactions—Loans to Related Parties."*

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 corresponding to the immediately preceding month. If the amount exceeds 25%, then the excess must be subtracted in order to determine Tier 1 Capital.

Foreign Currency Transactions

The Mexican Central Bank regulations govern transactions by banks, denominated in foreign currencies. Mexican banks may, without any specific additional approval, engage in spot, foreign exchange transactions (i.e., transactions having a maturity not exceeding four business days). Other foreign currency transactions are deemed derivative transactions and require approvals as discussed below. At the end of each trading day, banks are generally obligated to maintain a balanced foreign currency position (both in the aggregate and by currency). However, short and long positions are permitted in the aggregate, so long as such positions do not exceed 15% of a bank's Tier 1 Capital. In addition, Mexican banks must maintain certain minimum liquidity, prescribed by regulations issued by the Mexican Central Bank, in connection with maturities of obligations denominated in foreign currencies (see *"—Liquidity Requirements for Foreign Currency-Denominated Liabilities"*).

Derivative Transactions

The Mexican Central Bank has issued rules that apply to derivative transactions entered into by Mexican banks. Mexican banks are permitted to enter into swaps, credit derivatives, futures, forwards and options with respect to the following underlying assets:

- specific shares, groups of shares or securities referenced to shares that are listed in a securities exchange,
- stock exchange indexes,
- Mexican currency, foreign currencies and UDIs,
- inflation indexes,
- gold or silver,
- pork bellies, pork and cattle;
- wheat, corn, soybean and sugar,
- rice, sorghum, cotton, oats, coffee, orange juice, cocoa, barley, cattle, swine, milk, canola, soybean oil, and soybean paste, lean value hog carcasses, natural gas, heating oil, gasoline, gas oil, crude oil, aluminum, copper, nickel, platinum, lead and zinc,
- nominal or real interest rates with respect to any debt instrument and indexes referring to such rates;
- loans or other advances; and
- futures, forwards, options and swaps with respect to the underlying assets mentioned above.

Mexican banks require an express general approval, issued in writing by the Mexican Central Bank to enter into, as so-called intermediaries, derivative transactions, with respect to each class or type of derivative. Mexican banks that have not received the relevant general approval would require a specific approval from the Mexican Central Bank to enter into such derivative transactions (or even if in possession of such general approval, to enter into derivative transactions with underlying assets different from the assets specified above). Mexican banks may enter into credit derivatives, if expressly approved by the Mexican Central Bank; only Mexican banks, and no other financial institutions, may enter into credit derivatives (such as total return swaps and credit default swaps). Mexican banks may, however, enter into derivatives without the authorization of the Mexican Central Bank, 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 Requirements, does not timely comply with reporting requirements, or enters into transactions that contravene applicable law or sound market practices.

Banks 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 limits set forth in the Mexican Banking Law in respect of related party transactions.

Banks may collateralize derivative transactions through cash deposits, receivables and/or securities of its portfolio. Derivative transactions that are entered into in over-the-counter (OTC) markets, may be collateralized only when the counterparties are credit institutions, brokerage firms, foreign financial institutions, mutual funds, pension fund managers, Sofomes, and any other counterparty authorized by the Mexican Central Bank. Mexican banks are required to periodically inform their Board of Directors with respect to the derivative 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 the Mexican Central Bank periodically of derivative transactions entered into and whether any such transaction was entered into with a related party. The counterparties in respect of hedging derivatives transactions entered into by Mexican banks must be other Mexican banks, or Mexican financial entities authorized to enter into such derivatives by the Mexican Central Bank or foreign financial institutions or recognized markets. Derivatives must be entered into pursuant to master agreements that must include terms and guidelines, similar to international standards 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.

We have received approval from the Mexican Central Bank to engage in swaps, forwards and options related to stocks, indices, currencies, interest rates and credit default swaps.

Repurchase Operations and Securities Lending

Under a circular issued by the Mexican Central Bank, Mexican banks may enter into repurchase operations with Mexican and foreign counterparts. Repurchase operations may be entered into in respect of bank securities, Mexican Government securities, debt securities registered with the CNBV and certain foreign securities. Repurchase operations must be entered into under master agreements, such as the master agreements of the International Securities Market Association and the Public Securities Association. Collateral may be provided in connection with repurchase operations.

Mexican Central Bank has also authorized Mexican banks to participate in securities lending activities on terms similar to those applicable to repurchase operations. Under recent rules issued by the Mexican Central Bank, securities lending transactions may be entered into with respect to foreign securities listed at the *Sistema Internacional de Cotizaciones*, real-estate related certificates, debt securities and certain foreign issued securities, and regardless of the liquidity of the underlying securities.

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. In addition, members of a financial group may not extend credit 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 the Mexican Central Bank and the primary Mexican regulatory commission supervising the financial entity), members of a financial group may not accept as collateral shares of stock of Mexican financial institutions. Mexican banks may not acquire or receive as collateral, certain securities issued by other Mexican banks in authorization from the SHCP is required prior to acquisition of shares of capital stock of non-Mexican financial entities.

In addition, Mexican Banking Law imposes certain restrictions on investments by Mexican banks 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;
- 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 each class of the bank's board of directors; and
- for higher percentages and for longer periods, or in companies engaged in new long-term projects or carrying out development related activities, 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 requires the prior approval of the CNBV to invest in the capital stock of companies that render ancillary services to such bank and of companies that hold real estate where the offices of the applicable bank may be located.

Under the Mexican Banking Law, the approval of the CNBV is required prior to the merger of a commercial bank with any other entity taking into consideration the opinion of the Mexican Antitrust Commission and the favorable opinion of the Mexican Central Bank.

At the end of 2014, pursuant to the Mexican Financial Groups Law, the SHCP issued the General Rules for Financial Groups. These rules repealed the previous General Rules for the Incorporation and Operation of Financial Groups and provide the requirements for the operation of financial groups.

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 IPAB 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. Other exceptions include derivative transactions and repurchase transactions, subject to specific requirements.

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 (*Tesorería 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 Mexican Banking Law authorizes the SHCP, the Mexican Central Bank, the CNBV, the IPAB and the CONDUSEF 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, the SHCP, the Mexican Central Bank, the IPAB and the CONDUSEF 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.

Money Laundering Regulations

Mexico has in effect rules relating to money laundering; the set of rules applicable to banking institutions have been in effect since April 21, 2009 and have subsequently been amended (the "Money Laundering Rules").

Under the Money Laundering Rules, we are required to satisfy various requirements, including:

- the establishment and implementation of procedures and policies, including client identification and know your customer policies, to prevent and detect actions, omissions or transactions that might favor, assist or cooperate in any manner with terrorism or money laundering activities (as defined in the Mexican Federal Criminal Code (*Código Penal Federal*));
- implementing procedures for detecting relevant, unusual and suspicious transactions (as defined in the Money Laundering Rules);
- reporting of relevant, unusual and suspicious transactions to the SHCP, through the CNBV; and

- the establishment of a communication and control committee (which, in turn, must appoint a compliance officer) in charge of, among other matters, supervising compliance with anti-money laundering provisions.

We are also required to organize and maintain a file before opening an account or entering into any kind of transaction, for the identification of each client (each, an “Identification File”).

An individual’s Identification File shall include, among other information, a copy of the following documentation or data (which must be maintained and updated): (i) full name, (ii) gender, (iii) date of birth, (iv) nationality and country of birth, (v) tax identification number and the certificate evidencing the tax identification number issued by the SHCP or the population registry identification number and evidence thereof issued by the Ministry of Interior, as the case may be, (vi) occupation, profession, main activity or line of business, (vii) complete domicile (including telephone number), (viii) e-mail address, if any, (ix) advanced electronic signature series number, when applicable, and (x) a copy of certain identification documents specified in the applicable regulations.

An entity’s Identification File shall include, among other information, a copy of the following documentation or data (which must be maintained and updated): (i) corporate name, (ii) domicile, (iii) nationality, (iv) name of the sole administrator, the members of the Board of Directors, the general manager or any relevant attorney-in-fact, (v) main activity or line of business, (vi) tax identification number and the certificate evidencing the tax identification number issued by the SHCP, (vii) advanced electronic signature series number, when applicable, (viii) copy of the public deed containing its constitutive documents, and (ix) a copy of certain identification documents specified in the applicable regulations.

Identification Files shall be maintained for the complete duration of the corresponding agreement entered into with such client, and for a minimum term of ten years from the date such agreement is terminated.

The Mexican Banking Law requires banks to have a manual for anti-money laundering procedures that is approved by the board of directors and certified by the CNBV. Identification Files may be shared with other financial entities part of the same financial group.

Under the Money Laundering Rules, we must provide to the SHCP, through the CNBV:

- quarterly reports (within ten business days from the end of each quarter) with respect to transactions equal to, or exceeding, U.S.\$10,000;
- monthly reports (within 15 business days from the end of the month) with respect to international funds transfers, received or sent by a client, with respect to transactions equal to, or exceeding, U.S.\$10,000;
- reports of unusual transactions, within 60 calendar days counted from the date an unusual transaction is detected by our systems; and
- periodic reports of suspicious transactions, within 60 calendar days counted from the date the suspicious transaction is detected.

In June 2010, the SHCP issued regulations, as amended in September and December 2010 and August 2011, restricting cash transactions denominated in U.S. dollars that may be entered into by Mexican banks. Pursuant to such regulations, Mexican banks are not permitted to receive physical cash amounts, in U.S. dollars, from individuals in excess of U.S.\$4,000 per month for deposits. Mexican banks are also not permitted to receive physical cash amounts, in U.S. dollars, from their corporate clients, except in very limited circumstances.

Also, Mexican banks are not permitted to receive physical cash amounts, in U.S. dollars, from individuals, in excess of U.S.\$300 per day for individual foreign exchange transactions. In each case, the monthly amount per individual for such transactions cannot exceed U.S.\$1,500.

In addition, the enacted regulations set forth certain reporting obligations for Mexican banks regarding their U.S. dollar cash transactions, to the SHCP (through the CNBV).

In October 2012, the Federal Law to Prevent and Identify Transactions with Illegal Proceeds (*Ley Federal para la Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita*) was published in the Official Gazette (the “Money Laundering Law”). The Money Laundering Law became effective on July 17, 2013. Under such law, the SHCP is given broad authority to obtain information about unlawful activities, coordinate activities with foreign authorities and present

claims related to unlawful activities. This law also grants authority to the Federal Attorney General to investigate and prosecute illegal activities, in coordination with the SHCP. Pursuant to the law, we are required to satisfy the following requirements:

- the establishment and implementation of policies and procedures, including client identification and know your customer policies, to prevent and detect actions, omissions or transactions that might favor, assist or cooperate in any manner with terrorism or money laundering activities;
- the reporting of relevant, unusual and suspicious transactions to the SHCP, through the CNBV; and
- the maintenance of information and documentation regarding the client identification, as well as of relevant, unusual and suspicious transactions, for at least 10 years.

Additionally, pursuant to the Mexican Banking Law reforms published in the Official Gazette on January 10, 2014, the following sanctions were included, with the purpose of preventing and detecting operations that might encourage acts of terrorism:

- A fine of 10% to 100% of the amount of the activity, operation or service performed by an entity for a client or user the entity knows to be on the blocked persons list prepared by the SHCP;
- A fine of 10% to 100% of the amount of any unreported unusual transaction and, if applicable, any additional transactions related to same client or user involved in the unreported transaction;
- A fine of 30,000 to 100,000 days' worth of the minimum wage applicable in Mexico for significant transactions or, if applicable, a series of related transactions involving international transfers and unreported transactions in cash undertaken in a foreign currency;
- A fine of 5,000 to 50,000 days' worth of the minimum wage applicable in Mexico for other failures to comply with applicable law.

The amendments to the General Provisions on Money Laundering and Terrorist Financing published in the Official Gazette on April 25, 2014, September 12, 2014 and December 31, 2014, added the following obligations to the prevention of money laundering and terrorist financing:

- Provide the CNBV, through the Financial Intelligence Unit (*Unidad de Inteligencia Financiera*), within the first ten business days of January, April, July and October of each year, a report for each issuance or payment of cashier's checks carried out with its clients or users in the previous three months in an amount equal to or exceeding U.S.\$10,000.
- Inform the CNBV prior to, or simultaneously with, the sharing of information regarding money laundering and terrorist financing activities.
- Immediate cancellation of any transaction or service related to a client or user identified to be on the SHCP's blocked persons list and notification to the client that it has been included on such list.

Amendments to the Regulation on Money Laundering Prevention and Financing of Terrorism Applicable to Financial Institutions

In February 2017, amendments to the General Provisions on Money Laundering Terrorism Financing were published in the Official Gazette. The following are the principal changes resulting from such amendments:

1. Implementation of a Risk-Based Approach

Banks must incorporate and implement methodology to carry out a risk assessment arising from their products, services, practices and information technologies. Such methodology must establish the processes for the identification, measurement and mitigation of risks, for which the identified risk factors must be taken into account, together with the national risk assessment and its respective updates conducted by SHCP and communicated to the CNBV.

In the case of entities that are part of a financial group, like the Bank, the results of the methodology that, if applicable, has been implemented by the other entities that are part of the same financial group should be taken into account.

2. *Identification of the shareholdings and corporate structure of clients that are legal entities*

In respect of clients that are legal entities, information that identifies the following must be gathered in the identification file of the client: (i) shareholding structure and (ii) in the event that the client has a degree of risk other than “low,” its internal corporate structure, which refers to the organizational chart of the client as a legal entity, taking into account at least the full name and position of those individuals who occupy the positions of CEO and the immediate lower positions, as well as the full name and corresponding position of each of the members of its board of directors or equivalent. Likewise, the beneficiaries (i.e., the individuals who benefit from an account, contract or transaction and are ultimately the owners) who have the control of the clients that are legal entities must be identified.

3. *Threshold of Relevant Transactions*

The threshold is modified in the definition of “relevant transaction” to include in such definition a transaction carried out with the bills and coins of legal tender in the United Mexican States or in any other country, as well as with traveler’s checks, and coins minted in platinum, gold and silver for an amount equal to or greater than the equivalent in national currency at U.S.\$7,500. Previously, this threshold was U.S.\$10,000.

4. *Terms for the submission of Unusual Transactions and Alarming Internal Transactions*

For each unusual transaction identified by a bank, a corresponding report must be submitted to the SHCP through the CNBV within three business days from the conclusion of the determination that establishes such transaction as unusual. For purposes of carrying out such resolution, the bank, through the communication and control committee, will have a term that will not exceed 60 calendar days from the generation of the alert through the respective system, model, process, or by the employee of the bank, whichever occurs first.

5. *Internal appointment of a Compliance Officer for a specific period*

To be able to comply with the applicable provisions regarding the obligation to have, at all times, an officer who acts as a representative with authorities, it is possible to appoint an internal compliance officer in case the current officer in charge is revoked from his position or is unable to carry out his duties. The period for which the internal compliance officer may occupy the position shall be up to ninety calendar days in a calendar year.

6. *Agreement for the exchange of information between Entities that belong to the same financial group*

Financial entities that belong to the same financial group in accordance with the Financial Groups Law may exchange information with regard to the prevention of transactions with resources of illicit origin and financing of terrorism at a group level.

Financial entities have a maximum term of 45 calendar days counted from the implementation of the applicable resolution, in order to, at the latest within 270 calendar days, make the necessary adjustments to their systems and start to collect the client information according to the stated terms, submit their internal policies to the CNBV and comply with the rest of the imposed obligations.

Rules on Interest Rates

The Mexican Central Bank regulations limit the number of reference rates that may be used by Mexican banks as a basis for determining interest rates on loans. For Peso-denominated loans, banks may choose any of a fixed rate, the Funding TIEE, Cetes rate, CCP (*costo de captación promedio a plazo*), the rate determined by the Mexican Central Bank as applied to loans funded by or discounted with NAFIN, the rate agreed upon with development banks in loans funded or discounted with them, the weighted bank funding rate (*tasa ponderada de fondeo interbancario*) and the weighted governmental funding rate (*tasa ponderada de fondeo gubernamental*). For UDI-denominated loans, the reference rate is the UDIBONOS.

For foreign currency-denominated loans, banks may select from fixed rates or floating market reference rates that are not set unilaterally by any financial institution. These options include: (i) one-day rates based on observed market transactions that comply with International Organization of Securities Commissions principles and are recognized by the authorities in the relevant international jurisdiction, such as SOFR, the UK’s Sterling Overnight Interbank Average Rate, and the EU’s Euro Short Term Rate; and longer-term rates, which may include either arithmetic or geometric averages derived through compounding methodologies or other means, provided they are based on the one-day rates mentioned above and are endorsed by a recognized authority or association that publicly promotes their use, such as on official websites; (ii) market-based rates, which are set by a financial authority or consortium of financial institutions rather than a single institution; (iii) rates agreed upon with international or national development banks or trusts, applicable to loans funded by or discounted with such entities;

or (iv) for U.S. dollar-denominated loans, the average cost of term deposits in U.S. dollars (Dollar-CCP), as determined by the Mexican Central Bank.

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.

On January 15, 2020, the Mexican Central Bank published Bulletin 1/2020, introducing the new reference rates: the overnight Funding TIE and a "TIE for terms exceeding one day."

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 April 13, 2023, the Mexican Central Bank published in the Official Gazette, Official Letter 3/2023 (*Circular 3/2023*) establishing that, as per Official Letter 3/2023, as of January 1, 2024, financial institutions that enter into new financing agreements shall refrain from using as reference interest rate TIE for 91 and 182-day terms. However, financial institutions may continue using 91-day and 182-day term TIE as published by the Mexican Central Bank only for such loans granted before January 1, 2024 up until the maturity of such loans. Similarly, as of January 1, 2025, financial institutions that enter into new financing agreements shall refrain from using as reference interest rate TIE for 28-day terms. However, financial institutions may continue using 28-day term TIE as published by the Mexican Central Bank only for such loans granted before January 1, 2025 up until the maturity of such loans. For this purpose, Mexican Central Bank will continue to publish the TIE at 28, 91 and 182 days, but these rates will be determined based on a new methodology, which will no longer be based on a survey.

In August 2023, amendments to the general framework for derivative transactions were published by the Mexican Central Bank. These amendments strengthen the regulatory framework for the comprehensive risk management of derivative transactions and formally create the Comprehensive Risk Management Unit within the Mexican Central Bank.

On September 8, 2023, the Mexican Central Bank published certain amendments to Official Letter 4/2012 (*Circular 3/2012*) regarding the transition from the TIE to the Funding TIE. As a result, beginning in 2024, financial institutions, investment funds, general deposit warehouses (*almacenes generales de depósito*), insurance companies and *Sofomes* that enter into new derivative or standardized derivative transactions will have to use the Funding TIE as a reference, and references to the TIE can only be used for derivative agreements entered into prior to 2024.

Rules relating to Credit Cards

On November 12, 2010, the Mexican Central Bank published new rules that regulate the issuance and use of credit cards. Such rules standardize the regulations and forms that enable cardholders to authorize charges for recurrent payments relating to goods and services and standardize the procedures for objecting to improper charges and canceling 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.

Fees

The Law for the Transparency and Regulation of Financial Services defines a "commission" as "any charge, regardless of its denomination or modality other than interest, that an Entity collects from a Client."

The Mexican Central Bank has the authority to regulate and veto commissions and must ensure that they are in furtherance of the public interest, among other considerations. In addition, the Mexican Central Bank establishes a list of prohibited commissions, which can be found on its website.

Under the Mexican Central Bank regulations, Mexican banks and Sofomes may not, in respect of loans, deposits or other forms of funding and services with their respective clients, among others:

- 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 of a money transfer. Under the regulations, fees arising from the use of ATMs must be disclosed to users.

Mexican banks and Sofomes operating or permitting customers to use ATMs must choose between two options for charging fees to clients withdrawing cash or requesting balances: *(i)* specifying a fee for the relevant transactions, in which case, Mexican banks and Sofomes issuing credit or debit cards may not charge cardholders any additional fee (credit or debit card issuers are entitled to charge operators the respective fee), or *(ii)* permit credit card or debit card issuers to charge a fee to clients, in which case, banks and Sofomes may not charge additional fees to clients.

The Mexican Central Bank, on its own initiative or as per request from the CONDUSEF, banks or Sofomes, may assess whether reasonable competitive conditions exist in connection with fees charged by banks or Sofomes in performing financial operations. The Mexican Central Bank must obtain the opinion of the Mexican Antitrust Commission in carrying out this assessment. The Mexican Central Bank may take measures to address these issues.

On October 3, 2014, the Mexican Central Bank published a bulletin that modified the rules on ATM user fees which limited our ability to charge fees for the use of ATMs by customers and the amount of such fees for services including:

- cash withdrawals;
- checking account balances;
- account deposits; and
- credit payments, both in bank windows and ATMs operated by the clients' bank.

The bulletin also specifies that ATMs shall show a clear legend on their screens regarding costs of the transaction so the client may decide whether to proceed with the transaction.

An initiative has been introduced to Congress seeking to further limit fees that may be charged by Mexican banks to consumers. No assurance may be given as to whether such initiative and commissions may be approved or the terms of such approval.

IPAB Law

The IPAB Law, which became effective January 20, 1999, provides for the creation, organization and functions of the IPAB, the bank savings protection agency. The IPAB is a decentralized public entity that regulates the financial support granted to banks for the protection of bank deposits.

Only in exceptional cases may the IPAB grant financial support to banking institutions. For a detailed description of the financial support that may be granted by the IPAB, see “— Revocation of a License; Payment of Guaranteed Obligations.”

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.

The 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. The 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 the IPAB with a detailed account of the transactions conducted by the IPAB in the prior year.

The IPAB has a governing board of seven members:

- the Head of SHCP;
- the Governor of the Mexican Central Bank;
- 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 the IPAB ordinary and extraordinary contributions as determined from time to time by the Governing Board of the IPAB. Under the IPAB Law, banks are required to make monthly ordinary contributions to the 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 the IPAB;
- subordinated debentures that are mandatorily convertible in shares representing the capital stock of the banking institution; and
- certain forward- operations.

The IPAB's Governing Board also has the authority to impose extraordinary contributions in the case that, given the conditions of the Mexican financial system, the 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)* such extraordinary contributions 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 the 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 the IPAB on a yearly basis to manage and service the IPAB's liabilities. In emergency situations, the 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.

Law for the Protection and Defense of Financial Services Users

A Law for the Protection and Defense of Financial Services 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. As a banking institution, we must submit to CONDUSEF's jurisdiction in all conciliation proceedings (initial stages 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, such as us, to maintain an internal unit designated to resolve any and all controversies submitted by clients. We 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.

We may be required to provide reserves against contingencies which could arise from proceedings pending before CONDUSEF. We may also be subject to recommendations by CONDUSEF regarding our standard agreements or information used to provide our services. We may be subject to coercive measures or sanctions imposed by CONDUSEF. As of the date of this offering memorandum, we are not the subject of any material proceedings before CONDUSEF.

With respect to its functions and authorities, CONDUSEF, among other things:

- is entitled to initiate class actions against Mexican financial institutions, in connection with events affecting groups of users of financial services;
- shall maintain a Bureau of Financial Entities (*Buró de Entidades Financieras*), which is to set forth any and all information deemed material for users of financial services;
- 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;
- 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
- 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 Law for the Transparency and Ordering of Financial Services 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 Mexican Central Bank the authority to regulate interest rates and fees and establish general guidelines and requirements relating to payment devices and credit card account statements (see “—*Rules on Interest Rates*” and “—*Fees*” above). The Mexican Central Bank 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. We must inform the Mexican Central Bank 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

The Law on Transparency and Development of Competition for Secured Credit (*Ley de Transparencia y de Fomento a la Competencia en el Crédito Garantizado*) (“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 credit 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.

Law on the Regulation of Financial Technology Institutions

On March 9, 2018, the Law on the Regulation of Financial Technology Institutions (the “Fintech Law”) was published in the Official Gazette. Its main purpose is to regulate financial services provided by collective financing (crowdfunding) institutions and electronic payment institutions (providing wallets and transfer of funds services), two types of entities which were created by the Fintech Law. The CNBV is the authority responsible for granting authorizations and supervising the organization and operation of both entities. The regulations applicable to the Fintech law were published in the Official Gazette on September 10, 2018.

Collective financing (crowdfunding) institutions are intended to put members of the public in contact with one another so that any member of the public can provide financing to any other member of the public. Electronic payment institutions are intended to provide the public with applications, digital interfaces, internet pages and other means of electronic or digital communications that they can use to maintain funds in wallets (without interest being accrued) and make electronic transfers on a daily basis.

In addition, the Fintech Law regulates transactions carried out with digital assets. A digital asset is an asset that represents value (either a currency or a cryptocurrency) and is registered electronically, and can be used by the public as a means of payment for any kind of legal activity. The Fintech Law limits digital assets, noting that the financial technology institutions can only operate with cryptocurrencies approved by Mexican Central Bank and with foreign currencies if further approved by the Mexican Central Bank. To date, the Mexican Central Bank has not regulated cryptocurrencies and, as a result, electronic payment institutions may not operate with cryptocurrencies. It also provides for the creation of the Inter-institutional Committee, which is responsible for making decisions, such as the granting of authorizations and impositions of penalties, among others, in connection with activities carried out pursuant to the Fintech Law. The Inter-institutional Committee serves as the examining body of the CNBV and is composed of public officials of the SHCP, Mexican Central Bank and the CNBV.

Further, on January 28, 2021, the General Rules Applicable to the Electronic Payment Institutions (*Disposiciones aplicables a las instituciones de fondos de pago electrónico a que se refieren los Artículos 48, segundo párrafo; 54 primer párrafo, y 56, primer y segundo párrafos de la Ley para Regular las Instituciones de Tecnología Financiera*) were published in the Official Gazette.

Financial Groups Statutory Responsibility

The Financial Groups Law requires that each financial services holding company enter into an agreement with each of its financial services subsidiaries. GFNorte has entered into such an agreement with its financial services subsidiaries, which includes us. Pursuant to such agreement, the financial services holding company is responsible secondarily and without limitation for the satisfaction of the obligations undertaken 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 the losses of its subsidiaries, up to the total amount of the holding company's assets. For such purposes, a subsidiary is deemed to have losses if its assets are insufficient to meet its payment obligations.

In the event of a financial services holding company's statutory responsibility with respect to a bank, the 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 collateralize the payment of the bank's losses that are paid by the IPAB pursuant to the Mexican Banking Law. Such collateral may be created over the financial services holding company's assets or over such company's shares or those of its subsidiaries.

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 the 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.

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 Financial Groups Law and the group's corporate charter. Series F shares may be purchased, directly or indirectly, by foreign financial institutions who are residents of a country that has entered into a free trade agreement with Mexico and must represent at all times at least 51% of the paid-in capital.

Notwithstanding the above, under the Financial Groups Law, foreign governments cannot purchase a financial services holding company's capital stock, directly or indirectly, except:

- pursuant to preventive temporary measures, such as financial support or rescue programs;
- when control over such institution is held through official entities (such as funds or support governmental entities) and there is evidence that such entities do not exercise any authority functions and their decision making bodies operate separately from the relevant foreign government; and
- when the participation is indirect and does not imply the control by the relevant foreign government over the financial services holding company.

Mexican financial entities, including those that form part of a financial group, cannot purchase a financial services holding company's capital stock, unless such entities are qualified investors as defined in the Financial Groups Law. In accordance with applicable law:

- the capital of banks may be composed of voting Series O shares, which may be owned both by Mexican and non-Mexican investors, by Series F shares, which may be owned only by foreign financial institutions or Series B shares, which represent a minority interest in a bank controlled by a foreign financial institution and may be owned by Mexican or foreign investors;
- 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% or 20% 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.

The change in foreign ownership rules continued the liberalization of the Mexican banking system commenced under NAFTA. Pursuant to the USMCA, the Free Trade Agreement between Mexico and the European Union, the Free Trade Agreement between Mexico and Japan, the Free Trade Agreement between Mexico and European Free Trade Zone and applicable Mexican laws and regulations, foreign financial entities incorporated in the United States, Canada, Member States of the European Union, Japan and other countries with which Mexico has executed relevant international trade agreements, or financial services holding companies formed in Mexico by such foreign financial entities, will be treated identically to Mexican investors when investing in affiliate banks and other financial entities.

A holder that acquires shares in violation of the foregoing restrictions, or in violation of the percentage ownership restrictions, will have their corporate and economic rights under such shares suspended, and may not be enforced until the necessary authorizations have been obtained or the necessary requirements have been met, as required under the Financial Groups Law.

Other Regulation Applicable to Our Business

The Mexican Securities Market Law

The Mexican Securities Market Law, is applicable to the Bank regarding the issuance of securities and its corporate governance as its parent is a publicly traded company. 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 (including quarterly and yearly reports) and to impose sanctions for the illegal use of insider information and other violations of the Mexican Securities Market Law.

Law on Financial Discipline for States and Municipalities

The Law of Financial Discipline of the Federative Entities and Municipalities (*Ley de Disciplina Financiera de las Entidades Federativas y los Municipios*) was promulgated on April 27, 2016, published in the Official Gazette with the purpose of supporting government entities by helping them obtain improved financing terms and conditions to foster growth and development without damaging public finances and continue endorsing state sovereignty and independence, through a transparent system, accountability, and efficient public spending leading to financial discipline for states and municipalities.

The law considers the following:

- Financial stability is considered the foundation for development and it should be observed when preparing and implementing the National Development Plan, and the states' and municipalities' plans.
- The Mexican Congress has the faculty to set the guidelines on how subnational governments should resort to financial debt and to issue laws on fiscal accountability aiming to manage finance adequately. Such guidelines will include the following concepts:
 - Limits and procedures for subnational governments to modify their contributions in order to secure their loans and meet their payment obligations;
 - The obligation to register and publish the total amount of loans and payment obligations in a single public registry, indicating, for each loan or obligation: debtor, creditor, amount, interest rate, maturity date, type of guaranty or source of payment, and any other information deemed necessary to enhance transparency and access to information;
 - The creation of a warning system on debt management;
 - Sanctions to government officials for improper management of public resources and public debt; and
 - Limits and requirements for contracting short-term liabilities which should be settled, at the latest, three months before the end of the government term.

- A bicameral commission (*comisión legislativa bicameral*) must be created, through which, the Congress will analyze the adjustment strategy made by the federal government in order to strengthen public finance for those states and municipalities with high indebtedness. Such states will be able to celebrate agreements with the federal government to obtain guarantees. The committee should be informed in the case such an agreement has been celebrated.
- Greater Tax Audit. The Superior Audit Office of Mexico (“SAO”) will be in charge of auditing revenues, expenditures, debt and guarantees that the Federal Government grants in the form of states and municipalities loans. In the case of those states that have a guaranty from the Federation, the SAO will audit the fiscal year and the destination of the corresponding resources of the local governments. At the local level, the audit bodies from the state legislatures will be responsible for auditing the states and municipalities actions regarding funds, local resources and public debt.
- Accountability of government officers. State and municipality officers in office will be accountable for improper management of public resources and public debt.
- Destination of the loan and negotiation of agreements under the best market conditions. Subnational governments can only take on obligations or loans destined for productive public investment, refinancing or restructure; and these will be negotiated under the best market conditions. The Regulatory Act will establish the arrangements and conditions of the public debt that will be selected through a bidding process, as well as the mechanisms to ensure the market conditions or even better ones. Under no circumstances loans should be destined to cover current expenditure.
- Local congresses must authorize the debt under the following conditions:
 - By the vote of two thirds of its members.
 - Establishing a debt ceiling and ensuring negotiation of agreements under the best market conditions.
 - Previous analysis of the loan destination, ability to pay, the grant of guaranty and the source of payment.

The purpose of this law is to support government entities by helping them obtain improved financing terms and conditions to foster growth and development without damaging public finances and continue endorsing state sovereignty and independence, through a transparent system, accountability, and efficient public spending leading to a Financial Discipline for States and Municipalities.

Dodd-Frank Act and Regulation of Derivatives

Title VII of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) establishes a new U.S. regulatory regime for derivatives contracts, including swaps, security-based swaps and mixed swaps (generically referred to in this paragraph as “swaps”). Among other things, Title VII provides the Commodity Futures Exchange Commission (the “CFTC”) and the SEC with jurisdiction and regulatory authority over swaps, establishes a comprehensive registration and regulatory framework applicable to swap dealers and other major market participants in swaps (referred to as “major swap participants”), imposes clearing and execution requirements on many types of swaps, requires higher-margin requirements for uncleared swaps, and requires swap market participants to report all swaps transactions to swap data repositories. Entities that are swap dealers, security-based swap dealers, major swap participants or major security-based swap participants will be required to register with the SEC or the CFTC, or both, and will become subject to requirements as to capital, business conduct, recordkeeping, collateral segregation, and other requirements. The specific parameters of these requirements are being developed through CFTC, SEC and bank regulator rulemakings. While some of these requirements are already final and effective, others are subject to further rulemaking or deferred compliance dates.

DESCRIPTION OF THE NC6.5 NOTES

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (the “Bank”), will issue its 8.375% Perpetual 6.5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes (for purposes of this Description of the NC6.5 Notes, the “Notes”) through its Cayman Islands branch (the “Branch”). The Notes will be issued under a *declaración unilateral de voluntad* evidenced by an Indenture to be dated as of November 20, 2024, executed by the Bank and The Bank of New York Mellon, as trustee (the “Trustee”), paying agent, registrar and transfer agent, and acknowledged by the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*; the “CNBV”), which may be amended or supplemented from time to time (for purposes of this Description of the NC6.5 Notes, the “Indenture”), pursuant to Article 64 of the Law of Credit Institutions (*Ley de Instituciones de Crédito*) and Circular 3/2012 issued by the Mexican Central Bank (the “Circular 3/2012”), with the prior approval of the stockholders’ meeting of the Bank and the Mexican Central Bank.

This summary description of certain provisions of the Notes does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the Indenture and the Notes, including the definitions of certain terms included therein. The Bank urges you to read each of the Indenture and the forms of the Notes because they, and not this description, define your rights as a holder of Notes. In case of any conflict regarding the rights and obligations of the holders of the Notes under the Indenture, the Notes and this offering memorandum, the terms of the Indenture will prevail. In case of any conflict regarding the translation of the provisions of applicable Mexican law, the official text in Spanish of the relevant Mexican law will prevail. Capitalized terms not otherwise defined in this “*Description of the NC6.5 Notes*” have the meanings ascribed to them in the Indenture. You may obtain a copy of the Indenture and the forms of the Notes by contacting the Trustee at the address indicated in this offering memorandum.

The Notes are perpetual instruments with no fixed maturity or fixed redemption date. The Bank has the option to redeem the then Current Principal Amount (as defined below) of the Notes on May 20, 2031 and on every Interest Payment Date (as defined below) thereafter.

General

The Notes will be issued in the aggregate principal amount of U.S.\$750,000,000 in registered form, in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. The Bank will issue the Notes through the Branch, but the Notes will represent the Bank’s general, unsecured and subordinated non-preferred obligations. The Notes constitute Subordinated Non-Preferred Indebtedness (as defined below) and will rank (i) subordinate and junior in right of payment and in liquidation to all of the Bank’s present and future Senior Indebtedness (as defined below) and Subordinated Preferred Indebtedness (as defined below), (ii) *pari passu* without preference among themselves and with all the Bank’s present and future other unsecured Subordinated Non-Preferred Indebtedness and (iii) senior only to all classes of the Bank’s equity or capital stock, as described in this offering memorandum. See “—*Subordination*.” The Bank may incur additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness from time to time, and the provisions of the Indenture do not prohibit or limit the incurrence of additional indebtedness, including additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness.

As of September 30, 2024, the Bank had Ps. 1,487 million (U.S.\$ 75.5 million) aggregate principal amount of outstanding Subordinated Preferred Indebtedness, and Ps. 50,984 million (U.S.\$2,589 million) aggregate principal amount of outstanding Subordinated Non-Preferred Indebtedness.

THE NOTES WILL BE UNSECURED AND NOT GUARANTEED, OR OTHERWISE ELIGIBLE FOR REIMBURSEMENT, BY THE INSTITUTO PARA LA PROTECCIÓN AL AHORRO BANCARIO (THE “IPAB”) OR ANY OTHER MEXICAN GOVERNMENTAL AGENCY OR BY GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. (“GRUPO FINANCIERO BANORTE”) OR BY ANY OF ITS SUBSIDIARIES OR AFFILIATES, OR ANY OTHER ENTITY THAT IS A PART OF GRUPO FINANCIERO BANORTE, INCLUDING ANY PAYMENT OBLIGATION UNDER THE *CONVENIO ÚNICO DE RESPONSABILIDADES* ENTERED AMONG GRUPO FINANCIERO BANORTE AND ITS FINANCIAL SUBSIDIARIES (INCLUDING THE BANK OR ANY OTHER THIRD PARTY). THE NOTES ARE NOT CONVERTIBLE, BY THEIR TERMS, INTO THE BANK’S SHARES OR EQUITY CAPITAL.

THE BANK MAY REDEEM THE NOTES UNDER THE CIRCUMSTANCES DESCRIBED BELOW UNDER “—*REDEMPTION—OPTIONAL REDEMPTION*,” “—*REDEMPTION—WITHHOLDING TAX REDEMPTION*” AND “—*REDEMPTION—SPECIAL EVENT REDEMPTION*”, IN EACH CASE WITH THE PRIOR APPROVAL OF BANCO DE MÉXICO. OTHER THAN IN ACCORDANCE WITH AN OPTIONAL REDEMPTION, A WITHHOLDING TAX REDEMPTION OR A SPECIAL EVENT REDEMPTION, THE NOTES WILL NOT BE REDEEMABLE.

Unless other arrangements are made, payments of principal and interest on the Notes will be made as described below under “—*Book-Entry System*.”

The Bank will *maintain* an office or agency in the Borough of Manhattan, The City of New York, where the Notes may be presented for exchange or transfer. Such office or agency initially will be located at The Bank of New York Mellon, 240 Greenwich Street, Floor 7-East, New York, NY 10286, Attention: Global Finance Americas. The holders of the Notes will not have to pay a service charge to register the transfer or exchange of any Notes, but the Bank may require that holders pay any applicable tax or other governmental charge.

The Indenture and the Notes do not contain any provision, of any nature whatsoever, that would protect the holders of the Notes against a sudden and dramatic decline in the Bank’s credit quality resulting from a takeover, recapitalization or restructuring or any other event involving the Bank that may adversely affect the Bank’s credit quality.

Interest

Subject to a prior redemption and/or one or more Write-Downs (as defined below), the Notes will bear interest on the then Current Principal Amount from time to time outstanding from and including November 20, 2024 (the “Issue Date”), to (but excluding) May 20, 2031 (for purposes of this Description of the NC6.5 Notes, the “First Call Date”), at an initial fixed rate *per annum* equal to 8.375%. Interest, to the extent paid, shall be paid from amounts maintained in the Bank’s net retained earnings (*utilidades netas acumuladas*) account. The First Call Date and every 5-Year anniversary thereafter shall each be a “Reset Date” (for purposes of this Description of the NC6.5 Notes). Subject to a prior redemption and/or one or more Write-Downs, the Notes will bear interest on the then Current Principal Amount from time to time outstanding from and including each Reset Date, including the First Call Date, to (but excluding) the next succeeding Reset Date, at a fixed rate *per annum* equal to the sum of (a) the Treasury Yield (as defined below) and (b) 407.2 basis points (rounded to two decimal places, with any value equal to or lesser than 0.005 being rounded down), as calculated by the Bank and notified by the Bank to the Trustee in writing within one Business Day of determination thereof.

“Treasury Yield” means, as of any Reset Determination Date (as defined below), an interest rate (expressed as a decimal and, in the case of United States Treasury bills, converted to a bond equivalent yield) determined to be the *per annum* rate equal to the semiannual yield to maturity for United States Treasury securities maturing on the Reset Date following the next succeeding Reset Determination Date, and trading in the public securities markets either as determined by interpolation between the most recent weekly average yield to maturity for two series of United States Treasury securities trading in the public securities market, (A) one maturing as close as possible to, but earlier than, the Reset Date following the next succeeding Reset Determination Date, and (B) the other maturity as close as possible to, but later than the Reset Date following the next succeeding Reset Determination Date, in each case as published in the most recent H.15 (519) or, if a weekly average yield to maturity for United States Treasury securities maturing on the Reset Date following the next succeeding Reset Determination Date is published in the most recent H.15 (519), such weekly average yield to maturity as published in such H.15 (519).

“H.15 (519)” means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the United States Federal Reserve System and most recent H.15 (519) means the H.15 (519) published closest in time but prior to the close of business on the third Business Day prior to the applicable Reset Date.

“Reset Determination Date” means, with respect to any Reset Date, the second Business Day immediately preceding such Reset Date.

“Current Principal Amount” means in respect of each Note, at any time, the outstanding principal amount of such Note, being the Original Principal Amount (as defined below) of such Note, as such amount may be reduced, on one or more occasions, as a result of a Write-Down or a redemption of the Notes as permitted herein, as the case may be.

“Original Principal Amount” means, in respect of each Note, the amount of the denomination of such Note on the Issue Date.

Upon the occurrence of a Write-Down, any holder of Notes will be deemed to have irrevocably waived its right to claim or receive the Written-Down Principal (as defined below) of the Notes or any interest with respect thereto (or Additional Amounts), including any and all unpaid interest.

Subject to the provisions under “—*Interest Cancellation*” and “—*Trigger Event and Write-Down—Write-Down*,” from and including the Issue Date, interest on the Notes, if any, will be payable quarterly in arrears on February 20, May 20, August 20 and November 20 of each year (each an “Interest Payment Date”), commencing on February 20, 2025. The period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment

Date, the First Call Date or an earlier redemption date, as the case may be, is called an “Interest Period”. If any Interest Payment Date would otherwise fall on a date that is not a Business Day (as defined below), the required payment of interest shall be made on the next succeeding Business Day, with the same force and effect as if made on such Interest Payment Date, and no further interest shall accrue as a result of the delay. Subject to the provisions described in this section, if an interest payment is to be made in respect of the Notes, on any scheduled redemption date that is not an Interest Payment Date, it shall be calculated by applying the interest rate as described above on the basis of a 360-day year of twelve 30-day months and rounding the resulting figure to the nearest cent (half a cent being rounded upward). Interest on the Notes will be paid on the dates specified above to the person in whose name a Note is registered at the close of business on the fifteenth day preceding the respective Interest Payment Date (such date, a “Record Date”, whether or not a Business Day).

For purposes hereof, the term “Business Day” is defined in the Indenture for the Notes as any day other than a Saturday or a Sunday, or a day on which banking institutions in The City of New York, New York or Mexico City, Mexico are authorized or required by law or executive order to remain closed.

Interest Cancellation

Interest Payments Discretionary and Non-Cumulative

Interest on the Notes will be due and payable at the Bank’s sole discretion and the Bank shall have sole and absolute discretion at all times and for any reason to cancel any interest payment (in whole or in part) that would otherwise be payable on any Interest Payment Date. Subject to the limitations set forth under “—*Restrictions on Certain Payments*” below, the Bank may use the funds corresponding to such canceled payments to meet the Bank’s other obligations as they become due or to be maintained by it to satisfy capitalization requirements under the Mexican Capitalization Requirements (as defined below) or for any other reason.

IF THE BANK ELECTS NOT TO MAKE AN INTEREST PAYMENT ON THE RELEVANT INTEREST PAYMENT DATE, OR IF THE BANK ELECTS TO MAKE A PAYMENT OF A PORTION, BUT NOT ALL, OF SUCH INTEREST PAYMENT, SUCH NON-PAYMENT SHALL EVIDENCE ITS EXERCISE OF DISCRETION TO CANCEL SUCH INTEREST PAYMENT, OR THE PORTION OF SUCH INTEREST PAYMENT NOT PAID, AND ACCORDINGLY SUCH INTEREST PAYMENT, OR PORTION THEREOF, SHALL BE CANCELED AND SHALL NOT BE OR BECOME DUE AND PAYABLE. FOR THE AVOIDANCE OF DOUBT, IF THE BANK PROVIDES NOTICE TO CANCEL A PORTION, BUT NOT ALL, OF AN INTEREST PAYMENT IN RESPECT OF THE NOTES, AND THE BANK SUBSEQUENTLY DOES NOT MAKE A PAYMENT OF THE REMAINING PORTION OF SUCH INTEREST PAYMENT ON THE RELEVANT INTEREST PAYMENT DATE, SUCH NON-PAYMENT WILL EVIDENCE THE BANK’S EXERCISE OF ITS DISCRETION TO CANCEL SUCH REMAINING PORTION OF SUCH INTEREST PAYMENT, AND ACCORDINGLY SUCH REMAINING PORTION OF THE INTEREST PAYMENT WILL ALSO NOT BE DUE AND PAYABLE.

SUCH CANCELED INTEREST SHALL NOT ACCUMULATE OR BE DUE AND PAYABLE AT ANY TIME THEREAFTER AND THE HOLDERS AND THE BENEFICIAL OWNERS OF THE NOTES SHALL NOT HAVE ANY RIGHT TO OR CLAIM AGAINST THE BANK WITH RESPECT TO SUCH UNPAID INTEREST AMOUNT. ANY SUCH CANCELLATION OF ANY INTEREST PAYMENT SHALL NOT CONSTITUTE A DEFAULT OR AN ENFORCEMENT EVENT (AS DEFINED BELOW) UNDER THE TERMS OF THE NOTES OR THE INDENTURE AND THE HOLDERS AND BENEFICIAL OWNERS OF THE NOTES SHALL HAVE NO RIGHTS THERETO OR TO RECEIVE ANY ADDITIONAL INTEREST OR AMOUNTS, PENALTY OR COMPENSATION AS A RESULT OF SUCH CANCELLATION.

In addition, the Notes will cease to bear interest from, and including, the date of any redemption of the Notes as described under “—*Redemption*”, unless payment and performance of all amounts and obligations due by the Bank in respect of the Notes is not properly and duly made, in which event interest shall continue to accrue on the Notes until payment and performance of all amounts and obligations has been properly and duly made.

Furthermore, in the event of one or more Write-Downs of the Notes upon the occurrence of a Trigger Event (as defined below), as described under “—*Trigger Event and Write-Down—Write-Down*” below, any accrued but unpaid interest on the Notes shall be canceled upon the occurrence of such Trigger Event, and such interest shall not become due and payable at any time.

See also “—*Agreement to Interest Cancellation*” and “—*Notice of Interest Cancellation*” below.

Restrictions on Certain Payments

Unless the most recent payable interest and any Additional Amounts (as defined below) payable in connection therewith have been paid, the Bank shall not:

- (1) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of its capital stock; or
- (2) make any payment of premium, principal or interest on or repay, repurchase or redeem any other Subordinated Non-Preferred Indebtedness of the Bank.

Mandatory Cancellation of Interest Payments

INTEREST DUE ON THE NOTES FROM THE BANK WILL BE AUTOMATICALLY CANCELED IF (A) THE BANK IS CLASSIFIED AS CLASS II OR BELOW PURSUANT TO ARTICLES 121 AND 122 OF THE MEXICAN BANKING LAW (AS DEFINED BELOW) AND THE REGULATIONS THEREUNDER, WHICH SPECIFY CAPITALIZATION REQUIREMENTS, OR (B) AS A RESULT OF THE APPLICABLE PAYMENT OF INTEREST, THE BANK WOULD BE CLASSIFIED AS CLASS II OR BELOW (AN “INTEREST CANCELLATION EVENT”). CURRENTLY, THE MINIMUM CAPITAL RATIOS TO BE CLASSIFIED AS CLASS I (AND, AS A RESULT, NOT CLASS II OR BELOW) GENERALLY APPLICABLE TO ANY MEXICAN BANK ARE THE “MINIMUM REGULATORY CAPITAL RATIOS” (AS DEFINED BELOW).

IN THE EVENT OF A CANCELLATION OF THE PAYMENT OF INTEREST ON THE NOTES DUE TO THE OCCURRENCE OF AN INTEREST CANCELLATION EVENT, THE BANK WILL NOTIFY THE HOLDERS OF THE NOTES AND THE TRUSTEE IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE. FAILURE TO PROVIDE SUCH NOTICE WILL HAVE NO IMPACT ON THE EFFECTIVENESS OF, OR OTHERWISE INVALIDATE, ANY SUCH CANCELLATION OF INTEREST (AND ACCORDINGLY, SUCH INTEREST WILL NOT BE DUE AND PAYABLE), OR GIVE THE HOLDERS AND BENEFICIAL OWNERS OF THE NOTES ANY RIGHTS. CANCELED INTEREST WILL NOT BE DUE AND PAYABLE. ANY SUCH CANCELLATION WILL NOT CONSTITUTE A DEFAULT OR AN ENFORCEMENT EVENT UNDER THE TERMS OF THE NOTES OR THE INDENTURE, AND THE HOLDERS AND BENEFICIAL OWNERS OF THE NOTES WILL NOT HAVE ANY RIGHT TO SUCH INTEREST OR TO RECEIVE ANY ADDITIONAL AMOUNTS OR COMPENSATION AS A RESULT OF SUCH CANCELLATION. PAYMENTS OF INTEREST DUE ON THE NOTES WILL NOT BE CUMULATIVE, SO THAT IN THE EVENT THAT PAYMENTS OF INTEREST ARE CANCELED, HOLDERS OF THE NOTES WILL NOT HAVE THE RIGHT TO CLAIM AND RECEIVE CANCELED INTEREST, EVEN IF THE BANK THEREAFTER SATISFIES THE APPLICABLE CAPITALIZATION REQUIREMENTS. IF AN INTEREST CANCELLATION EVENT IS IN EFFECT ON THE DATE OF ANY WRITE-DOWN OF THE NOTES UPON THE OCCURRENCE OF A TRIGGER EVENT, THE NOTES WILL BE WRITTEN DOWN AND ANY AND ALL PREVIOUSLY CANCELED INTEREST WILL CONTINUE TO BE CANCELED.

“Capital Supplement” refers to the Countercyclical Capital Supplement (as defined below), the Systemically Important Bank Capital Supplement (as defined below) and the Net Capital Supplement (as defined below), together with any other applicable additional capital conservation buffer or loss absorbency capital that banks may be required to hold pursuant to the Mexican Banking Law and the Mexican Capitalization Requirements.

“Minimum Regulatory Capital Ratios” refers to the following minimum capital ratios generally applicable to Mexican banks to be classified as Class I pursuant to the Mexican Capitalization Requirements (i) 10.5% (ten point five percent) in the case of Total Net Capital (*capital neto*), (ii) 8.5% (eight point five percent) in the case of Tier 1 Capital (*capital básico*) and (iii) 7.0% (seven point zero percent) in the case of Fundamental Capital (*capital básico fundamental*), in all cases, including the Capital Conservation Buffer, plus any applicable Capital Supplement.

Agreement to Interest Cancellation

By acquiring the Notes, holders and beneficial owners of the Notes acknowledge and agree that:

- (a) interest is payable solely at the Bank’s discretion, and no amount of interest shall become due and payable in respect of the relevant Interest Period to the extent that it has been canceled by the Bank (in whole or in part) at its sole discretion and/or has been canceled as a result of the occurrence and continuation of an Interest Cancellation Event; and

- (b) a cancellation of interest (in whole or in part) in accordance with the terms of the Indenture and the Notes shall not constitute a default in payment or otherwise, or an Enforcement Event, under the terms of the Notes or the Indenture.

Interest will only be due and payable on an Interest Payment Date to the extent that it is not canceled (in whole or in part) in accordance with the provisions described under “—*Interest Cancellation*” and “—*Trigger Event and Write-Down—Write-Down*”. Any interest canceled (in whole or in part) under the circumstances described herein shall not be due and shall not accumulate or be payable at any time thereafter, and holders and beneficial owners of the Notes shall have no rights thereto or to receive any additional amounts or compensation as a result of such cancellation.

Notice of Interest Cancellation

The Bank will provide notice of any cancellation of interest (in whole or in part) to the holders of the Notes through DTC (or, if the Notes are held in definitive form, to the holders of the Notes directly at their addresses shown on the register for the Notes) and to the Trustee directly on or prior to the relevant Interest Payment Date. Failure to provide such notice will have no impact on the effectiveness of, or otherwise invalidate, any such cancellation of interest (and accordingly, such interest will not be due and payable), or give the holders and beneficial owners of the Notes any rights as a result of such failure.

General Rules Applicable to Mexican Banks and their Application to the Bank

Article 121 of the Mexican Banking Law provides that in the exercise of its supervisory duties the CNBV, through general regulations issued thereby, will classify banking institutions based on their compliance with the provisions of the Mexican Capitalization Requirements, which may take into account Capital Ratios that reflect the degree of stability and solvency of a bank.

ARTICLE 122 OF THE MEXICAN BANKING LAW PROVIDES THAT IF A MEXICAN BANK DOES NOT COMPLY WITH THE CAPITAL RATIOS REQUIRED TO BE CLASSIFIED AS CLASS I PURSUANT TO THE MEXICAN CAPITALIZATION REQUIREMENTS, SUCH BANK MUST IMPLEMENT THE CORRECTIVE MEASURES ORDERED BY THE CNBV, WHICH MAY INCLUDE:

(1) **INFORMING THE BANK’S BOARD OF DIRECTORS OF ITS CLASSIFICATION, BASED ON THE CAPITAL RATIOS THEREOF, AND SUBMIT A DETAILED REPORT CONTAINING AN EVALUATION OF THE BANK’S OVERALL FINANCIAL STATUS AND ITS LEVEL OF COMPLIANCE WITH APPLICABLE REGULATIONS; THE BANK SHALL PROVIDE WRITTEN NOTICE TO THE GENERAL DIRECTOR AND THE CHAIRMAN OF THE BOARD OF DIRECTORS OF THE BANK’S REGULATED HOLDING COMPANY (*SOCIEDAD CONTROLADORA DEL GRUPO FINANCIERO*) WITH RESPECT TO SUCH EVENTS AND THE STATUS THEREOF;**

(2) **WITHIN A PERIOD NOT TO EXCEED SEVEN (7) BUSINESS DAYS, FILING WITH THE CNBV, FOR ITS APPROVAL, A CAPITAL RECOVERY PLAN TO INCREASE THE BANK’S CAPITAL RATIOS; THE BANK’S CAPITAL RECOVERY PLAN SHALL BE APPROVED BY SUCH BANK’S BOARD OF DIRECTORS BEFORE IT IS SUBMITTED TO THE CNBV;**

(3) **SUSPENDING ANY PAYMENT OF DIVIDENDS TO ITS SHAREHOLDERS, AS WELL AS ANY MECHANISM OR ACT FOR THE MAKING OF ANY DISTRIBUTIONS OR THE GRANTING OF ANY ECONOMIC BENEFITS TO SHAREHOLDERS;**

(4) **SUSPENDING ANY SHARE REPURCHASE PROGRAMS;**

(5) **DEFERRING OR CANCELING PAYMENT OF INTEREST AND DEFERRING OR CANCELING THE PAYMENT OF PRINCIPAL ON OUTSTANDING SUBORDINATED DEBT, AS THE CASE MAY BE, OR, IF APPLICABLE, EXCHANGING OUTSTANDING CONVERTIBLE SUBORDINATED DEBT INTO SHARES OF THE BANK IN THE AMOUNT NECESSARY TO COVER THE CAPITAL DEFICIENCY IF ORDERED BY THE CNBV; THESE CORRECTIVE MEASURES SHALL BE APPLICABLE TO SUBORDINATED DEBT CONSIDERED PART OF THE BANK’S TIER 1 CAPITAL (*CAPITAL BÁSICO*) OR TIER 2 CAPITAL (*CAPITAL COMPLEMENTARIO*); IN THE EVENT THAT THE BANK ISSUES SUBORDINATED DEBT, THE BANK IS OBLIGATED TO INCLUDE IN THE DOCUMENTATION EVIDENCING SUCH DEBT, IN THE APPLICABLE INDENTURE AND IN THE APPLICABLE OFFERING DOCUMENT, THAT SUCH DEFERRAL OR CANCELLATION OF PAYMENT OF PRINCIPAL OR DEFERRAL AND CANCELLATION OF PAYMENTS OF INTEREST, AS THE CASE MAY BE, SHALL APPLY UPON THE OCCURRENCE OF CERTAIN EVENTS AS PROVIDED IN THE GENERAL RULES APPLICABLE TO MEXICAN BANKS AND**

THAT THE IMPLEMENTATION OF SUCH MEASURES SHALL NOT BE CONSIDERED A DEFAULT UNDER THE RELEVANT DEBT DOCUMENTATION;

(6) SUSPENDING PAYMENT OF ANY EXTRAORDINARY BENEFITS AND BONUSES THAT ARE NOT A COMPONENT OF THE ORDINARY SALARY OF THE GENERAL DIRECTOR OR ANY OFFICER WITHIN THE NEXT TWO LEVELS OF SENIORITY, AND SUSPENDING THE GRANTING OF NEW BENEFITS TO THE GENERAL DIRECTOR AND THE OFFICERS MENTIONED ABOVE UNTIL THE BANK COMPLIES WITH THE MINIMUM CAPITAL RATIOS SET FORTH UNDER THE MEXICAN CAPITALIZATION REQUIREMENTS;

(7) ABSTAINING FROM INCREASING OUTSTANDING AMOUNTS OF ANY LOANS GRANTED TO ANY PERSON WHO IS A RELATED PARTY OF THE BANK PURSUANT TO ARTICLE 73 AND RELATED PROVISIONS OF THE MEXICAN BANKING LAW; AND

(8) ANY OTHER CORRECTIVE MEASURES THAT, IN EACH CASE, ARE PROVIDED BY THE GENERAL RULES APPLICABLE TO MEXICAN BANKS.

ARTICLE 122 OF THE MEXICAN BANKING LAW FURTHER PROVIDES THAT:

(1) IF A MEXICAN BANK COMPLIES WITH THE MINIMUM CAPITAL RATIOS REQUIRED PURSUANT TO THE MEXICAN CAPITALIZATION REQUIREMENTS BUT ANY OF ITS CAPITAL RATIOS IS BELOW THE CAPITAL RATIOS REQUIRED TO BE SATISFIED FOR A BANK NOT TO BE SUBJECT TO ANY CORRECTIVE MEASURES, SUCH BANK MUST IMPLEMENT CERTAIN CORRECTIVE MEASURES ORDERED BY THE CNBV, INCLUDING, AMONG OTHERS, (A) INFORMING THE BANK'S BOARD OF DIRECTORS OF ITS CLASSIFICATION, BASED ON THE CAPITAL RATIOS THEREOF AND SUBMITTING A DETAILED REPORT CONTAINING AN EVALUATION OF THE BANK'S OVERALL FINANCIAL STATUS AND ITS LEVEL OF COMPLIANCE WITH APPLICABLE REGULATIONS INCLUDING THE PRINCIPAL REGULATORY RATIOS, THAT REFLECT THE BANK'S DEGREE OF STABILITY AND SOLVENCY (TOGETHER WITH ANY DETERMINATIONS OR INDICATIONS MADE BY ANY OF THE CNBV OR *BANCO DE MÉXICO*) AND PROVIDING WRITTEN NOTICE TO THE GENERAL DIRECTOR AND THE CHAIRMAN OF THE BOARD OF DIRECTORS OF THE BANK'S REGULATED HOLDING COMPANY (*SOCIEDAD CONTROLADORA DEL GRUPO FINANCIERO*) WITH RESPECT TO SUCH EVENTS AND THE STATUS THEREOF; (B) ABSTAINING FROM ENTERING INTO ANY TRANSACTION THAT MAY DECREASE THE BANK'S CAPITAL RATIOS BELOW THE MEXICAN CAPITALIZATION REQUIREMENTS; AND (C) ANY OTHER CORRECTIVE MEASURES ORDERED BY THE CNBV.

(2) REGARDLESS OF THE CAPITALIZATION LEVEL, THE CNBV MAY ORDER THE IMPLEMENTATION OF ADDITIONAL SPECIAL CORRECTIVE MEASURES, INCLUDING, AMONG OTHERS: (1) REQUIRING COMPLIANCE WITH ADDITIONAL CORRECTIVE MEASURES THAT THE BANK WILL BE REQUIRED TO CARRY OUT TO AVOID A DECREASE OF ITS CAPITAL RATIOS; (2) SPECIAL AUDITS TO BE PERFORMED BY SPECIAL AUDITORS IN CONNECTION WITH SPECIFIC MATTERS; (3) ABSTAINING FROM INCREASING THE SALARIES AND BENEFITS OF ALL OFFICERS AND EMPLOYEES OF THE BANK, EXCEPT FOR ANY CHANGE IN SALARY PREVIOUSLY AGREED ON AND SUBJECT TO THE OFFICERS' AND EMPLOYEES' LABOR RIGHTS; (4) REMOVING OFFICERS, DIRECTORS, STATUTORY AUDITORS OR EXTERNAL AUDITORS OR APPOINTING ANY PERSONS TO SUCH POSITIONS; OR (5) ANY OTHER MEASURES ORDERED BY THE CNBV, BASED ON ITS INSPECTION AND SUPERVISION AUTHORITIES.

(3) IF A MEXICAN BANK DOES NOT COMPLY WITH ANY CAPITAL SUPPLEMENT REQUIREMENTS PURSUANT TO THE MEXICAN BANKING LAW AND THE MEXICAN CAPITALIZATION REQUIREMENTS, THE CNBV MAY ORDER THE BANK TO SUSPEND ANY PAYMENT OF DIVIDENDS OR OTHER DISTRIBUTIONS TO ITS SHAREHOLDERS.

(4) CORRECTIVE MEASURES WILL NOT BE APPLICABLE TO MEXICAN BANKS WITH A CAPITAL RATIO EQUAL TO OR GREATER THAN THE CAPITAL RATIOS REQUIRED TO BE CLASSIFIED AS CLASS I PURSUANT TO THE MEXICAN CAPITALIZATION REQUIREMENTS.

The Mexican Banking Law and the General Rules Applicable to Mexican Banks classify Mexican banks in categories from I through V based on their capital ratios for Total Net Capital (*capital neto*), Tier 1 Capital (*capital básico*) and

Fundamental Capital (*capital básico fundamental*); corrective measures are imposed based on such classification, starting at the time a bank is included in the category Class II.

ARTICLE 122 OF THE MEXICAN BANKING LAW SPECIFIES THAT IF A BANK DOES NOT SATISFY THE CAPITAL RATIOS REQUIRED TO BE CLASSIFIED AS CLASS I PURSUANT TO THE MEXICAN CAPITALIZATION REQUIREMENTS, THE BANK MUST IMPLEMENT THE CORRECTIVE MEASURES ORDERED BY THE CNBV. CURRENTLY, THE MINIMUM CAPITAL RATIOS REQUIRED TO BE CLASSIFIED AS CLASS I GENERALLY APPLICABLE TO ANY MEXICAN BANK ARE THE “MINIMUM REGULATORY CAPITAL RATIOS”.

Further, according to the General Rules Applicable to Mexican Banks in effect on the date hereof, Mexican banks are classified as Class II, III, IV or V, if any of its Capital Ratios is below certain minimum Capital Ratios, which as of the date hereof are the Minimum Regulatory Capital Ratios.

The General Rules Applicable to Mexican Banks further provide that corrective measures applicable to Mexican banks classified in Class II, III, IV or V include, among others, requiring a bank to suspend or cancel payment of interest and defer or cancel payment of any principal on outstanding subordinated debt or exchange outstanding convertible subordinated debt into shares of the bank in the amount necessary to cover the capital deficiency; in the event that a bank issues subordinated debt, such bank must include in the relevant debt documentation, in the applicable indenture and in the applicable offering memorandum, that such suspension or cancellation of payment of interest and deferral or cancellation of payment of principal shall apply to subordinated debt in the event that such bank is classified in Class II, III, IV or V and that the implementation of such measures shall not be considered a default under the relevant debt documentation.

Mexican banks that are determined by the CNBV to be of systemic importance, in light of the impact that their default may cause to the Mexican financial system, the Mexican payment system or the Mexican economy, are required by the CNBV to hold additional loss absorbency capital, as determined from time to time (the “Systemically Important Bank Capital Supplement”), and are also subject to the Net Capital Supplement requirement. The CNBV also has the authority to require any and all Mexican banks to hold additional countercyclical capital (the “Countercyclical Capital Supplement”) designed to cover adverse economic cycles, in the event that the aggregate financing received by the Mexican private sector grows at a higher level as compared to the level of growth of the Mexican economy.

“Net Capital Supplement” refers to an additional capital requirement to be held by Mexican banks determined as systemically important banks under the TLAC Requirements (requirements imposed by the CNBV to Mexican banks determined as systemically important banks, to have minimum requirements for total loss-absorbing capacity and restoration of capital), which may be comprised of Fundamental Capital or capital instruments (*instrumentos de capital*) pursuant to the Mexican Banking Law and the Mexican Capitalization Requirements.

According to the General Rules Applicable to Mexican Banks in effect on the date hereof, domestic systemically important banks classified as Class I can be reclassified to Class II, if their Total Net Capital ratio plus the applicable percentage of capital instruments eligible to be deemed as part of the Net Capital Supplement divided by total risk-weighted assets is equal to or below the sum of 10.5% plus any applicable Capital Supplement (and in the case of the Net Capital Supplement, divided by total risk-weighted assets).

In May 2016, as a grade II domestic systemically important bank, the Bank was required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90%. Most recently, in May 2024, the CNBV ratified this requirement and confirmed the Bank as a grade II domestic systemically important bank. The Bank is also required to maintain an additional Countercyclical Capital Supplement of 0.001%, and a Net Capital Supplement of 6.5% to be completed by December 2025, with annual increases of 1.625% starting in 2022.

As a result of the foregoing, the minimum Capital Ratios applicable to the Bank as of September 30, 2024, to remain classified as Class I pursuant to the Mexican Capitalization Requirements are (x) 14.65% (fourteen point sixty five percent) in the case of the Total Net Capital (*capital neto*), (y) 9.40% (nine point forty percent) in the case of Tier 1 Capital (*capital básico*), and (z) 7.90% (seven point ninety percent) in the case of Fundamental Capital (*capital básico fundamental*), in all cases, including the Capital Conservation Buffer, and any applicable Capital Supplement.

As of September 30, 2024, the Bank’s Capital Ratios were (i) 19.23% in the case of Total Net Capital, (ii) 19.00% in the case of Tier 1 Capital and (iii) 13.87% in the case of Fundamental Capital, which exceed the applicable regulatory requirements.

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

Waiver of Right of Set-Off

Subject to applicable law, neither any holder or beneficial owner of the Notes nor the Trustee (acting on behalf of the holders of the Notes) may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to any holder or deemed to be owed by the Bank in respect of, or arising under, or in connection with, the Notes or the Indenture and each holder and beneficial owner of the Notes, by virtue of its holding of any Notes or any interest therein, and the Trustee (acting on behalf of the holders of the Notes), shall be deemed to have waived all such rights of set-off, compensation or retention. If, notwithstanding the foregoing, any amounts due and payable to any holder or beneficial owner of a Note or any interest therein by the Bank in respect of, or arising under, the Notes are discharged by set-off, such holder or beneficial owner shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Bank (or, if the liquidation (*resolución*) of the Bank shall have occurred, the liquidator, administrator or *conciliador* of the Bank or any other applicable person designated for such purposes, as the case may be) and, until such time as payment is made, shall hold an amount equal to such amount in trust or deposit (as applicable) or otherwise for the Bank (or the liquidator, administrator or *conciliador* of the Bank or any other applicable person designated for such purposes, as the case may be) and, accordingly, any such discharge shall be deemed not to have taken place.

Unclaimed Money, Prescription

If money deposited with the Trustee or any paying agent for the payment of principal of, premium, if any, or interest or Additional Amounts (as defined below), if any, on the Notes remains unclaimed for two years, the Trustee or such paying agent shall return the money to the Bank, upon its written request, subject to applicable unclaimed property law. After that, holders of the Notes entitled to the money must look to the Bank for payment unless applicable unclaimed property law designates another person. Other than as set forth in this paragraph, the Indenture does not provide for any prescription periods for the payment of principal of, premium, if any, or interest or Additional Amounts, if any, on the Notes.

Indebtedness and Reserves

The Indenture does not limit the Bank's ability to incur senior, secured, preferred, subordinated, or any other additional indebtedness, nor does the Indenture require the Bank to create or maintain any reserves.

Payment of Additional Amounts

All payments made by or on the Bank's behalf in respect of the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of Mexico, the Cayman Islands, or any other jurisdiction through which payments are made (each a "Relevant Jurisdiction") or any authority or agency therein or thereof having power to tax (collectively, "Relevant Tax") unless the withholding or deduction of such Relevant Tax is required by law. In that event, the Bank will pay additional amounts ("Additional Amounts") as may be necessary so that the net amounts received by the holders of the Notes or their nominees (the term "holders" only refers to the registered holders), after such withholding or deduction, will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction, except that no Additional Amounts will be payable to a holder to the extent that such Relevant Tax:

(1) is imposed only by virtue of such holder (or beneficial owner) having some connection with the Relevant Jurisdiction, other than connections arising from being a holder (or beneficial owner) of the Notes or, receiving payments, of any nature, on the Notes or enforcing rights under the Notes; or

(2) is imposed only by virtue of such holder, beneficial owner or any other person having failed to comply with any certification, identification or other reporting requirement concerning the nationality, residence, identity or other lack of connection with the Relevant Jurisdiction or any similar claim for exemption or reduction in the rate of withholding, if satisfying such requirement or making such claim is a precondition to exemption from, or reduction in the rate of, the imposition, withholding or deduction of any Relevant Tax, *provided* that (x) the Bank or an agent acting for the Bank has provided the Trustee with at least 60 days' prior written notice of an opportunity to satisfy such a requirement or make such a claim (such notice to be provided by the Trustee to the registered holder of the Notes), and (y) in no event, shall such holder's obligation to satisfy such a requirement or to make such a claim require such holder to provide any materially more onerous information, documents or other evidence than would be required to be provided had such holder been required to file IRS Forms W-8BEN, W-8BEN-E, W-8ECI, W-8EXP and/or W-8IMY; or

(3) is imposed only by virtue of such holder not having presented the Notes (where presentation is required) for payment within 30 days after the date on which such payment becomes due and payable or the date on which such payment

thereof is duly provided for, whichever occurs earlier, except to the extent such holder would be entitled to Additional Amounts had the Notes been surrendered during such 30-day period; or

(4) is pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and the Treasury regulations promulgated thereunder (“FATCA”), including any agreement with the U.S. Internal Revenue Service with respect thereto, any intergovernmental agreement between the United States and Mexico or any other jurisdiction (including, without limitation, the Cayman Islands) with respect to FATCA, or any law, regulation or other official guidance enacted in any jurisdiction implementing, or in connection with, FATCA or any intergovernmental agreement with respect to FATCA; or

(5) is imposed on a Note presented for payment (where presentation is required) by a holder that could have avoided such Relevant Tax by presenting such Note to another paying agent in a member state of the European Union; or

(6) in the event that the holder is a fiduciary, a partnership or any person other than the sole beneficial owner of such payment, would not have been imposed had the beneficiary or settlor with respect to such fiduciary, member of such partnership or beneficial owner of such payment been the actual holder of the Note; or

(7) is an estate, inheritance, gift, sale, transfer, personal property or similar tax or assessment; or

(8) is payable other than by deduction or withholding from payments under, or with respect to, the Notes; or

(9) is imposed as a result of any combination of (1) through (8) above.

The Bank will also (1) make such withholding or deduction and (2) remit the full amount withheld or deducted to the relevant taxing authority in the Relevant Jurisdiction in accordance with applicable law.

The Bank will furnish to the Trustee, within 30 Business Days after the date of payment of any such taxes or the receipt of any credit or refund in respect to such taxes, documentation acceptable to the Trustee, including certified copies of returns, evidencing such payment (or credit or refund received) by the Bank. Upon written request made by the holders to the Trustee, copies of such documentation will be made available to the holders.

The Bank will also pay any stamp, administrative, court, documentary, excise or similar taxes arising in a Relevant Jurisdiction in connection with the Notes and will indemnify the holders for any such taxes paid by holders.

All references to principal or interest payable on the Notes shall be deemed to include any Additional Amounts payable by the Bank under the Notes or the Indenture. The foregoing obligations shall survive any termination, defeasance or discharge of the Notes and the Indenture.

If the Bank shall at any time be required to pay Additional Amounts to holders pursuant to the terms of the Notes and the Indenture, the Bank will use its reasonable efforts to obtain an exemption from the payment of the Relevant Tax that has resulted in the requirement that the Bank pay such Additional Amounts.

In the event that Additional Amounts actually paid with respect to the Notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder of the Notes, and as a result thereof such holder is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, such holder shall, by accepting the Notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to the Bank. However, by making such assignment, the holder makes no representation or warranty that the Bank will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto, including taking any action to obtain or receive the relevant refund. The Bank will inform the Trustee of the refund or credit within 30 Business Days of its determination that the Bank is entitled to receive such refund or credit.

Trigger Event and Write-Down

Trigger Event

A “TRIGGER EVENT” WILL BE DEEMED TO HAVE OCCURRED IF:

(I) THE CNBV PUBLISHES A DETERMINATION, IN ITS OFFICIAL PUBLICATION OF CAPITALIZATION LEVELS FOR MEXICAN BANKS, THAT THE BANK’S FUNDAMENTAL CAPITAL RATIO, AS CALCULATED PURSUANT TO THE APPLICABLE MEXICAN CAPITALIZATION

REQUIREMENTS, IS EQUAL TO OR BELOW 5.125% (FIVE POINT ONE HUNDREDTH TWENTY-FIVE PERCENT); OR

(II) BOTH (A) THE CNBV HAS NOTIFIED THE BANK THAT IT HAS MADE A DETERMINATION, PURSUANT TO ARTICLE 29 BIS OF THE MEXICAN BANKING LAW, THAT A CAUSE FOR REVOCATION OF THE BANK'S LICENSE HAS OCCURRED RESULTING FROM (X) THE BANK'S ASSETS BEING INSUFFICIENT TO SATISFY ITS LIABILITIES, (Y) THE BANK'S NON-COMPLIANCE WITH CORRECTIVE MEASURES IMPOSED BY THE CNBV PURSUANT TO THE MEXICAN BANKING LAW, OR (Z) THE BANK'S NON-COMPLIANCE WITH THE CAPITALIZATION REQUIREMENTS SET FORTH IN THE MEXICAN CAPITALIZATION REQUIREMENTS AND (B) THE BANK HAS NOT CURED SUCH CAUSE FOR REVOCATION, BY (a) COMPLYING WITH SUCH CORRECTIVE MEASURES, OR (b) (1) SUBMITTING A CAPITAL RESTORATION PLAN TO, AND RECEIVING APPROVAL OF SUCH PLAN BY, THE CNBV, (2) NOT BEING CLASSIFIED IN CLASS III, IV OR V, AND (3) TRANSFERRING AT LEAST 75% (SEVENTY-FIVE PERCENT) OF ITS SHARES TO AN IRREVOCABLE TRUST, OR (c) REMEDYING ANY CAPITAL DEFICIENCY, IN EACH CASE, ON OR BEFORE THE THIRD (IN THE CASE OF (A) (X)) OR SEVENTH (IN THE CASE OF (A) (Y) AND (A) (Z)) BUSINESS DAY IN MEXICO, AS APPLICABLE, FOLLOWING THE DATE ON WHICH THE CNBV NOTIFIES THE BANK OF SUCH DETERMINATION.

Write-Down

IF A TRIGGER EVENT OCCURS, THE FOLLOWING WRITE-DOWNS SHALL BE DEEMED TO HAVE OCCURRED ON THE WRITE-DOWN DATE (AS DEFINED BELOW), AUTOMATICALLY AND WITHOUT ANY ADDITIONAL ACTION BY THE BANK, THE TRUSTEE OR THE HOLDERS OF THE NOTES:

(I) THE THEN CURRENT PRINCIPAL AMOUNT OF THE NOTES WILL AUTOMATICALLY BE REDUCED BY ONE OR MORE WRITE-DOWNS BY EACH APPLICABLE WRITE-DOWN AMOUNT (AS DEFINED BELOW) AND ANY SUCH WRITE-DOWN SHALL NOT CONSTITUTE A DEFAULT OR AN ENFORCEMENT EVENT (AS DEFINED BELOW); AND

(II) ANY HOLDER OF NOTES WILL AUTOMATICALLY BE DEEMED TO HAVE IRREVOCABLY WAIVED ITS RIGHT TO CLAIM OR RECEIVE, AND WILL NOT HAVE ANY RIGHTS AGAINST THE BANK OR THE TRUSTEE WITH RESPECT TO, REPAYMENT OF, THE WRITTEN-DOWN PRINCIPAL OF THE NOTES OR ANY INTEREST WITH RESPECT THERETO (OR ADDITIONAL AMOUNTS PAYABLE IN CONNECTION THEREWITH), INCLUDING ANY AND ALL UNPAID INTEREST WITH RESPECT TO SUCH WRITTEN-DOWN PRINCIPAL AS OF THE WRITE-DOWN DATE, IRRESPECTIVE OF WHETHER SUCH AMOUNTS HAVE BECOME DUE AND PAYABLE PRIOR TO THE DATE ON WHICH THE TRIGGER EVENT SHALL HAVE OCCURRED.

THE BANK SHALL PROVIDE NOTICE TO HOLDERS VIA THE APPLICABLE CLEARING SYSTEM AS WELL AS WRITTEN NOTICE TO THE TRUSTEE (A "WRITE-DOWN NOTICE") THAT A TRIGGER EVENT HAS OCCURRED, NOT LATER THAN THE NEXT BUSINESS DAY SUCCEEDING SUCH TRIGGER EVENT. ANY WRITE-DOWN NOTICE TO THE TRUSTEE MUST BE IN WRITING AND ACCOMPANIED BY A CERTIFICATE SIGNED BY AN OFFICER OF THE BANK STATING THAT A TRIGGER EVENT HAS OCCURRED AND SETTING OUT THE METHOD OF CALCULATION OF THE RELEVANT WRITE-DOWN AMOUNT.

"WRITE-DOWN AMOUNT" MEANS AN (I) AMOUNT OF THE THEN CURRENT PRINCIPAL AMOUNT OF THE NOTES THAT WOULD BE SUFFICIENT, TOGETHER WITH ANY CONCURRENT *PRO RATA* WRITE DOWN OR CONVERSION OF ANY OTHER SUBORDINATED NON-PREFERRED INDEBTEDNESS ISSUED BY THE BANK AND THEN OUTSTANDING, TO RETURN THE FUNDAMENTAL CAPITAL RATIO OF THE BANK TO THE LEVEL OF THE THEN-APPLICABLE FUNDAMENTAL CAPITAL RATIO REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 iii) OF ANNEX 1-R OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM IS 7% (SEVEN PERCENT) (WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER) PLUS THE AMOUNT REQUIRED TO RESTORE ANY APPLICABLE CAPITAL SUPPLEMENT TO THE MINIMUM AMOUNTS REQUIRED UNDER THE MEXICAN CAPITALIZATION REQUIREMENTS ON SUCH WRITE-DOWN DATE; OR (II) IF ANY WRITE-DOWN OF THE CURRENT PRINCIPAL AMOUNT, TOGETHER WITH ANY CONCURRENT *PRO RATA* WRITE DOWN OR CONVERSION OF ANY SUBORDINATED NON-PREFERRED INDEBTEDNESS, WOULD BE INSUFFICIENT TO RETURN THE FUNDAMENTAL CAPITAL RATIO OF THE BANK TO THE AFOREMENTIONED AMOUNT, THEN THE AMOUNT NECESSARY TO REDUCE THE CURRENT PRINCIPAL AMOUNT OF EACH OUTSTANDING NOTE TO ZERO.

“WRITE-DOWN DATE” MEANS THE DATE ON WHICH A WRITE-DOWN WILL BE DEEMED TO TAKE EFFECT, WHICH SHALL BE THE NEXT BUSINESS DAY SUCCEEDING THE DATE OF THE TRIGGER EVENT.

“WRITTEN-DOWN PRINCIPAL” MEANS THE AMOUNT BY WHICH THE PRINCIPAL OF ANY NOTE HAS BEEN WRITTEN DOWN BY ANY ONE OR MORE WRITE-DOWNS.

AS REQUIRED UNDER THE MEXICAN CAPITALIZATION REQUIREMENTS, A FULL WRITE-DOWN (WHEREBY THE PRINCIPAL AMOUNT OF THE NOTES HAS BEEN WRITTEN DOWN TO ZERO) SHALL BE COMPLETED BEFORE ANY PUBLIC FUNDS ARE CONTRIBUTED OR ANY PUBLIC ASSISTANCE IS PROVIDED TO THE BANK IN THE TERMS OF ARTICLE 148, SECTION II, SUBSECTIONS A) AND B) OF THE MEXICAN BANKING LAW, INCLUDING, AMONG OTHERS IN THE FORM OF (I) SUBSCRIPTION OF SHARES, (II) GRANTING OF LOANS, (III) PAYMENT OF THE LIABILITIES OF THE BANK, (IV) GRANTING OF GUARANTIES AND (V) THE TRANSFER OF ASSETS AND LIABILITIES.

Subordination

THE INDENTURE FOR THE NOTES WILL PROVIDE THAT THE NOTES CONSTITUTE SUBORDINATED NON-PREFERRED INDEBTEDNESS (*OBLIGACIONES SUBORDINADAS NO PREFERENTES*) AND (I) WILL RANK SUBORDINATE AND JUNIOR IN RIGHT OF PAYMENT AND IN LIQUIDATION TO ALL PRESENT AND FUTURE SENIOR INDEBTEDNESS AND SUBORDINATED PREFERRED INDEBTEDNESS (*OBLIGACIONES SUBORDINADAS PREFERENTES*) OF THE BANK, (II) WILL RANK *PARI PASSU* WITHOUT PREFERENCE AMONG THEMSELVES AND WITH ALL OTHER PRESENT OR FUTURE UNSECURED SUBORDINATED NON-PREFERRED INDEBTEDNESS OF THE BANK AND (III) WILL RANK SENIOR ONLY TO ALL OUR PRESENT AND FUTURE CLASSES OF EQUITY OR CAPITAL STOCK OF THE BANK.

IN THE EVENT OF THE BANK’S INSOLVENCY (*RESOLUCIÓN*) OR LIQUIDATION, AND UPON ANY DISTRIBUTION OF ASSETS TO CREDITORS UPON ANY LIQUIDATION, DISSOLUTION, WINDING UP, REORGANIZATION, ASSIGNMENT FOR THE BENEFIT OF CREDITORS, MARSHALING OF ASSETS OR ANY BANKRUPTCY, INSOLVENCY, *LIQUIDACIÓN* OR *RESOLUCIÓN* OR SIMILAR PROCEEDINGS IN CONNECTION WITH THE INSOLVENCY OR BANKRUPTCY OF THE BANK, (1) ALL PRINCIPAL, PREMIUM, IF ANY, AND INTEREST DUE OR TO BECOME DUE ON ALL SENIOR INDEBTEDNESS AND SUBORDINATED PREFERRED INDEBTEDNESS MUST BE PAID IN FULL BEFORE THE HOLDERS OF SUBORDINATED NON-PREFERRED INDEBTEDNESS (INCLUDING THE NOTES) ARE ENTITLED TO RECEIVE OR RETAIN ANY PAYMENT IN RESPECT THEREOF, AND (2) THE HOLDERS OF UNSECURED SUBORDINATED NON-PREFERRED INDEBTEDNESS (INCLUDING THE NOTES) WILL BE ENTITLED TO RECEIVE *PARI PASSU* AMONG THEMSELVES ANY PAYMENT IN RESPECT THEREOF. THE NOTES AND ALL OTHER SUBORDINATED NON-PREFERRED INDEBTEDNESS WILL BE SENIOR TO ALL CLASSES OF EQUITY OR CAPITAL STOCK OF THE BANK.

Definitions

For the purposes of the Notes:

(1) The term “*Senior Indebtedness*” is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, unless the terms thereof specifically provide that it is not superior in right of payment and in liquidation to the Subordinated Preferred Indebtedness or Subordinated Non-Preferred Indebtedness (including the Notes), and any deferrals, renewals or extensions of such Senior Indebtedness;

(2) The term “*Subordinated Preferred Indebtedness*” refers to *obligaciones subordinadas preferentes* and is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment and in liquidation to Senior Indebtedness, but is senior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness (including the Notes) and all classes of capital stock of the Bank, and any deferrals, renewals or extensions of such Subordinated Preferred Indebtedness;

(3) The term “*Subordinated Non-Preferred Indebtedness*” (including the Notes) refers to *obligaciones subordinadas no preferentes* and is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, which terms specifically

provide that it is junior in right of payment and in liquidation to Senior Indebtedness and Subordinated Preferred Indebtedness, but is senior in right of payment and in liquidation to all classes of capital stock of the Bank, and any deferrals, renewals or extensions of such Subordinated Non-Preferred Indebtedness;

(4) The term “*Indebtedness for Money Borrowed*” is defined in the Indenture to mean any obligation of, or any obligation guaranteed by, the Bank (to the extent permitted under applicable law) for the repayment of borrowed money, whether or not evidenced by notes, debentures, debt securities or other written instruments, but shall not include (a) any trade accounts payable in the ordinary course of business, (b) any such indebtedness that by its terms ranks junior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness, (c) indebtedness to any of the Bank’s employees, (d) indebtedness of the Bank which, when incurred, was without recourse to the Bank, and (e) any other indebtedness that would otherwise qualify as Indebtedness for Money Borrowed to the extent that such indebtedness, by its terms, ranks *pari passu* with or junior in right of payment and in liquidation to any of the indebtedness described in clause (a) or (b) above; and

(5) The term “*Mexican Capitalization Requirements*” is defined in the Indenture to mean the capitalization requirements for commercial banks, including the Bank, set forth under the Mexican Banking Law and the General Rules Applicable to Mexican Banks, as such laws and regulations may be amended or superseded.

Redemption

Optional Redemption

THE BANK HAS THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES ON THE FIRST CALL DATE AND ON ANY INTEREST PAYMENT DATE THEREAFTER, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) OR IN PART, AT PAR PLUS ACCRUED AND UNPAID (AND NOT CANCELED) INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE DATE OF REDEMPTION (AN “OPTIONAL REDEMPTION”).

THE BANK MAY REDEEM THE NOTES ONLY IF (I) THE BANK IS THEN IN COMPLIANCE WITH THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO SUCH OPTIONAL REDEMPTION, THE BANK MAINTAINS EACH OF ITS CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-R OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE THE “MINIMUM REGULATORY CAPITAL RATIOS”, OR THE BANK ISSUES SECURITIES THAT REPLACE THE NOTES SUCH THAT IT REMAINS IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) THE BANK HAS OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE, AS EVIDENCED BY AN OFFICER’S CERTIFICATE DELIVERED TO THE TRUSTEE PRIOR TO THE DELIVERY OF THE NOTICE OF REDEMPTION TO THE HOLDERS; *PROVIDED, HOWEVER, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, THEN THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR OPTIONAL REDEMPTION.*

IN THE EVENT OF SUCH AN OPTIONAL REDEMPTION, THE BANK IS REQUIRED TO OBTAIN THE AUTHORIZATION OF *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE. THE BANK’S OBLIGATION TO OBTAIN *BANCO DE MÉXICO*’S AUTHORIZATION TO REDEEM THE NOTES SHALL NOT GRANT ANY RIGHTS TO THE TRUSTEE OR THE HOLDERS OF THE NOTES TO HAVE THE NOTES REDEEMED, EVEN IF SUCH AUTHORIZATION IS OBTAINED.

Withholding Tax Redemption

THE BANK HAS THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES AT ANY TIME, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) BUT NOT IN PART, AT PAR PLUS ACCRUED AND UNPAID (AND NOT CANCELED) INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE DATE OF REDEMPTION, UPON THE OCCURRENCE OF A WITHHOLDING TAX EVENT (AS DEFINED BELOW) AFFECTING THE NOTES (A “WITHHOLDING TAX REDEMPTION”); *PROVIDED, HOWEVER, THAT IN THE EVENT OF SUCH A WITHHOLDING TAX REDEMPTION, THE BANK MAY ONLY REDEEM THE NOTES IF (I) THE BANK SHALL BE IN COMPLIANCE WITH THE APPLICABLE MEXICAN CAPITALIZATION*

REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO THE WITHHOLDING TAX REDEMPTION, THE BANK MAINTAINS EACH OF ITS CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-R OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE THE “MINIMUM REGULATORY CAPITAL RATIOS”, OR THE BANK ISSUES SECURITIES THAT REPLACE THE NOTES SUCH THAT IT REMAINS IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) THE BANK HAS OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE, AS EVIDENCED BY AN OFFICER’S CERTIFICATE DELIVERED TO THE TRUSTEE PRIOR TO THE DELIVERY OF THE NOTICE OF REDEMPTION TO THE HOLDERS; *PROVIDED, HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, THEN THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR WITHHOLDING TAX REDEMPTION.

IN THE EVENT OF SUCH A WITHHOLDING TAX REDEMPTION, THE BANK IS REQUIRED TO OBTAIN THE AUTHORIZATION OF *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE. THE BANK’S OBLIGATION TO OBTAIN *BANCO DE MÉXICO*’S AUTHORIZATION TO REDEEM THE NOTES SHALL NOT GRANT ANY RIGHTS TO THE TRUSTEE OR THE HOLDERS OF THE NOTES TO HAVE THE NOTES REDEEMED, EVEN IF SUCH AUTHORIZATION IS OBTAINED.

FOR THE PURPOSES OF THE FOREGOING, THE TERM “WITHHOLDING TAX EVENT” IS DEFINED IN THE INDENTURE TO MEAN (I) THE RECEIPT BY THE BANK AND THE DELIVERY TO THE TRUSTEE OF AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM IN MEXICO OR THE CAYMAN ISLANDS (OR IN THE RELEVANT JURISDICTION, IN THE CASE OF A WITHHOLDING TAX EVENT INVOLVING A RELEVANT JURISDICTION OTHER THAN MEXICO OR THE CAYMAN ISLANDS) EXPERIENCED IN SUCH MATTERS TO THE EFFECT THAT, AS A RESULT OF (A) ANY AMENDMENT TO OR CHANGE (INCLUDING ANY ANNOUNCED PROSPECTIVE CHANGE) IN THE LAWS OR TREATIES (OR ANY RULES OR REGULATIONS THEREUNDER) OF ANY RELEVANT JURISDICTION AFFECTING TAXATION, (B) ANY JUDICIAL DECISION OR OFFICIAL ADMINISTRATIVE PRONOUNCEMENT OF ANY RELEVANT JURISDICTION, (EACH AN “ADMINISTRATIVE ACTION”), OR (C) ANY AMENDMENT TO OR CHANGE IN THE OFFICIAL PRONOUNCEMENT THAT PROVIDES FOR A POSITION THAT DIFFERS FROM THE THERETOFORE GENERALLY ACCEPTED POSITION, IN EACH CASE, BY ANY LEGISLATIVE BODY, COURT, GOVERNMENTAL AUTHORITY OR REGULATORY BODY HAVING APPROPRIATE JURISDICTION, AND PROVIDED THAT SUCH AMENDMENT, CHANGE, JUDICIAL DECISION OR PRONOUNCEMENT IS EFFECTIVE ON OR AFTER THE DATE OF ISSUANCE OF THE NOTES OR, WITH RESPECT TO ANY JURISDICTION OTHER THAN MEXICO AND THE CAYMAN ISLANDS, AFTER SUCH JURISDICTION HAS BECOME A RELEVANT JURISDICTION (COLLECTIVELY, A “CHANGE IN TAX LAW”), THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT THE BANK IS OR WILL BE LIABLE FOR MORE THAN A *DE MINIMUS* PAYMENT OF ADDITIONAL AMOUNTS IN RESPECT OF THE NOTES IN EXCESS OF THE GROSS AMOUNT OF ADDITIONAL AMOUNTS PAYABLE IN RESPECT OF THE NOTES PRIOR TO SUCH CHANGE IN TAX LAW AND (II) THE DELIVERY TO THE TRUSTEE OF AN OFFICER’S CERTIFICATE STATING THAT THE REQUIREMENT TO PAY SUCH ADDITIONAL AMOUNTS CANNOT BE AVOIDED BY TAKING REASONABLE MEASURES AVAILABLE TO THE BANK (SUCH MEASURES NOT INVOLVING ANY MATERIAL COST TO THE BANK OR THE INCURRING BY THE BANK OF ANY OTHER TAX OR PENALTY).

Special Event Redemption

THE BANK ALSO HAS THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES AT ANY TIME, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) BUT NOT IN PART, AT PAR PLUS ACCRUED AND UNPAID (AND NOT CANCELED) INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE REDEMPTION DATE, UPON THE OCCURRENCE OF A SPECIAL EVENT (AS DEFINED BELOW) AFFECTING THE NOTES (A “SPECIAL EVENT REDEMPTION”); *PROVIDED, HOWEVER*, IN THE EVENT OF SUCH A SPECIAL EVENT REDEMPTION WITH RESPECT TO THE NOTES, THE BANK MAY ONLY REDEEM THE NOTES IF (I) THE BANK SHALL BE IN COMPLIANCE WITH APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO THE REDEMPTION, THE BANK MAINTAINS EACH OF ITS CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION

IV, C), 1 OF ANNEX 1-R OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE THE “MINIMUM REGULATORY CAPITAL RATIOS”, OR THE BANK ISSUES SECURITIES THAT REPLACE THE NOTES SUCH THAT IT REMAINS IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) THE BANK HAS OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE, AS EVIDENCED BY AN OFFICER’S CERTIFICATE DELIVERED TO THE TRUSTEE PRIOR TO THE DELIVERY OF THE NOTICE OF REDEMPTION TO THE HOLDERS; *PROVIDED, HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, THEN THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR SPECIAL EVENT REDEMPTION.

IN THE EVENT OF SUCH A SPECIAL EVENT REDEMPTION, THE BANK IS REQUIRED TO OBTAIN THE AUTHORIZATION OF *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE. THE BANK’S OBLIGATION TO OBTAIN *BANCO DE MÉXICO*’S AUTHORIZATION TO REDEEM THE NOTES SHALL NOT GRANT ANY RIGHTS TO THE TRUSTEE OR THE HOLDERS OF THE NOTES TO HAVE THE NOTES REDEEMED, EVEN IF SUCH AUTHORIZATION IS OBTAINED.

FOR THE PURPOSES OF THE FOREGOING:

(1) THE TERM “SPECIAL EVENT” IN RESPECT OF THE NOTES IS DEFINED IN THE INDENTURE TO MEAN A CAPITAL EVENT OR A TAX EVENT (BOTH AS DEFINED BELOW);

(2) THE TERM “CAPITAL EVENT” IN RESPECT OF THE NOTES IS DEFINED IN THE INDENTURE TO MEAN THE REASONABLE DETERMINATION BY THE BANK THAT, AS A RESULT OF (A) THE OCCURRENCE OF ANY AMENDMENT TO OR CHANGE IN THE LAWS OR ANY REGULATIONS THEREUNDER OF MEXICO OR (B) ANY OFFICIAL ADMINISTRATIVE PRONOUNCEMENT OR JUDICIAL DECISION INTERPRETING OR APPLYING THESE LAWS OR REGULATIONS, WHICH AMENDMENT OR CHANGE IS EFFECTIVE OR WHICH PRONOUNCEMENT OR DECISION IS NOT KNOWN BY THE BANK ON THE ISSUE DATE AND ANNOUNCED ON OR AFTER THE ISSUE DATE, THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT THE NOTES WILL CEASE TO BE ELIGIBLE IN THEIR ENTIRETY TO BE TREATED AS TIER 1 CAPITAL (*CAPITAL BÁSICO*), OR THE THEN EQUIVALENT OF TIER 1 CAPITAL (*CAPITAL BÁSICO*) FOR PURPOSES OF THE MEXICAN CAPITALIZATION REQUIREMENTS, AS THEN IN EFFECT AND APPLICABLE TO THE BANK;

(3) THE TERM “TAX EVENT” IS DEFINED IN THE INDENTURE TO MEAN THE RECEIPT BY THE BANK OF AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM IN MEXICO EXPERIENCED IN SUCH MATTERS TO THE EFFECT THAT, AS A RESULT OF A CHANGE IN TAX LAW NOT KNOWN BY THE BANK ON THE ISSUE DATE, THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT INTEREST PAYABLE BY THE BANK ON THE NOTES IS NOT OR WILL NOT BE DEDUCTIBLE BY THE BANK IN WHOLE OR IN PART FOR MEXICAN INCOME TAX PURPOSES.

Redemption Procedures

IF THE BANK GIVES A NOTICE OF AN OPTIONAL REDEMPTION, A WITHHOLDING TAX REDEMPTION OR A SPECIAL EVENT REDEMPTION IN RESPECT OF THE NOTES IN ACCORDANCE WITH THE INDENTURE, AT LEAST ONE BUSINESS DAY PRIOR TO THE APPLICABLE REDEMPTION DATE, BY 11:00 A.M. NEW YORK CITY TIME, THE BANK SHALL DEPOSIT WITH THE TRUSTEE OR WITH A PAYING AGENT FUNDS SUFFICIENT TO PAY THE APPLICABLE REDEMPTION PRICE AND ACCRUED AND UNPAID (AND NOT CANCELED) INTEREST, TO THE APPLICABLE REDEMPTION DATE, ON THE NOTES SUBJECT TO REDEMPTION; *PROVIDED, HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR REDEMPTION. SUCH NOTICE WILL ALSO BE GIVEN TO THE HOLDERS IN ACCORDANCE WITH THE PROCEDURE SET FORTH IN “—NOTICES”. WITH RESPECT TO THE NOTES BEING REDEEMED AND HELD IN CERTIFICATED FORM, THE TRUSTEE, TO THE EXTENT FUNDS ARE LEGALLY AVAILABLE, WILL PAY THE APPLICABLE REDEMPTION PRICE TO THE HOLDERS THEREOF UPON SURRENDER OF THEIR CERTIFICATES EVIDENCING THE NOTES. IF NOT PREVIOUSLY CANCELED, INTEREST PAYABLE ON OR PRIOR TO THE REDEMPTION DATE SHALL BE PAYABLE TO THE HOLDERS OF THE NOTES ON THE RELEVANT RECORD DATES. IF NOTICE OF REDEMPTION SHALL HAVE BEEN GIVEN AND FUNDS DEPOSITED WITH THE TRUSTEE TO PAY THE APPLICABLE REDEMPTION PRICE FOR THE NOTES BEING REDEEMED, THEN UPON THE REDEMPTION DATE, ALL RIGHTS OF THE HOLDERS OF

THE NOTES WILL CEASE WITH RESPECT TO THE PORTION OF NOTES BEING SO REDEEMED, EXCEPT THE RIGHT OF THE HOLDERS OF THE NOTES TO RECEIVE THE APPLICABLE REDEMPTION PRICE, BUT WITHOUT INTEREST ON SUCH REDEMPTION PRICE, AND THE NOTES SO REDEEMED WILL CEASE TO BE OUTSTANDING. IN THE EVENT THAT ANY REDEMPTION DATE IN RESPECT OF THE NOTES IS NOT A BUSINESS DAY, THEN THE APPLICABLE REDEMPTION PRICE PAYABLE ON SUCH DATE WILL BE PAID ON THE NEXT SUCCEEDING DAY THAT IS A BUSINESS DAY (WITHOUT ANY INTEREST OR OTHER PAYMENT IN RESPECT OF ANY SUCH DELAY) WITH THE SAME FORCE AND EFFECT AS IF MADE ON SUCH REDEMPTION DATE. IN THE EVENT THAT PAYMENT OF THE APPLICABLE REDEMPTION PRICE IS IMPROPERLY WITHHELD OR REFUSED AND NOT PAID BY THE BANK (1) INTEREST DUE ON THE NOTES BEING REDEEMED WILL CONTINUE TO ACCRUE AT THE THEN APPLICABLE RATE, FROM THE REDEMPTION DATE ORIGINALLY ESTABLISHED BY THE BANK TO THE DATE SUCH APPLICABLE REDEMPTION PRICE IS ACTUALLY PAID, AND (2) THE ACTUAL PAYMENT DATE WILL BE THE REDEMPTION DATE FOR PURPOSES OF CALCULATING THE APPLICABLE REDEMPTION PRICE.

IF THE BANK HAS DELIVERED A NOTICE OF REDEMPTION, BUT PRIOR TO THE PAYMENT OF THE REDEMPTION AMOUNT WITH RESPECT TO SUCH REDEMPTION, A TRIGGER EVENT HAS OCCURRED, SUCH NOTICE OF REDEMPTION SHALL BE AUTOMATICALLY RESCINDED AND SHALL BE OF NO FORCE AND EFFECT, AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE.

IF THE BANK HAS DELIVERED A NOTICE OF REDEMPTION, BUT PRIOR TO THE DATE OF ANY SUCH REDEMPTION, *BANCO DE MÉXICO* HAS OBJECTED TO OR REFUSED TO GRANT PERMISSION TO THE BANK, TO REDEEM THE RELEVANT NOTES, SUCH NOTICE OF REDEMPTION SHALL BE AUTOMATICALLY RESCINDED AND SHALL BE OF NO FORCE AND EFFECT AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE.

IF THE BANK HAS DELIVERED A NOTICE OF REDEMPTION, BUT PRIOR TO THE PAYMENT OF THE REDEMPTION AMOUNT WITH RESPECT TO SUCH REDEMPTION THE BANK IS NOT IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS OR ANY ALTERNATIVE OR ADDITIONAL PRE-CONDITIONS REQUIRED BY *BANCO DE MÉXICO* AS A PREREQUISITE TO ITS AUTHORIZATION FOR SUCH REDEMPTION, SUCH NOTICE OF REDEMPTION SHALL BE AUTOMATICALLY RESCINDED AND SHALL BE OF NO FORCE AND EFFECT, AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE.

THE BANK shall GIVE NOTICE OF ANY SUCH RESCISSION TO THE HOLDERS OF THE NOTES IN ACCORDANCE WITH THE PROCEDURES SET FORTH IN THE INDENTURE AND TO THE TRUSTEE IN WRITING.

IN THE EVENT OF A PARTIAL OPTIONAL REDEMPTION OF THE NOTES, THE NOTES SHALL BE REDEEMED FROM EACH HOLDER THEREOF *PRO RATA* ACCORDING TO THE THEN CURRENT PRINCIPAL AMOUNT OF THE NOTES HELD BY THE RELEVANT HOLDER IN RELATION TO THE THEN CURRENT PRINCIPAL AMOUNT OF ALL NOTES; *PROVIDED, HOWEVER*, THAT GLOBAL NOTES TO BE REDEEMED THAT ARE HELD THROUGH DTC SHALL BE SELECTED IN ACCORDANCE WITH THE APPLICABLE PROCEDURES OF DTC. IN RESPECT OF THE NOTES HELD BY DTC OR ITS NOMINEE, THE DISTRIBUTION OF THE PROCEEDS FROM SUCH REDEMPTION WILL BE MADE TO DTC OR ITS NOMINEE AND DISBURSED BY DTC OR ITS NOMINEE IN ACCORDANCE WITH THE PROCEDURES APPLIED BY DTC OR ITS NOMINEE. IN DETERMINING THE PRORATION OF THE NOTES TO BE REDEEMED, THE BANK MAY MAKE SUCH ADJUSTMENTS AS MAY BE APPROPRIATE IN ORDER THAT ONLY THE NOTES IN AUTHORIZED DENOMINATIONS SHALL BE REDEEMED, SUBJECT TO THE MINIMUM DENOMINATIONS SET FORTH IN THIS OFFERING MEMORANDUM.

THE BANK SHALL DELIVER NOTICE OF ANY REDEMPTION TO THE TRUSTEE AT LEAST 40 DAYS PRIOR TO THE APPLICABLE REDEMPTION DATE (OR ANY SHORTER PERIOD THAT MAY BE AGREED UPON BY THE BANK AND THE TRUSTEE). THE BANK SHALL, OR SHALL CAUSE THE TRUSTEE TO, GIVE NOTICE OF ANY SUCH REDEMPTION AT LEAST 30 DAYS BUT NOT MORE THAN 60 DAYS PRIOR TO THE REDEMPTION DATE TO EACH HOLDER OF THE NOTES IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE. UNLESS THE BANK DEFAULTS IN PAYMENT OF THE APPLICABLE AMOUNTS DUE ON, OR IN THE REPAYMENT OF, THE NOTES, ON AND AFTER THE APPLICABLE REDEMPTION DATE, INTEREST DUE WILL CEASE TO ACCRUE ON THE NOTES CALLED FOR REDEMPTION.

IF ANY SCHEDULED REDEMPTION DATE IS NOT A BUSINESS DAY, PAYMENT OF INTEREST, IF ANY, AND PRINCIPAL shall BE POSTPONED TO THE NEXT BUSINESS DAY, BUT INTEREST ON THAT PAYMENT WILL NOT ACCRUE DURING THE PERIOD FROM AND AFTER THE SCHEDULED REDEMPTION DATE.

ANY WITHHOLDING TAX REDEMPTION OR SPECIAL EVENTS REDEMPTION MAY OCCUR ON A NON-INTEREST PAYMENT DATE, IN THE BANK'S DISCRETION.

Open Market Purchases and Other Repurchase of Notes

Subject to applicable law, the Bank may at any time and from time to time repurchase, or procure others to repurchase for its account, the Notes in the open market, by tender or by private agreement in any manner and at any price or at differing prices. Notes purchased or otherwise acquired by the Bank shall be surrendered to the Trustee for cancellation (in which case all Notes so surrendered will forthwith be canceled in accordance with applicable law and thereafter may not be reissued or resold). Any such purchases will be subject to the satisfaction of the following conditions: (x) (a) the Bank maintains, and after giving effect to the repurchase of the Notes will maintain, each of its Capital Ratios equal to, or exceeding, the then-applicable Capital Ratios required by the CNBV in accordance with Section IV, c), 1 of Annex 1-R of the General Rules Applicable to Mexican Banks or any successor regulation, which as of the date of this offering memorandum are the Minimum Regulatory Capital Ratios, or (b) the Bank issues securities that replace the amount of Notes so canceled such that it remains in compliance with the Mexican Capitalization Requirements, and (y) the Bank has obtained the authorization from *Banco de México* to repurchase the Notes prior to the applicable repurchase date; *provided, however*, that if at any time a Trigger Event shall have occurred, then the Bank shall have no obligation to repurchase any Notes it had agreed to repurchase.

Rule 144A Information

For so long as any of the Notes remain outstanding and are “restricted securities” within the meaning of Rule 144 (a) (3) under the Securities Act, the Bank shall furnish, upon the request of any holder, such information as is specified in Rule 144A (d) (4) under the Securities Act: (i) to such holder, and (ii) to a prospective purchaser of such Note (or beneficial interests therein) who is a qualified institutional buyer (“QIB”) designated by such holder, in each case in order to permit compliance by such holder with Rule 144A in connection with the resale of such Note (or beneficial interest therein) in reliance upon Rule 144A. All such information shall be in the English language.

Periodic Reports

So long as the Notes are outstanding, the Bank will furnish to the Trustee, who will in turn furnish to the holders of such Notes upon written request:

(a) Within 120 days following the end of each of the Bank's fiscal years (ending December 31), an English version of its consolidated audited balance sheets, statements of income, statements of shareholders equity and statements of cash flow and the related notes thereto for the two most recent fiscal years prepared in accordance with Mexican Banking GAAP (“GAAP”), together with an audit report thereon by the Bank's independent auditors; and

(b) Within 60 days following the end of the first three fiscal quarters in each of the Bank's fiscal years, an English version of its consolidated unaudited balance sheets, statements of income, statements of shareholders equity and statements of cash flows and the related notes thereto for the quarterly period then ended and the corresponding quarterly period in the prior fiscal year and prepared in accordance with GAAP.

In addition, the Bank shall furnish to the holders of the Notes, upon the request of such holders, any information required to be delivered pursuant to Rule 144A (d) (4) under the Securities Act so long as such Notes are not freely transferable under the Securities Act by Persons who are not “affiliates” under the Securities Act.

Enforcement Events and Remedies

There are no events of default under the Notes. In addition, under the terms of the Indenture, any Write-Down or cancellation of interest will not constitute an Enforcement Event.

Enforcement Events

Each of the following events described in clauses (i), (ii) and (iii) is an “Enforcement Event”:

- (i) certain events involving the insolvency (*resolución*) or liquidation of the Bank;

- (ii) a Principal Non-Payment Event (as defined below); or
- (iii) breach of a Performance Obligation (as defined below).

Remedies

- (i) *The occurrence of an insolvency (resolución) or liquidation of the Bank.* If an insolvency (*resolución*) or liquidation of the Bank occurs, the Current Principal Amount of the Notes, without any accrued and unpaid interest to the date of such occurrence, shall become immediately due and payable and neither the Trustee nor the holders of the Notes are required to declare such amount to be due and payable. In that event, holders of the Notes may not be able to collect the full amount payable under the Notes and laws applicable to an insolvency (*resolución*) or liquidation may affect the timing or amount paid to holders of the Notes. See “Risk Factors—Risks Relating to the Notes—The Notes do not contain events of default and if the Bank does not satisfy its obligations under the Notes, whether due to a Write-Down or otherwise, your remedies will be limited.”
- (ii) *Principal Non-Payment Event.* In the event of any redemption of the Notes described under “—Redemption” above, if the Bank does not make payment of principal in respect of the Notes for a period of fourteen (14) calendar days or more after the date on which such payment is due (a “Principal Non-Payment Event”), then the Trustee, on behalf of the holders and beneficial owners of the Notes, may, at its discretion, or shall at the direction of holders of 25% or more of the aggregate Current Principal Amount of the outstanding Notes, subject to any applicable laws, institute proceedings for the Bank’s declaration of insolvency (*resolución*) or liquidation. In such event, whether or not instituted by the Trustee, the Trustee may prove the claims of the holders and beneficial owners of the Notes and the Trustee. For the avoidance of doubt, the Trustee may not declare the principal amount of any outstanding Notes to be due and payable and may not pursue any other legal remedy, including a judicial proceeding for the collection of the sums due and unpaid on the Notes.
- (iii) *Breach of a Performance Obligation.* In the event of a breach of any term, obligation or condition binding on the Bank under the Notes or the Indenture (other than any of the Bank’s payment obligations under or arising from the Notes or the Indenture, including payment of any principal or interest, including any damages awarded for breach of any obligation) (such obligation, a “Performance Obligation”), the Trustee may (but shall not be obligated to) without further notice institute such proceedings against the Bank as it may deem fit to enforce the Performance Obligation; *provided* that the Bank shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise (including any damages) earlier than the same would otherwise have been payable under the Notes or the Indenture, if any.

For the avoidance of doubt, the breach by the Bank of any Performance Obligation shall not give the Trustee acting on behalf of the holders with respect to the Notes and/or the holders or beneficial owners of the Notes a claim for damages, and, in such circumstances, the sole and exclusive remedy that the Trustee and/or the holders or beneficial owners of the Notes may seek under the Notes and the Indenture is specific performance under New York law. By its acquisition of the Notes, each holder and beneficial owner of Notes acknowledges and agrees that such holder and beneficial owner will not seek, and will not direct the Trustee to seek, a claim for damages against the Bank in respect of a breach by it of a Performance Obligation and that the sole and exclusive remedy that such holder and the Trustee acting on behalf of the holders with respect to the Notes may seek under the Notes and the Indenture for a breach by the Bank of a Performance Obligation is specific performance under New York law. See “Risk Factors—Risks Relating to the Notes—The Notes do not contain events of default and if the Bank does not satisfy its obligations under the Notes, whether due to a Write-Down or otherwise, your remedies will be limited.”

No Other Remedies

Other than the limited remedies specified above, no remedy against the Bank shall be available to the Trustee (acting on behalf of the holders of the Notes) or to the holders and beneficial owners of the Notes. For the avoidance of doubt, such limitations shall not apply to the Bank’s obligations to pay the fees and expenses of, and to indemnify, the Trustee, and the Trustee’s rights to apply money collected to first pay its fees and expenses shall not be subject to the subordination provisions set forth in the Indenture.

The Notes are perpetual securities in respect of which there is no fixed redemption date or maturity date. Holders and beneficial owners of the Notes may not request the redemption of any of the Notes at any time.

Trustee's Duties

Holders of not less than a majority in aggregate of the Current Principal Amount of the Notes may on behalf of all holders of the Notes waive any past Enforcement Event that results from a breach by the Bank of a Performance Obligation.

Holders of a majority in aggregate of the Current Principal Amount of the Notes may not waive any past Enforcement Event that results from an insolvency (*resolución*) or liquidation of the Bank.

If an Enforcement Event has occurred and is continuing, the Trustee will have no obligation to take any action at the direction of any holders of the Notes, unless they have offered the Trustee security or indemnity satisfactory to the Trustee in its sole discretion. The holders of a majority in aggregate of the Current Principal Amount of the Notes shall have the right to direct the time, method and place of conducting any proceeding in the name of and on the behalf of the Trustee for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Notes. However, this direction (**a**) must not be in conflict with any rule of law or the Indenture and (**b**) must not be unjustly prejudicial to the holders of the Notes not taking part in the direction (it being understood that the Trustee does not have an affirmative duty to ascertain whether or not such actions are unduly prejudicial to such Holders), *provided, however*, that the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction.

Modification of Indenture; Waiver of Covenants

Subject to authorization by *Banco de México*, the Bank and the Trustee may, without the consent of any holders of Notes, amend, waive or supplement each of the Indenture or the Notes in certain circumstances, including, among other things, to cure any ambiguity, omission, defect or inconsistency, to conform the text of the Indenture or the Notes to any provision in this “*Description of the NC6.5 Notes*” and to make any other change that does not adversely affect the rights of any relevant holder in any material respect. In addition, subject to authorization by *Banco de México*, the Bank and the Trustee may amend, waive or supplement the Indenture or the Notes with the written consent of the holders of at least a majority in aggregate of the Current Principal Amount of the Notes. However, without the consent of the holder of each Note and subject to authorization by *Banco de México* and the approval by 75% (seventy-five percent) of the members of the Board of Directors of the Bank as provided by the Mexican Banking Law (as evidenced by a Board Resolution), the Bank may not, among other things:

- change any Interest Payment Date (or Interest Periods) on any Note;
- reduce the principal amount of or interest on any Note (except in the case of a Write-Down or a cancellation of interest, as applicable);
- change the currency of payment of principal or interest on any Note;
- modify any other payment provision of any Note, including any provision relating to the obligation of the Bank to pay Additional Amounts, in any manner adverse to the holders of the Notes;
- impair the right to sue for the enforcement of any payment on or with respect to any Note;
- reduce the percentage in principal amount of outstanding Notes that is required for the consent of the holders in order to modify or amend the Indenture or to waive compliance with some provisions of the Indenture or to waive any Enforcement Event; or
- modify the provisions relating to any Trigger Event, subordination provisions, provisions relating to consolidation, merger, conveyance or transfer of the Bank and/or all of its properties, and any provision dealing with insolvency (*resolución*) or liquidation of the Bank and the governing law of the Notes, in each case in any manner adverse to the holders of the Notes.

The holders of not less than a majority in aggregate of the Current Principal Amount of the Notes may waive any past non-compliance or Enforcement Event under the Indenture, except the non-compliance with a provision that cannot be modified without the consent of each holder of a Note that would be affected, or with respect to any provision, the approval of which requires the consent of the Holders of at least 66 2/3% in aggregate of the Current Principal Amount of the outstanding Notes. Upon the occurrence of any such waiver, such past non-compliance or Enforcement Event shall be deemed to have been cured and not to have occurred for every purpose of the Indenture.

Consolidation, Merger, Sale or Transfer of Assets

The Bank may not, without the consent of holders of at least 66 2/3% in aggregate of the Current Principal Amount of the Notes, consolidate with or merge into any other person, or convey or transfer, in one transaction or a series of transactions, all or substantially all of its properties and assets to any person, unless:

- (1) the resulting entity, if other than the Bank, shall be organized and existing under the laws of Mexico and, by execution of a supplemental indenture delivered to and in form satisfactory to the Trustee, assumes all of the obligations of the Bank to:
 - (x) pay the principal of, and interest (and any Additional Amounts, if any) on, the Notes; and
 - (y) perform and observe all of the other obligations of the Bank under the Indenture;
- (2) immediately after giving effect to any such transaction, no Enforcement Event, shall have happened and be continuing; and
- (3) the Bank has delivered to the Trustee an officer's certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance or transfer of asset and comply with the foregoing provisions relating to such transaction and all conditions precedent in the Indenture relating to such a transaction have been complied with.

In case of any such consolidation, merger, conveyance or transfer, such successor person will succeed to and be substituted for the Bank as obligor on the Notes with the same effect as if it had issued the Notes. Upon the assumption of its obligations by any such successor person in such circumstances, subject to certain exceptions, the Bank will be discharged from all obligations under the Notes and the Indenture.

Restrictions Applicable to Mexican Financial Institutions

Unless otherwise permitted by applicable law, the Indenture will provide that the Notes (i) may not constitute collateral granted in favor of Mexican credit institutions (*instituciones de crédito*) including the Bank and (ii) may not be directly or indirectly acquired by the Bank for its own account (except as set forth under “—*Open Market Purchases and Other Repurchase of Notes*”) or by any person controlled by the Bank, or by any of the following entities:

(a) Mexican financial entities (*entidades financieras*) of any kind that acquire the Notes for their own accounts except for (1) investment funds authorized to invest in subordinated instruments as part of their investment assets, (2) securities brokers (*casas de bolsa*) that acquire the Notes for placement with investors, (3) insurance companies (*instituciones y sociedades mutualistas de seguros*) and bonding companies (*instituciones de fianzas*) to the extent they acquire the Notes to invest their technical reserves and for securities fluctuations, (4) the holding company of the financial group to which the Bank belongs, in terms of the Mexican Law to Regulate Financial Groups, and (5) the Bank, in the event set forth in section II of the first paragraph of article 28 of the Circular 3/2012; *provided, however*, that the exceptions referred to in (1), (2) and (3) of this paragraph shall not apply to (x) investment companies in which the Bank or any other entity that forms part of the Bank's financial group (*grupo financiero*) holds, directly or indirectly, the majority of its fixed capital and (y) financial entities that form part of the Bank's financial group (*grupo financiero*);

(b) Mexican or non-Mexican entities with respect to which the Bank (1) owns voting stock representing more than 50 percent of their outstanding paid-in capital, (2) has control of the shareholders' meetings of such entity, as such term is defined in the Mexican Securities Market Law or (3) is in a position to appoint the majority of the members of such entity's board of directors;

(c) Mexican pension or retirement funds if managed by the Bank or another entity that forms part of the Bank's financial group (*grupo financiero*);

(d) the Bank or another entity that forms part of its financial group (*grupo financiero*) acting in its capacity of trustee, representative, agent or attorney-in-fact if, by acting in such capacity, it has discretionary investment authority; and

(e) related parties to the Bank, as defined in article 73 of the Mexican Banking Law, except in the case that the respective notes are placed through:

- (i) public offer; or

- (ii) any other mechanism, different to a public offering, subject to the previous authorization of *Banco de México*, at the request of the Bank in which it states the convenience to carry out the aforementioned mechanism instead of the public offering, pursuant to the provisions of article 27 of the Circular 3/2012.

Any Mexican financial entity or Mexican pension or retirement fund that is not otherwise prevented from investing in the Notes may acquire, together with any other such entity that is an affiliate or that forms part of the same financial group or corporate group on a collective basis, up to 10% of the aggregate principal amount of the outstanding Notes.

Notices

Notice to holders of the Notes, if they are global Notes, will be given in accordance with the procedures of the applicable clearing system; if they are certificated Notes, notice to holders will be given by mail to the addresses of such holders as they appear in the security register. Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to another holder.

Notices to be given by any holders of the Notes to the Trustee shall be in writing to the Trustee at its corporate trust office. While any of the Notes are represented by a Global Note, such notice may be given by any holder to the Trustee through DTC in such manner as DTC may approve for this purpose.

Book-Entry System

The Notes will be initially represented by one or more Global Notes (as defined below).

The Global Notes representing the Notes will be issued in the form of one or more registered notes in global form, without interest coupons and will be deposited with a custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

The Notes are being offered and sold in this initial offering in the United States solely to qualified institutional buyers under Rule 144A under the Securities Act and in offshore transactions to persons other than U.S. persons, as defined in Regulation S under the Securities Act, in reliance on Regulation S. Following this offering, the Notes may be sold:

- to qualified institutional buyers under Rule 144A;
- to non-U.S. persons outside the United States in reliance on Regulation S; and
- under other exemptions from, or in transactions not subject to, the registration requirements of the Securities Act, as described under “*Transfer Restrictions*”.

Rule 144A Global Notes

Notes offered and sold to qualified institutional buyers under Rule 144A are referred to collectively as the “*Rule 144A Global Notes*”. Interests in the Rule 144A Global Notes will be available for purchase only by qualified institutional buyers.

Regulation S Global Notes

Notes offered and sold in offshore transactions in reliance on Regulation S under the U.S. Securities Act of 1933 to persons which are non-U.S. persons are referred to collectively as the “*Regulation S Global Notes*” and, together with the Rule 144A Global Notes, the “*Global Notes*”.

On or prior to the 40th day after the date of issuance of the Notes sold pursuant to Regulation S, any resale or transfer of beneficial interests in the Regulation S Global Notes to U.S. persons shall not be permitted unless such resale or transfer is made pursuant to Rule 144A or Regulation S.

Investors may hold their interest in a Global Note representing the Notes through organizations that are participants in DTC (including, Euroclear or Clearstream).

Exchanges Among the Global Notes

Transfers by an owner of a beneficial interest in a Regulation S Global Note representing the Notes to a transferee who takes delivery of that interest through a Rule 144A Global Note representing the Notes will be made only in accordance with applicable procedures and upon receipt by the Trustee of a written certification from the transferor of the beneficial interest

in the form provided in the Indenture to the effect that the transfer is being made to a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A.

Transfers by an owner of a beneficial interest in a Rule 144A Global Note representing the Notes to a transferee who takes delivery of the interest through a Regulation S Global Note representing the Notes will be made only upon receipt by the Trustee of a certification from the transferor of the beneficial interest in the form provided in the Indenture that the transfer is being made outside the United States to a non-U.S. person in accordance with Regulation S or, if available, Rule 144 under the Securities Act.

Any beneficial interest in one of the Global Notes representing the Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note representing the Notes will, upon transfer, cease to be an interest in that Global Note and become an interest in the other Global Note and, accordingly, will then be subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Book-entry Procedures for the Global Notes

Ownership of beneficial interests in a Global Note representing the Notes will be limited to DTC and to persons that may hold interests through institutions that have accounts with DTC. Beneficial interests in a Global Note will be shown on, and transfers of those ownership interests will be effected only through, records maintained by DTC, and its respective participants for that Global Note. The conveyance of notices and other communications by DTC to its participants and by its participants to owners of beneficial interests in the Notes will be governed by arrangements among them, subject to any statutory or regulatory requirements in effect.

DTC holds the securities of its respective participants and facilitates the clearance and settlement of securities transactions among its respective participants through electronic book-entry changes in accounts.

Principal and interest payments on the Notes represented by a Global Note will be made to DTC, as the sole registered owner and the sole holder of the Notes represented by the Global Note for all purposes under the Indenture. Accordingly, the Bank, the Trustee, any paying agents, transfer agents or registrars will have no responsibility or liability for:

- any aspect of DTC's records relating to, or payments made on account of, beneficial ownership interests in a Note represented by a Global Note;
- any other aspect of the relationship between DTC and its participants or the relationship between those participants and the owners of beneficial interests in a Global Note held through those participants; or
- the maintenance, supervision or review of any of DTC's records relating to those beneficial ownership interests.

DTC

DTC has advised the Bank that upon receipt of any payment of principal of or interest on a Global Note representing the Notes, DTC will credit, on its book-entry registration and transfer system, the accounts of participants with payments in amounts proportionate to their respective beneficial interests in the principal amount of that Global Note as shown on DTC's records. The initial purchasers of the Notes will initially designate the accounts to be credited. Payments by participants to owners of beneficial interests in a Global Note will be governed by standing instructions and customary practices, as is the case with securities held for customer accounts registered in "street names," and will be the sole responsibility of those participants.

The Notes represented by a Global Note can be exchanged for definitive Notes of the same series in registered form only if:

- DTC notifies the Bank that it is unwilling or unable to continue as depositary for that Global Note or at any time DTC ceases to be a clearing agency registered under the Exchange Act, and a successor depositary is not appointed by the Bank within 90 calendar days; or
- the Bank, in its sole discretion, determines that such Global Note will be exchangeable for definitive Notes in registered form and notify the Trustee of its decision.

A Global Note representing the Notes that can be exchanged under the preceding paragraph will be exchanged for definitive Notes that are issued in authorized denominations in registered form for the same aggregate amount. Those definitive

Notes will be registered in the names of the owners of the beneficial interests in the relevant Global Note as directed by DTC and may bear the legend as set forth under “*Transfer Restrictions*”.

Registrar, Transfer Agent and Paying Agents

The Trustee will act as registrar for the Notes. The Trustee will also act as transfer agent and paying agent for the Notes. The Bank has the right at any time to vary or terminate the appointment of any paying agents and to appoint additional or successor agents in respect of the Notes. Registration of transfers of the Notes will be effected without charge, but upon payment (with the giving of such indemnity as the Bank may require) in respect of any tax or other governmental charges that may be imposed in relation to it. The Bank will not be required to register or cause to be registered the transfer of the Notes after the Notes have been called for redemption.

Listing

Application is expected to be made to list the Notes on the SGX-ST. In the event that the Notes are admitted for listing on the SGX-ST, the Bank will use its commercially reasonable efforts to maintain such listing, *provided* that if (1) as a result of applicable rules and regulations relating to listing on the SGX-ST, the Bank could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which the Bank would otherwise use to prepare its published financial information, or (2) the Bank determines that it is unduly burdensome to maintain a listing on the SGX-ST, the Bank may delist the Notes from the SGX-ST in accordance with the rules of the SGX-ST and seek an alternative admission to listing, trading and/or quotation for the Notes on a different listing authority, stock exchange and/or quotation system as the Bank may decide. If such alternative admission to listing, trading and/or quotation of the Notes is not available to the Bank or is, in its commercially reasonable judgment, unduly burdensome, an alternative admission to listing, trading and/or quotation of the Notes may not be obtained. Although there is no assurance as to the liquidity that may result from a listing on the SGX-ST or any other stock exchange, delisting the Notes from the SGX-ST or any other stock exchange may have a material effect on the ability of holders of the Notes to resell the Notes in the secondary market.

Subsequent Holders’ Agreement

Holders of the Notes that acquire the Notes in the secondary market shall be deemed to acknowledge, agree to be bound by and consent to the same provisions specified herein to the same extent as the holders and beneficial owners of the Notes that acquire the Notes upon their initial issuance, including, without limitation, with respect to the acknowledgment and agreement to be bound by and consent to the terms of the Notes, including in relation to interest cancellation, the Write-Down and the limitations on remedies specified in “—*Enforcement Events and Remedies*” above.

The Trustee

The Bank of New York Mellon will act as Trustee under the Indenture. Notices to the Trustee should be directed to the Trustee at its Corporate Trust Office, located at 240 Greenwich Street, Floor 7-East, New York, NY 10286, Attention: Global Finance Americas – Banco Mercantil del Norte, S.A. – Banorte. The Trustee also will initially act as registrar, paying agent, transfer agent and agent for service of demands and notices in connection with the Notes and the Indenture. The Trustee may resign or be removed under circumstances described in the Indenture and the Bank may appoint a successor Trustee to act in connection with the Indenture. Any action described in this offering memorandum to be taken by the Trustee may then be taken by the successor trustee. Except during the continuation of an Enforcement Event, the Trustee has only its express duties under the Indenture and no implied duties.

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Bank or its affiliates with the same rights the Trustee would have if it were not trustee. Any paying agent, registrar or co-registrar may do the same with like rights.

The Indenture contains some limitations on the right of the Trustee should it become a creditor of the Bank, to obtain payment of claims in some cases or to realize on some property received regarding any such claim, as security or otherwise. The Trustee will be permitted to engage in transactions with the Bank. The occurrence of an Enforcement Event under the Indenture could create a conflicting interest (as such term is defined in the Trust Indenture Act of 1939, as amended) for the Trustee. In this case, if the Enforcement Event has not been cured or waived within 90 calendar days after the Trustee has or acquires a conflicting interest, the Trustee generally is required to eliminate the conflicting interest or resign as trustee for the Notes. In the event of the Trustee’s resignation, the Bank will promptly appoint a successor trustee for the Notes.

The Trustee may be removed by the holders of a majority of the Current Principal Amount of outstanding Notes if an Enforcement Event under the Indenture has occurred and is continuing. No resignation or removal of the Trustee and no appointment of a successor trustee shall be effective until the acceptance of appointment by the successor trustee in accordance with the provisions of the Indenture.

By its acquisition of the Notes, each holder of the Notes, to the extent permitted by applicable law, waives any and all claims against the Trustee for, agrees not to initiate a suit against the Trustee in respect of, and agrees that the Trustee shall not be liable for, any action that the Trustee takes, or abstains from taking, in either case in accordance with any Write-Down or Enforcement Event on the terms set forth in the Indenture.

By its acquisition of the Notes, each holder of the Notes acknowledges and agrees that, upon a Trigger Event the Trustee shall not be required to take any further directions from holders of the Notes under the Indenture, which authorizes holders of a majority in aggregate outstanding principal amount of the Notes to direct certain actions relating to the Notes.

Governing Law; Consent to Jurisdiction

THE INDENTURE AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK. (I) WHETHER A TRIGGER EVENT (LEADING TO A WRITE-DOWN) OR AN INTEREST CANCELLATION EVENT (LEADING TO A CANCELLATION OF INTEREST) HAS OCCURRED IS BASED UPON MEXICAN LAW OR A DETERMINATION BY THE APPLICABLE MEXICAN REGULATOR, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME); (II) WHETHER A WITHHOLDING TAX EVENT OR A TAX EVENT HAS OCCURRED IS BASED UPON A DETERMINATION IN ACCORDANCE WITH MEXICAN LAW (OR OTHER APPLICABLE LAW IN THE CASE OF A WITHHOLDING TAX EVENT INVOLVING A JURISDICTION OTHER THAN MEXICO), AS AMENDED FROM TIME TO TIME, EVIDENCED BY AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM AND, IF REQUIRED, A CERTIFICATION BY THE BANK; AND (III) WHETHER A CAPITAL EVENT HAS OCCURRED IS DETERMINED BY THE BANK, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME). THE RANKING AND SUBORDINATION OF THE NOTES, WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, MEXICAN LAW (AS AMENDED FROM TIME TO TIME). THE BANK, EACH PARTY TO THE INDENTURE AND EACH HOLDER OF A NOTE WILL WAIVE ANY RIGHTS IT MAY HAVE UNDER THE LAW OF THE STATE OF NEW YORK NOT TO GIVE EFFECT TO ANY SUCH DETERMINATION TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW. ANY PROCEEDINGS IN RESPECT OF THE INSOLVENCY (*RESOLUCIÓN*) OR LIQUIDATION OF THE BANK WILL BE CONDUCTED IN ACCORDANCE WITH THE MEXICAN BANKING LAW, AS AMENDED FROM TIME TO TIME, OR ANY SUCCESSOR THEREOF, AND ANY MERGER OR CONSOLIDATION SHALL BE SUBJECT TO APPLICABLE APPROVALS UNDER THE MEXICAN BANKING LAW AND ANY OTHER APPLICABLE MEXICAN LAWS, AS AMENDED FROM TIME TO TIME, OR ANY SUCCESSOR THEREOF.

THE BANK AND EACH PARTY TO THE INDENTURE WILL CONSENT TO THE JURISDICTION OF THE SUPREME COURT OF THE STATE OF NEW YORK, COUNTY OF NEW YORK, AND THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK, EACH IN THE BOROUGH OF MANHATTAN, AND WILL AGREE THAT ALL DISPUTES UNDER THE INDENTURE AND THE NOTES MAY BE SUBMITTED TO THE JURISDICTION OF SUCH COURTS. THE BANK AND EACH PARTY TO THE INDENTURE WILL IRREVOCABLY CONSENT TO AND WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW ANY OBJECTION THAT THE BANK MAY HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING AGAINST THE BANK OR ITS PROPERTIES, ASSETS AND REVENUES WITH RESPECT TO THE INDENTURE AND THE NOTES OR ANY SUCH SUIT, ACTION OR PROCEEDING IN ANY SUCH COURT AND ANY RIGHT TO WHICH THE BANK MAY BE ENTITLED BY VIRTUE OF ITS PRESENT OR FUTURE DOMICILE OR FOR ANY OTHER REASON.

TO THE EXTENT THAT THE BANK OR ANY OF ITS REVENUES, ASSETS OR PROPERTIES SHALL BE ENTITLED TO ANY IMMUNITY FROM SUIT, FROM THE JURISDICTION OF ANY SUCH COURT, FROM ATTACHMENT PRIOR TO JUDGMENT, FROM ATTACHMENT IN AID OF EXECUTION OF JUDGMENT, FROM EXECUTION OF A JUDGMENT OR FROM ANY OTHER LEGAL OR JUDICIAL PROCESS REMEDY, THE BANK WILL IRREVOCABLY AGREE NOT TO CLAIM AND WILL IRREVOCABLY WAIVE SUCH IMMUNITY TO THE FULLEST EXTENT PERMITTED BY THE LAWS OF SUCH JURISDICTION.

THE BANK WILL AGREE THAT SERVICE OF ALL WRITS, CLAIMS, PROCESS AND SUMMONS IN ANY SUIT, ACTION OR PROCEEDING AGAINST THE BANK OR ITS PROPERTIES, ASSETS OR REVENUES WITH RESPECT TO THE INDENTURE AND THE NOTES OR ANY SUIT, ACTION OR PROCEEDING TO ENFORCE OR EXECUTE ANY JUDGMENT BROUGHT AGAINST THE BANK IN THE STATE OF NEW YORK MAY BE MADE UPON CT CORPORATION SYSTEM, 28 LIBERTY STREET, FLOOR 42, NEW YORK, NEW YORK 10005, AND THE BANK WILL IRREVOCABLY APPOINT CT CORPORATION SYSTEM AS ITS AGENT TO ACCEPT SUCH SERVICE OF ANY AND ALL SUCH WRITS, CLAIMS, PROCESS AND SUMMONSES.

Currency Rate Indemnity

The Bank has agreed that, if a judgment or order made by any court for the payment of any amount in respect of the Indenture or any Notes is expressed in a currency other than U.S. dollars, the Bank will indemnify, to the fullest extent permitted by applicable law, the relevant recipient against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. This indemnity will constitute a separate and independent obligation from the Bank's other obligations under the Indenture, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due under the Indenture or the Notes.

Replacement of Notes

In case of mutilated, defaced, destroyed, lost or stolen Notes, application for replacement thereof may be made to the Trustee or the Bank. Any such Note shall be replaced by the Trustee in compliance with such procedures, on such terms as to evidence and indemnification as the Trustee and the Bank may require and subject to any applicable law or regulation. All such costs as may be incurred in connection with the replacement of any Notes shall be borne by the applicant. Mutilated Notes must be surrendered before new ones will be issued.

DESCRIPTION OF THE NC10.5 NOTES

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (the “Bank”), will issue its 8.750 % Perpetual 10.5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes (for purposes of this Description of the NC10.5 Notes, the “Notes”) through its Cayman Islands branch (the “Branch”). The Notes will be issued under a *declaración unilateral de voluntad* evidenced by an Indenture to be dated as of November 20, 2024, executed by the Bank and The Bank of New York Mellon, as trustee (the “Trustee”), paying agent, registrar and transfer agent, and acknowledged by the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*; the “CNBV”), which may be amended or supplemented from time to time (for purposes of this Description of the NC10.5 Notes, the “Indenture”), pursuant to Article 64 of the Law of Credit Institutions (*Ley de Instituciones de Crédito*) and Circular 3/2012 issued by the Mexican Central Bank (the “Circular 3/2012”), with the prior approval of the stockholders’ meeting of the Bank and the Mexican Central Bank.

This summary description of certain provisions of the Notes does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the Indenture and the Notes, including the definitions of certain terms included therein. The Bank urges you to read each of the Indenture and the forms of the Notes because they, and not this description, define your rights as a holder of Notes. In case of any conflict regarding the rights and obligations of the holders of the Notes under the Indenture, the Notes and this offering memorandum, the terms of the Indenture will prevail. In case of any conflict regarding the translation of the provisions of applicable Mexican law, the official text in Spanish of the relevant Mexican law will prevail. Capitalized terms not otherwise defined in this “*Description of the NC10.5 Notes*” have the meanings ascribed to them in the Indenture. You may obtain a copy of the Indenture and the forms of the Notes by contacting the Trustee at the address indicated in this offering memorandum.

The Notes are perpetual instruments with no fixed maturity or fixed redemption date. The Bank has the option to redeem the then Current Principal Amount (as defined below) of the Notes on May 20, 2035, and on every Interest Payment Date (as defined below) thereafter.

General

The Notes will be issued in the aggregate principal amount of U.S.\$750,000,000 in registered form, in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. The Bank will issue the Notes through the Branch, but the Notes will represent the Bank’s general, unsecured and subordinated non-preferred obligations. The Notes constitute Subordinated Non-Preferred Indebtedness (as defined below) and will rank **(i)** subordinate and junior in right of payment and in liquidation to all of the Bank’s present and future Senior Indebtedness (as defined below) and Subordinated Preferred Indebtedness (as defined below), **(ii)** *pari passu* without preference among themselves and with all the Bank’s present and future other unsecured Subordinated Non-Preferred Indebtedness and **(iii)** senior only to all classes of the Bank’s equity or capital stock, as described in this offering memorandum. See “—*Subordination*.” The Bank may incur additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness from time to time, and the provisions of the Indenture do not prohibit or limit the incurrence of additional indebtedness, including additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness.

As of September 30, 2024, the Bank had Ps. 1,487 million (U.S.\$ 75.5 million) aggregate principal amount of outstanding Subordinated Preferred Indebtedness, and Ps. 50,984 million (U.S.\$2,589 million) aggregate principal amount of outstanding Subordinated Non-Preferred Indebtedness.

THE NOTES WILL BE UNSECURED AND NOT GUARANTEED, OR OTHERWISE ELIGIBLE FOR REIMBURSEMENT, BY THE INSTITUTO PARA LA PROTECCIÓN AL AHORRO BANCARIO (THE “IPAB”) OR ANY OTHER MEXICAN GOVERNMENTAL AGENCY OR BY GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. (“GRUPO FINANCIERO BANORTE”) OR BY ANY OF ITS SUBSIDIARIES OR AFFILIATES, OR ANY OTHER ENTITY THAT IS A PART OF GRUPO FINANCIERO BANORTE, INCLUDING ANY PAYMENT OBLIGATION UNDER THE *CONVENIO ÚNICO DE RESPONSABILIDADES* ENTERED AMONG GRUPO FINANCIERO BANORTE AND ITS FINANCIAL SUBSIDIARIES (INCLUDING THE BANK OR ANY OTHER THIRD PARTY). THE NOTES ARE NOT CONVERTIBLE, BY THEIR TERMS, INTO THE BANK’S SHARES OR EQUITY CAPITAL.

THE BANK MAY REDEEM THE NOTES UNDER THE CIRCUMSTANCES DESCRIBED BELOW UNDER “—*REDEMPTION—OPTIONAL REDEMPTION*,” “—*REDEMPTION—WITHHOLDING TAX REDEMPTION*” AND “—*REDEMPTION—SPECIAL EVENT REDEMPTION*”, IN EACH CASE WITH THE PRIOR APPROVAL OF BANCO DE MÉXICO. OTHER THAN IN ACCORDANCE WITH AN OPTIONAL REDEMPTION, A WITHHOLDING TAX REDEMPTION OR A SPECIAL EVENT REDEMPTION, THE NOTES WILL NOT BE REDEEMABLE.

Unless other arrangements are made, payments of principal and interest on the Notes will be made as described below under “—*Book-Entry System*.”

The Bank will maintain an office or agency in the Borough of Manhattan, The City of New York, where the Notes may be presented for exchange or transfer. Such office or agency initially will be located at The Bank of New York Mellon, 240 Greenwich Street, Floor 7-East, New York, NY 10286, Attention: Global Finance Americas. The holders of the Notes will not have to pay a service charge to register the transfer or exchange of any Notes, but the Bank may require that holders pay any applicable tax or other governmental charge.

The Indenture and the Notes do not contain any provision, of any nature whatsoever, that would protect the holders of the Notes against a sudden and dramatic decline in the Bank’s credit quality resulting from a takeover, recapitalization or restructuring or any other event involving the Bank that may adversely affect the Bank’s credit quality.

Interest

Subject to a prior redemption and/or one or more Write-Downs (as defined below), the Notes will bear interest on the then Current Principal Amount from time to time outstanding from and including November 20, 2024 (the “Issue Date”), to (but excluding) May 20, 2035 (for purposes of this Description of the NC10.5 Notes, the “First Call Date”), at an initial fixed rate *per annum* equal to 8.750%. Interest, to the extent paid, shall be paid from amounts maintained in the Bank’s net retained earnings (*utilidades netas acumuladas*) account. The First Call Date and every 10-Year anniversary thereafter shall each be a “Reset Date” (for purposes of this Description of the NC10.5 Notes). Subject to a prior redemption and/or one or more Write-Downs, the Notes will bear interest on the then Current Principal Amount from time to time outstanding from and including each Reset Date, including the First Call Date, to (but excluding) the next succeeding Reset Date, at a fixed rate *per annum* equal to the sum of (a) the Treasury Yield (as defined below) and (b) 429.9 basis points (rounded to two decimal places, with any value equal to or lesser than 0.005 being rounded down), as calculated by the Bank and notified by the Bank to the Trustee in writing within one Business Day of determination thereof.

“Treasury Yield” means, as of any Reset Determination Date (as defined below), an interest rate (expressed as a decimal and, in the case of United States Treasury bills, converted to a bond equivalent yield) determined to be the *per annum* rate equal to the semiannual yield to maturity for United States Treasury securities maturing on the Reset Date following the next succeeding Reset Determination Date, and trading in the public securities markets either as determined by interpolation between the most recent weekly average yield to maturity for two series of United States Treasury securities trading in the public securities market, (A) one maturing as close as possible to, but earlier than, the Reset Date following the next succeeding Reset Determination Date, and (B) the other maturity as close as possible to, but later than the Reset Date following the next succeeding Reset Determination Date, in each case as published in the most recent H.15 (519) or, if a weekly average yield to maturity for United States Treasury securities maturing on the Reset Date following the next succeeding Reset Determination Date is published in the most recent H.15 (519), such weekly average yield to maturity as published in such H.15 (519).

“H.15 (519)” means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the United States Federal Reserve System and most recent H.15 (519) means the H.15 (519) published closest in time but prior to the close of business on the third Business Day prior to the applicable Reset Date.

“Reset Determination Date” means, with respect to any Reset Date, the second Business Day immediately preceding such Reset Date.

“Current Principal Amount” means in respect of each Note, at any time, the outstanding principal amount of such Note, being the Original Principal Amount (as defined below) of such Note, as such amount may be reduced, on one or more occasions, as a result of a Write-Down or a redemption of the Notes as permitted herein, as the case may be.

“Original Principal Amount” means, in respect of each Note, the amount of the denomination of such Note on the Issue Date.

Upon the occurrence of a Write-Down, any holder of Notes will be deemed to have irrevocably waived its right to claim or receive the Written-Down Principal (as defined below) of the Notes or any interest with respect thereto (or Additional Amounts), including any and all unpaid interest.

Subject to the provisions under “—*Interest Cancellation*” and “—*Trigger Event and Write-Down—Write-Down*,” from and including the Issue Date, interest on the Notes, if any, will be payable quarterly in arrears on February 20, May 20, August 20 and November 20 of each year (each an “Interest Payment Date”), commencing on February 20, 2025. The period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment

Date, the First Call Date or an earlier redemption date, as the case may be, is called an “Interest Period”. If any Interest Payment Date would otherwise fall on a date that is not a Business Day (as defined below), the required payment of interest shall be made on the next succeeding Business Day, with the same force and effect as if made on such Interest Payment Date, and no further interest shall accrue as a result of the delay. Subject to the provisions described in this section, if an interest payment is to be made in respect of the Notes, on any scheduled redemption date that is not an Interest Payment Date, it shall be calculated by applying the interest rate as described above on the basis of a 360-day year of twelve 30-day months and rounding the resulting figure to the nearest cent (half a cent being rounded upward). Interest on the Notes will be paid on the dates specified above to the person in whose name a Note is registered at the close of business on the fifteenth day preceding the respective Interest Payment Date (such date, a “Record Date”, whether or not a Business Day).

For purposes hereof, the term “Business Day” is defined in the Indenture for the Notes as any day other than a Saturday or a Sunday, or a day on which banking institutions in The City of New York, New York or Mexico City, Mexico are authorized or required by law or executive order to remain closed.

Interest Cancellation

Interest Payments Discretionary and Non-Cumulative

Interest on the Notes will be due and payable at the Bank’s sole discretion and the Bank shall have sole and absolute discretion at all times and for any reason to cancel any interest payment (in whole or in part) that would otherwise be payable on any Interest Payment Date. Subject to the limitations set forth under “—*Restrictions on Certain Payments*” below, the Bank may use the funds corresponding to such canceled payments to meet the Bank’s other obligations as they become due or to be maintained by it to satisfy capitalization requirements under the Mexican Capitalization Requirements (as defined below) or for any other reason.

IF THE BANK ELECTS NOT TO MAKE AN INTEREST PAYMENT ON THE RELEVANT INTEREST PAYMENT DATE, OR IF THE BANK ELECTS TO MAKE A PAYMENT OF A PORTION, BUT NOT ALL, OF SUCH INTEREST PAYMENT, SUCH NON-PAYMENT SHALL EVIDENCE ITS EXERCISE OF DISCRETION TO CANCEL SUCH INTEREST PAYMENT, OR THE PORTION OF SUCH INTEREST PAYMENT NOT PAID, AND ACCORDINGLY SUCH INTEREST PAYMENT, OR PORTION THEREOF, SHALL BE CANCELED AND SHALL NOT BE OR BECOME DUE AND PAYABLE. FOR THE AVOIDANCE OF DOUBT, IF THE BANK PROVIDES NOTICE TO CANCEL A PORTION, BUT NOT ALL, OF AN INTEREST PAYMENT IN RESPECT OF THE NOTES, AND THE BANK SUBSEQUENTLY DOES NOT MAKE A PAYMENT OF THE REMAINING PORTION OF SUCH INTEREST PAYMENT ON THE RELEVANT INTEREST PAYMENT DATE, SUCH NON-PAYMENT WILL EVIDENCE THE BANK’S EXERCISE OF ITS DISCRETION TO CANCEL SUCH REMAINING PORTION OF SUCH INTEREST PAYMENT, AND ACCORDINGLY SUCH REMAINING PORTION OF THE INTEREST PAYMENT WILL ALSO NOT BE DUE AND PAYABLE.

SUCH CANCELED INTEREST SHALL NOT ACCUMULATE OR BE DUE AND PAYABLE AT ANY TIME THEREAFTER AND THE HOLDERS AND THE BENEFICIAL OWNERS OF THE NOTES SHALL NOT HAVE ANY RIGHT TO OR CLAIM AGAINST THE BANK WITH RESPECT TO SUCH UNPAID INTEREST AMOUNT. ANY SUCH CANCELLATION OF ANY INTEREST PAYMENT SHALL NOT CONSTITUTE A DEFAULT OR AN ENFORCEMENT EVENT (AS DEFINED BELOW) UNDER THE TERMS OF THE NOTES OR THE INDENTURE AND THE HOLDERS AND BENEFICIAL OWNERS OF THE NOTES SHALL HAVE NO RIGHTS THERETO OR TO RECEIVE ANY ADDITIONAL INTEREST OR AMOUNTS, PENALTY OR COMPENSATION AS A RESULT OF SUCH CANCELLATION.

In addition, the Notes will cease to bear interest from, and including, the date of any redemption of the Notes as described under “—*Redemption*”, unless payment and performance of all amounts and obligations due by the Bank in respect of the Notes is not properly and duly made, in which event interest shall continue to accrue on the Notes until payment and performance of all amounts and obligations has been properly and duly made.

Furthermore, in the event of one or more Write-Downs of the Notes upon the occurrence of a Trigger Event (as defined below), as described under “—*Trigger Event and Write-Down—Write-Down*” below, any accrued but unpaid interest on the Notes shall be canceled upon the occurrence of such Trigger Event, and such interest shall not become due and payable at any time.

See also “—*Agreement to Interest Cancellation*” and “—*Notice of Interest Cancellation*” below.

Restrictions on Certain Payments

Unless the most recent payable interest and any Additional Amounts (as defined below) payable in connection therewith have been paid, the Bank shall not:

- (1) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of its capital stock; or
- (2) make any payment of premium, principal or interest on or repay, repurchase or redeem any other Subordinated Non-Preferred Indebtedness of the Bank.

Mandatory Cancellation of Interest Payments

INTEREST DUE ON THE NOTES FROM THE BANK WILL BE AUTOMATICALLY CANCELED IF (A) THE BANK IS CLASSIFIED AS CLASS II OR BELOW PURSUANT TO ARTICLES 121 AND 122 OF THE MEXICAN BANKING LAW (AS DEFINED BELOW) AND THE REGULATIONS THEREUNDER, WHICH SPECIFY CAPITALIZATION REQUIREMENTS, OR (B) AS A RESULT OF THE APPLICABLE PAYMENT OF INTEREST, THE BANK WOULD BE CLASSIFIED AS CLASS II OR BELOW (AN “INTEREST CANCELLATION EVENT”). CURRENTLY, THE MINIMUM CAPITAL RATIOS TO BE CLASSIFIED AS CLASS I (AND, AS A RESULT, NOT CLASS II OR BELOW) GENERALLY APPLICABLE TO ANY MEXICAN BANK ARE THE “MINIMUM REGULATORY CAPITAL RATIOS” (AS DEFINED BELOW).

IN THE EVENT OF A CANCELLATION OF THE PAYMENT OF INTEREST ON THE NOTES DUE TO THE OCCURRENCE OF AN INTEREST CANCELLATION EVENT, THE BANK WILL NOTIFY THE HOLDERS OF THE NOTES AND THE TRUSTEE IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE. FAILURE TO PROVIDE SUCH NOTICE WILL HAVE NO IMPACT ON THE EFFECTIVENESS OF, OR OTHERWISE INVALIDATE, ANY SUCH CANCELLATION OF INTEREST (AND ACCORDINGLY, SUCH INTEREST WILL NOT BE DUE AND PAYABLE), OR GIVE THE HOLDERS AND BENEFICIAL OWNERS OF THE NOTES ANY RIGHTS. CANCELED INTEREST WILL NOT BE DUE AND PAYABLE. ANY SUCH CANCELLATION WILL NOT CONSTITUTE A DEFAULT OR AN ENFORCEMENT EVENT UNDER THE TERMS OF THE NOTES OR THE INDENTURE, AND THE HOLDERS AND BENEFICIAL OWNERS OF THE NOTES WILL NOT HAVE ANY RIGHT TO SUCH INTEREST OR TO RECEIVE ANY ADDITIONAL AMOUNTS OR COMPENSATION AS A RESULT OF SUCH CANCELLATION. PAYMENTS OF INTEREST DUE ON THE NOTES WILL NOT BE CUMULATIVE, SO THAT IN THE EVENT THAT PAYMENTS OF INTEREST ARE CANCELED, HOLDERS OF THE NOTES WILL NOT HAVE THE RIGHT TO CLAIM AND RECEIVE CANCELED INTEREST, EVEN IF THE BANK THEREAFTER SATISFIES THE APPLICABLE CAPITALIZATION REQUIREMENTS. IF AN INTEREST CANCELLATION EVENT IS IN EFFECT ON THE DATE OF ANY WRITE-DOWN OF THE NOTES UPON THE OCCURRENCE OF A TRIGGER EVENT, THE NOTES WILL BE WRITTEN DOWN AND ANY AND ALL PREVIOUSLY CANCELED INTEREST WILL CONTINUE TO BE CANCELED.

“Capital Supplement” refers to the Countercyclical Capital Supplement (as defined below), the Systemically Important Bank Capital Supplement (as defined below) and the Net Capital Supplement (as defined below), together with any other applicable additional capital conservation buffer or loss absorbency capital that banks may be required to hold pursuant to the Mexican Banking Law and the Mexican Capitalization Requirements.

“Minimum Regulatory Capital Ratios” refers to the following minimum capital ratios generally applicable to Mexican banks to be classified as Class I pursuant to the Mexican Capitalization Requirements (i) 10.5% (ten point five percent) in the case of Total Net Capital (*capital neto*), (ii) 8.5% (eight point five percent) in the case of Tier 1 Capital (*capital básico*) and (iii) 7.0% (seven point zero percent) in the case of Fundamental Capital (*capital básico fundamental*), in all cases, including the Capital Conservation Buffer, plus any applicable Capital Supplement.

Agreement to Interest Cancellation

By acquiring the Notes, holders and beneficial owners of the Notes acknowledge and agree that:

- (a) interest is payable solely at the Bank’s discretion, and no amount of interest shall become due and payable in respect of the relevant Interest Period to the extent that it has been canceled by the Bank (in whole or in part) at its sole discretion and/or has been canceled as a result of the occurrence and continuation of an Interest Cancellation Event; and

- (b) a cancellation of interest (in whole or in part) in accordance with the terms of the Indenture and the Notes shall not constitute a default in payment or otherwise, or an Enforcement Event, under the terms of the Notes or the Indenture.

Interest will only be due and payable on an Interest Payment Date to the extent that it is not canceled (in whole or in part) in accordance with the provisions described under “—*Interest Cancellation*” and “—*Trigger Event and Write-Down—Write-Down*”. Any interest canceled (in whole or in part) under the circumstances described herein shall not be due and shall not accumulate or be payable at any time thereafter, and holders and beneficial owners of the Notes shall have no rights thereto or to receive any additional amounts or compensation as a result of such cancellation.

Notice of Interest Cancellation

The Bank will provide notice of any cancellation of interest (in whole or in part) to the holders of the Notes through DTC (or, if the Notes are held in definitive form, to the holders of the Notes directly at their addresses shown on the register for the Notes) and to the Trustee directly on or prior to the relevant Interest Payment Date. Failure to provide such notice will have no impact on the effectiveness of, or otherwise invalidate, any such cancellation of interest (and accordingly, such interest will not be due and payable), or give the holders and beneficial owners of the Notes any rights as a result of such failure.

General Rules Applicable to Mexican Banks and their Application to the Bank

Article 121 of the Mexican Banking Law provides that in the exercise of its supervisory duties the CNBV, through general regulations issued thereby, will classify banking institutions based on their compliance with the provisions of the Mexican Capitalization Requirements, which may take into account Capital Ratios that reflect the degree of stability and solvency of a bank.

ARTICLE 122 OF THE MEXICAN BANKING LAW PROVIDES THAT IF A MEXICAN BANK DOES NOT COMPLY WITH THE CAPITAL RATIOS REQUIRED TO BE CLASSIFIED AS CLASS I PURSUANT TO THE MEXICAN CAPITALIZATION REQUIREMENTS, SUCH BANK MUST IMPLEMENT THE CORRECTIVE MEASURES ORDERED BY THE CNBV, WHICH MAY INCLUDE:

(1) **INFORMING THE BANK’S BOARD OF DIRECTORS OF ITS CLASSIFICATION, BASED ON THE CAPITAL RATIOS THEREOF, AND SUBMIT A DETAILED REPORT CONTAINING AN EVALUATION OF THE BANK’S OVERALL FINANCIAL STATUS AND ITS LEVEL OF COMPLIANCE WITH APPLICABLE REGULATIONS; THE BANK SHALL PROVIDE WRITTEN NOTICE TO THE GENERAL DIRECTOR AND THE CHAIRMAN OF THE BOARD OF DIRECTORS OF THE BANK’S REGULATED HOLDING COMPANY (*SOCIEDAD CONTROLADORA DEL GRUPO FINANCIERO*) WITH RESPECT TO SUCH EVENTS AND THE STATUS THEREOF;**

(2) **WITHIN A PERIOD NOT TO EXCEED SEVEN (7) BUSINESS DAYS, FILING WITH THE CNBV, FOR ITS APPROVAL, A CAPITAL RECOVERY PLAN TO INCREASE THE BANK’S CAPITAL RATIOS; THE BANK’S CAPITAL RECOVERY PLAN SHALL BE APPROVED BY SUCH BANK’S BOARD OF DIRECTORS BEFORE IT IS SUBMITTED TO THE CNBV;**

(3) **SUSPENDING ANY PAYMENT OF DIVIDENDS TO ITS SHAREHOLDERS, AS WELL AS ANY MECHANISM OR ACT FOR THE MAKING OF ANY DISTRIBUTIONS OR THE GRANTING OF ANY ECONOMIC BENEFITS TO SHAREHOLDERS;**

(4) **SUSPENDING ANY SHARE REPURCHASE PROGRAMS;**

(5) **DEFERRING OR CANCELING PAYMENT OF INTEREST AND DEFERRING OR CANCELING THE PAYMENT OF PRINCIPAL ON OUTSTANDING SUBORDINATED DEBT, AS THE CASE MAY BE, OR, IF APPLICABLE, EXCHANGING OUTSTANDING CONVERTIBLE SUBORDINATED DEBT INTO SHARES OF THE BANK IN THE AMOUNT NECESSARY TO COVER THE CAPITAL DEFICIENCY IF ORDERED BY THE CNBV; THESE CORRECTIVE MEASURES SHALL BE APPLICABLE TO SUBORDINATED DEBT CONSIDERED PART OF THE BANK’S TIER 1 CAPITAL (*CAPITAL BÁSICO*) OR TIER 2 CAPITAL (*CAPITAL COMPLEMENTARIO*); IN THE EVENT THAT THE BANK ISSUES SUBORDINATED DEBT, THE BANK IS OBLIGATED TO INCLUDE IN THE DOCUMENTATION EVIDENCING SUCH DEBT, IN THE APPLICABLE INDENTURE AND IN THE APPLICABLE OFFERING DOCUMENT, THAT SUCH DEFERRAL OR CANCELLATION OF PAYMENT OF PRINCIPAL OR DEFERRAL AND CANCELLATION OF PAYMENTS OF INTEREST, AS THE CASE MAY BE, SHALL APPLY UPON THE OCCURRENCE OF CERTAIN EVENTS AS PROVIDED IN THE GENERAL RULES APPLICABLE TO MEXICAN BANKS AND**

THAT THE IMPLEMENTATION OF SUCH MEASURES SHALL NOT BE CONSIDERED A DEFAULT UNDER THE RELEVANT DEBT DOCUMENTATION;

(6) SUSPENDING PAYMENT OF ANY EXTRAORDINARY BENEFITS AND BONUSES THAT ARE NOT A COMPONENT OF THE ORDINARY SALARY OF THE GENERAL DIRECTOR OR ANY OFFICER WITHIN THE NEXT TWO LEVELS OF SENIORITY, AND SUSPENDING THE GRANTING OF NEW BENEFITS TO THE GENERAL DIRECTOR AND THE OFFICERS MENTIONED ABOVE UNTIL THE BANK COMPLIES WITH THE MINIMUM CAPITAL RATIOS SET FORTH UNDER THE MEXICAN CAPITALIZATION REQUIREMENTS;

(7) ABSTAINING FROM INCREASING OUTSTANDING AMOUNTS OF ANY LOANS GRANTED TO ANY PERSON WHO IS A RELATED PARTY OF THE BANK PURSUANT TO ARTICLE 73 AND RELATED PROVISIONS OF THE MEXICAN BANKING LAW; AND

(8) ANY OTHER CORRECTIVE MEASURES THAT, IN EACH CASE, ARE PROVIDED BY THE GENERAL RULES APPLICABLE TO MEXICAN BANKS.

ARTICLE 122 OF THE MEXICAN BANKING LAW FURTHER PROVIDES THAT:

(1) IF A MEXICAN BANK COMPLIES WITH THE MINIMUM CAPITAL RATIOS REQUIRED PURSUANT TO THE MEXICAN CAPITALIZATION REQUIREMENTS BUT ANY OF ITS CAPITAL RATIOS IS BELOW THE CAPITAL RATIOS REQUIRED TO BE SATISFIED FOR A BANK NOT TO BE SUBJECT TO ANY CORRECTIVE MEASURES, SUCH BANK MUST IMPLEMENT CERTAIN CORRECTIVE MEASURES ORDERED BY THE CNBV, INCLUDING, AMONG OTHERS, (A) INFORMING THE BANK'S BOARD OF DIRECTORS OF ITS CLASSIFICATION, BASED ON THE CAPITAL RATIOS THEREOF AND SUBMITTING A DETAILED REPORT CONTAINING AN EVALUATION OF THE BANK'S OVERALL FINANCIAL STATUS AND ITS LEVEL OF COMPLIANCE WITH APPLICABLE REGULATIONS INCLUDING THE PRINCIPAL REGULATORY RATIOS, THAT REFLECT THE BANK'S DEGREE OF STABILITY AND SOLVENCY (TOGETHER WITH ANY DETERMINATIONS OR INDICATIONS MADE BY ANY OF THE CNBV OR *BANCO DE MÉXICO*) AND PROVIDING WRITTEN NOTICE TO THE GENERAL DIRECTOR AND THE CHAIRMAN OF THE BOARD OF DIRECTORS OF THE BANK'S REGULATED HOLDING COMPANY (*SOCIEDAD CONTROLADORA DEL GRUPO FINANCIERO*) WITH RESPECT TO SUCH EVENTS AND THE STATUS THEREOF; (B) ABSTAINING FROM ENTERING INTO ANY TRANSACTION THAT MAY DECREASE THE BANK'S CAPITAL RATIOS BELOW THE MEXICAN CAPITALIZATION REQUIREMENTS; AND (C) ANY OTHER CORRECTIVE MEASURES ORDERED BY THE CNBV.

(2) REGARDLESS OF THE CAPITALIZATION LEVEL, THE CNBV MAY ORDER THE IMPLEMENTATION OF ADDITIONAL SPECIAL CORRECTIVE MEASURES, INCLUDING, AMONG OTHERS: (1) REQUIRING COMPLIANCE WITH ADDITIONAL CORRECTIVE MEASURES THAT THE BANK WILL BE REQUIRED TO CARRY OUT TO AVOID A DECREASE OF ITS CAPITAL RATIOS; (2) SPECIAL AUDITS TO BE PERFORMED BY SPECIAL AUDITORS IN CONNECTION WITH SPECIFIC MATTERS; (3) ABSTAINING FROM INCREASING THE SALARIES AND BENEFITS OF ALL OFFICERS AND EMPLOYEES OF THE BANK, EXCEPT FOR ANY CHANGE IN SALARY PREVIOUSLY AGREED ON AND SUBJECT TO THE OFFICERS' AND EMPLOYEES' LABOR RIGHTS; (4) REMOVING OFFICERS, DIRECTORS, STATUTORY AUDITORS OR EXTERNAL AUDITORS OR APPOINTING ANY PERSONS TO SUCH POSITIONS; OR (5) ANY OTHER MEASURES ORDERED BY THE CNBV, BASED ON ITS INSPECTION AND SUPERVISION AUTHORITIES.

(3) IF A MEXICAN BANK DOES NOT COMPLY WITH ANY CAPITAL SUPPLEMENT REQUIREMENTS PURSUANT TO THE MEXICAN BANKING LAW AND THE MEXICAN CAPITALIZATION REQUIREMENTS, THE CNBV MAY ORDER THE BANK TO SUSPEND ANY PAYMENT OF DIVIDENDS OR OTHER DISTRIBUTIONS TO ITS SHAREHOLDERS.

(4) CORRECTIVE MEASURES WILL NOT BE APPLICABLE TO MEXICAN BANKS WITH A CAPITAL RATIO EQUAL TO OR GREATER THAN THE CAPITAL RATIOS REQUIRED TO BE CLASSIFIED AS CLASS I PURSUANT TO THE MEXICAN CAPITALIZATION REQUIREMENTS.

The Mexican Banking Law and the General Rules Applicable to Mexican Banks classify Mexican banks in categories from I through V based on their capital ratios for Total Net Capital (*capital neto*), Tier 1 Capital (*capital básico*) and

Fundamental Capital (*capital básico fundamental*); corrective measures are imposed based on such classification, starting at the time a bank is included in the category Class II.

ARTICLE 122 OF THE MEXICAN BANKING LAW SPECIFIES THAT IF A BANK DOES NOT SATISFY THE CAPITAL RATIOS REQUIRED TO BE CLASSIFIED AS CLASS I PURSUANT TO THE MEXICAN CAPITALIZATION REQUIREMENTS, THE BANK MUST IMPLEMENT THE CORRECTIVE MEASURES ORDERED BY THE CNBV. CURRENTLY, THE MINIMUM CAPITAL RATIOS REQUIRED TO BE CLASSIFIED AS CLASS I GENERALLY APPLICABLE TO ANY MEXICAN BANK ARE THE “MINIMUM REGULATORY CAPITAL RATIOS”.

Further, according to the General Rules Applicable to Mexican Banks in effect on the date hereof, Mexican banks are classified as Class II, III, IV or V, if any of its Capital Ratios is below certain minimum Capital Ratios, which as of the date hereof are the Minimum Regulatory Capital Ratios.

The General Rules Applicable to Mexican Banks further provide that corrective measures applicable to Mexican banks classified in Class II, III, IV or V include, among others, requiring a bank to suspend or cancel payment of interest and defer or cancel payment of any principal on outstanding subordinated debt or exchange outstanding convertible subordinated debt into shares of the bank in the amount necessary to cover the capital deficiency; in the event that a bank issues subordinated debt, such bank must include in the relevant debt documentation, in the applicable indenture and in the applicable offering memorandum, that such suspension or cancellation of payment of interest and deferral or cancellation of payment of principal shall apply to subordinated debt in the event that such bank is classified in Class II, III, IV or V and that the implementation of such measures shall not be considered a default under the relevant debt documentation.

Mexican banks that are determined by the CNBV to be of systemic importance, in light of the impact that their default may cause to the Mexican financial system, the Mexican payment system or the Mexican economy, are required by the CNBV to hold additional loss absorbency capital, as determined from time to time (the “Systemically Important Bank Capital Supplement”), and are also subject to the Net Capital Supplement requirement. The CNBV also has the authority to require any and all Mexican banks to hold additional countercyclical capital (the “Countercyclical Capital Supplement”) designed to cover adverse economic cycles, in the event that the aggregate financing received by the Mexican private sector grows at a higher level as compared to the level of growth of the Mexican economy.

“Net Capital Supplement” refers to an additional capital requirement to be held by Mexican banks determined as systemically important banks under the TLAC Requirements (requirements imposed by the CNBV to Mexican banks determined as systemically important banks, to have minimum requirements for total loss-absorbing capacity and restoration of capital), which may be comprised of Fundamental Capital or capital instruments (*instrumentos de capital*) pursuant to the Mexican Banking Law and the Mexican Capitalization Requirements.

According to the General Rules Applicable to Mexican Banks in effect on the date hereof, domestic systemically important banks classified as Class I can be reclassified to Class II, if their Total Net Capital ratio plus the applicable percentage of capital instruments eligible to be deemed as part of the Net Capital Supplement divided by total risk-weighted assets is equal to or below the sum of 10.5% plus any applicable Capital Supplement (and in the case of the Net Capital Supplement, divided by total risk-weighted assets).

In May 2016, as a grade II domestic systemically important bank, the Bank was required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 0.90%. Most recently, in May 2024, the CNBV ratified this requirement and confirmed the Bank as a grade II domestic systemically important bank. The Bank is also required to maintain an additional Countercyclical Capital Supplement of 0.001%, and a Net Capital Supplement of 6.5% to be completed by December 2025, with annual increases of 1.625% starting in 2022.

As a result of the foregoing, the minimum Capital Ratios applicable to the Bank as of September 30, 2024, to remain classified as Class I pursuant to the Mexican Capitalization Requirements are (x) 14.65% (fourteen point sixty five percent) in the case of the Total Net Capital (*capital neto*), (y) 9.40% (nine point forty percent) in the case of Tier 1 Capital (*capital básico*), and (z) 7.90% (seven point ninety percent) in the case of Fundamental Capital (*capital básico fundamental*), in all cases, including the Capital Conservation Buffer, and any applicable Capital Supplement.

As of September 30, 2024, the Bank’s Capital Ratios were (i) 19.23% in the case of Total Net Capital, (ii) 19.00% in the case of Tier 1 Capital and (iii) 13.87% in the case of Fundamental Capital, which exceed the applicable regulatory requirements.

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

Waiver of Right of Set-Off

Subject to applicable law, neither any holder or beneficial owner of the Notes nor the Trustee (acting on behalf of the holders of the Notes) may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to any holder or deemed to be owed by the Bank in respect of, or arising under, or in connection with, the Notes or the Indenture and each holder and beneficial owner of the Notes, by virtue of its holding of any Notes or any interest therein, and the Trustee (acting on behalf of the holders of the Notes), shall be deemed to have waived all such rights of set-off, compensation or retention. If, notwithstanding the foregoing, any amounts due and payable to any holder or beneficial owner of a Note or any interest therein by the Bank in respect of, or arising under, the Notes are discharged by set-off, such holder or beneficial owner shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Bank (or, if the liquidation (*resolución*) of the Bank shall have occurred, the liquidator, administrator or *conciliador* of the Bank or any other applicable person designated for such purposes, as the case may be) and, until such time as payment is made, shall hold an amount equal to such amount in trust or deposit (as applicable) or otherwise for the Bank (or the liquidator, administrator or *conciliador* of the Bank or any other applicable person designated for such purposes, as the case may be) and, accordingly, any such discharge shall be deemed not to have taken place.

Unclaimed Money, Prescription

If money deposited with the Trustee or any paying agent for the payment of principal of, premium, if any, or interest or Additional Amounts (as defined below), if any, on the Notes remains unclaimed for two years, the Trustee or such paying agent shall return the money to the Bank, upon its written request, subject to applicable unclaimed property law. After that, holders of the Notes entitled to the money must look to the Bank for payment unless applicable unclaimed property law designates another person. Other than as set forth in this paragraph, the Indenture does not provide for any prescription periods for the payment of principal of, premium, if any, or interest or Additional Amounts, if any, on the Notes.

Indebtedness and Reserves

The Indenture does not limit the Bank's ability to incur senior, secured, preferred, subordinated, or any other additional indebtedness, nor does the Indenture require the Bank to create or maintain any reserves.

Payment of Additional Amounts

All payments made by or on the Bank's behalf in respect of the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of Mexico, the Cayman Islands, or any other jurisdiction through which payments are made (each a "Relevant Jurisdiction") or any authority or agency therein or thereof having power to tax (collectively, "Relevant Tax") unless the withholding or deduction of such Relevant Tax is required by law. In that event, the Bank will pay additional amounts ("Additional Amounts") as may be necessary so that the net amounts received by the holders of the Notes or their nominees (the term "holders" only refers to the registered holders), after such withholding or deduction, will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction, except that no Additional Amounts will be payable to a holder to the extent that such Relevant Tax:

(1) is imposed only by virtue of such holder (or beneficial owner) having some connection with the Relevant Jurisdiction, other than connections arising from being a holder (or beneficial owner) of the Notes or, receiving payments, of any nature, on the Notes or enforcing rights under the Notes; or

(2) is imposed only by virtue of such holder, beneficial owner or any other person having failed to comply with any certification, identification or other reporting requirement concerning the nationality, residence, identity or other lack of connection with the Relevant Jurisdiction or any similar claim for exemption or reduction in the rate of withholding, if satisfying such requirement or making such claim is a precondition to exemption from, or reduction in the rate of, the imposition, withholding or deduction of any Relevant Tax, *provided that* (x) the Bank or an agent acting for the Bank has provided the Trustee with at least 60 days' prior written notice of an opportunity to satisfy such a requirement or make such a claim (such notice to be provided by the Trustee to the registered holder of the Notes), and (y) in no event, shall such holder's obligation to satisfy such a requirement or to make such a claim require such holder to provide any materially more onerous information, documents or other evidence than would be required to be provided had such holder been required to file IRS Forms W-8BEN, W-8BEN-E, W-8ECI, W-8EXP and/or W-8IMY; or

(3) is imposed only by virtue of such holder not having presented the Notes (where presentation is required) for payment within 30 days after the date on which such payment becomes due and payable or the date on which such payment

thereof is duly provided for, whichever occurs earlier, except to the extent such holder would be entitled to Additional Amounts had the Notes been surrendered during such 30-day period; or

(4) is pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and the Treasury regulations promulgated thereunder (“FATCA”), including any agreement with the U.S. Internal Revenue Service with respect thereto, any intergovernmental agreement between the United States and Mexico or any other jurisdiction (including, without limitation, the Cayman Islands) with respect to FATCA, or any law, regulation or other official guidance enacted in any jurisdiction implementing, or in connection with, FATCA or any intergovernmental agreement with respect to FATCA; or

(5) is imposed on a Note presented for payment (where presentation is required) by a holder that could have avoided such Relevant Tax by presenting such Note to another paying agent in a member state of the European Union; or

(6) in the event that the holder is a fiduciary, a partnership or any person other than the sole beneficial owner of such payment, would not have been imposed had the beneficiary or settlor with respect to such fiduciary, member of such partnership or beneficial owner of such payment been the actual holder of the Note; or

(7) is an estate, inheritance, gift, sale, transfer, personal property or similar tax or assessment; or

(8) is payable other than by deduction or withholding from payments under, or with respect to, the Notes; or

(9) is imposed as a result of any combination of (1) through (8) above.

The Bank will also (1) make such withholding or deduction and (2) remit the full amount withheld or deducted to the relevant taxing authority in the Relevant Jurisdiction in accordance with applicable law.

The Bank will furnish to the Trustee, within 30 Business Days after the date of payment of any such taxes or the receipt of any credit or refund in respect to such taxes, documentation acceptable to the Trustee, including certified copies of returns, evidencing such payment (or credit or refund received) by the Bank. Upon written request made by the holders to the Trustee, copies of such documentation will be made available to the holders.

The Bank will also pay any stamp, administrative, court, documentary, excise or similar taxes arising in a Relevant Jurisdiction in connection with the Notes and will indemnify the holders for any such taxes paid by holders.

All references to principal or interest payable on the Notes shall be deemed to include any Additional Amounts payable by the Bank under the Notes or the Indenture. The foregoing obligations shall survive any termination, defeasance or discharge of the Notes and the Indenture.

If the Bank shall at any time be required to pay Additional Amounts to holders pursuant to the terms of the Notes and the Indenture, the Bank will use its reasonable efforts to obtain an exemption from the payment of the Relevant Tax that has resulted in the requirement that the Bank pay such Additional Amounts.

In the event that Additional Amounts actually paid with respect to the Notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder of the Notes, and as a result thereof such holder is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, such holder shall, by accepting the Notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to the Bank. However, by making such assignment, the holder makes no representation or warranty that the Bank will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto, including taking any action to obtain or receive the relevant refund. The Bank will inform the Trustee of the refund or credit within 30 Business Days of its determination that the Bank is entitled to receive such refund or credit.

Trigger Event and Write-Down

Trigger Event

A “TRIGGER EVENT” WILL BE DEEMED TO HAVE OCCURRED IF:

(I) THE CNBV publishes a DETERMINATION, IN ITS OFFICIAL PUBLICATION OF CAPITALIZATION LEVELS FOR MEXICAN BANKS, THAT THE BANK’S FUNDAMENTAL CAPITAL RATIO, AS CALCULATED PURSUANT TO THE APPLICABLE MEXICAN CAPITALIZATION

REQUIREMENTS, IS EQUAL TO OR BELOW 5.125% (FIVE POINT ONE HUNDREDTH TWENTY-FIVE PERCENT); OR

(II) BOTH (A) THE CNBV HAS NOTIFIED THE BANK THAT IT HAS MADE A DETERMINATION, PURSUANT TO ARTICLE 29 BIS OF THE MEXICAN BANKING LAW, THAT A CAUSE FOR REVOCATION OF THE BANK'S LICENSE HAS OCCURRED RESULTING FROM (X) THE BANK'S ASSETS BEING INSUFFICIENT TO SATISFY ITS LIABILITIES, (Y) THE BANK'S NON-COMPLIANCE WITH CORRECTIVE MEASURES IMPOSED BY THE CNBV PURSUANT TO THE MEXICAN BANKING LAW, OR (Z) THE BANK'S NON-COMPLIANCE WITH THE CAPITALIZATION REQUIREMENTS SET FORTH IN THE MEXICAN CAPITALIZATION REQUIREMENTS AND (B) THE BANK HAS NOT CURED SUCH CAUSE FOR REVOCATION, BY (A) COMPLYING WITH SUCH CORRECTIVE MEASURES, OR (B) (1) SUBMITTING A CAPITAL RESTORATION PLAN TO, AND RECEIVING APPROVAL OF SUCH PLAN BY, THE CNBV, (2) NOT BEING CLASSIFIED IN CLASS III, IV OR V, AND (3) TRANSFERRING AT LEAST 75% (SEVENTY-FIVE PERCENT) OF ITS SHARES TO AN IRREVOCABLE TRUST, OR (C) REMEDYING ANY CAPITAL DEFICIENCY, IN EACH CASE, ON OR BEFORE THE THIRD (IN THE CASE OF (A) (X)) OR SEVENTH (IN THE CASE OF (A) (Y) AND (A) (Z)) BUSINESS DAY IN MEXICO, AS APPLICABLE, FOLLOWING THE DATE ON WHICH THE CNBV NOTIFIES THE BANK OF SUCH DETERMINATION.

Write-Down

IF A TRIGGER EVENT OCCURS, THE FOLLOWING WRITE-DOWNS SHALL BE DEEMED TO HAVE OCCURRED ON THE WRITE-DOWN DATE (AS DEFINED BELOW), AUTOMATICALLY AND WITHOUT ANY ADDITIONAL ACTION BY THE BANK, THE TRUSTEE OR THE HOLDERS OF THE NOTES:

(I) THE THEN CURRENT PRINCIPAL AMOUNT OF THE NOTES WILL AUTOMATICALLY BE REDUCED BY ONE OR MORE WRITE-DOWNS BY EACH APPLICABLE WRITE-DOWN AMOUNT (AS DEFINED BELOW) AND ANY SUCH WRITE-DOWN SHALL NOT CONSTITUTE A DEFAULT OR AN ENFORCEMENT EVENT (AS DEFINED BELOW); AND

(II) ANY HOLDER OF NOTES WILL AUTOMATICALLY BE DEEMED TO HAVE IRREVOCABLY WAIVED ITS RIGHT TO CLAIM OR RECEIVE, AND WILL NOT HAVE ANY RIGHTS AGAINST THE BANK OR THE TRUSTEE WITH RESPECT TO, REPAYMENT OF, THE WRITTEN-DOWN PRINCIPAL OF THE NOTES OR ANY INTEREST WITH RESPECT THERETO (OR ADDITIONAL AMOUNTS PAYABLE IN CONNECTION THEREWITH), INCLUDING ANY AND ALL UNPAID INTEREST WITH RESPECT TO SUCH WRITTEN-DOWN PRINCIPAL AS OF THE WRITE-DOWN DATE, IRRESPECTIVE OF WHETHER SUCH AMOUNTS HAVE BECOME DUE AND PAYABLE PRIOR TO THE DATE ON WHICH THE TRIGGER EVENT SHALL HAVE OCCURRED.

THE BANK SHALL PROVIDE NOTICE TO HOLDERS VIA THE APPLICABLE CLEARING SYSTEM AS WELL AS WRITTEN NOTICE TO THE TRUSTEE (A "WRITE-DOWN NOTICE") THAT A TRIGGER EVENT HAS OCCURRED, NOT LATER THAN THE NEXT BUSINESS DAY SUCCEEDING SUCH TRIGGER EVENT. ANY WRITE-DOWN NOTICE TO THE TRUSTEE MUST BE IN WRITING AND ACCOMPANIED BY A CERTIFICATE SIGNED BY AN OFFICER OF THE BANK STATING THAT A TRIGGER EVENT HAS OCCURRED AND SETTING OUT THE METHOD OF CALCULATION OF THE RELEVANT WRITE-DOWN AMOUNT.

"WRITE-DOWN AMOUNT" MEANS AN (I) AMOUNT OF THE THEN CURRENT PRINCIPAL AMOUNT OF THE NOTES THAT WOULD BE SUFFICIENT, TOGETHER WITH ANY CONCURRENT *PRO RATA* WRITE DOWN OR CONVERSION OF ANY OTHER SUBORDINATED NON-PREFERRED INDEBTEDNESS ISSUED BY THE BANK AND THEN OUTSTANDING, TO RETURN THE FUNDAMENTAL CAPITAL RATIO OF THE BANK TO THE LEVEL OF THE THEN-APPLICABLE FUNDAMENTAL CAPITAL RATIO REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 iii) OF ANNEX 1-R OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM IS 7% (SEVEN PERCENT) (WHICH INCLUDES THE CAPITAL CONSERVATION BUFFER) PLUS THE AMOUNT REQUIRED TO RESTORE ANY APPLICABLE CAPITAL SUPPLEMENT TO THE MINIMUM AMOUNTS REQUIRED UNDER THE MEXICAN CAPITALIZATION REQUIREMENTS ON SUCH WRITE-DOWN DATE; OR (II) IF ANY WRITE-DOWN OF THE CURRENT PRINCIPAL AMOUNT, TOGETHER WITH ANY CONCURRENT *PRO RATA* WRITE DOWN OR CONVERSION OF ANY SUBORDINATED NON-PREFERRED INDEBTEDNESS, WOULD BE INSUFFICIENT TO RETURN THE FUNDAMENTAL CAPITAL

RATIO OF THE BANK TO THE AFOREMENTIONED AMOUNT, THEN THE AMOUNT NECESSARY TO REDUCE THE CURRENT PRINCIPAL AMOUNT OF EACH OUTSTANDING NOTE TO ZERO.

“WRITE-DOWN DATE” MEANS THE DATE ON WHICH A WRITE-DOWN WILL BE DEEMED TO TAKE EFFECT, WHICH SHALL BE THE NEXT BUSINESS DAY SUCCEEDING THE DATE OF THE TRIGGER EVENT.

“WRITTEN-DOWN PRINCIPAL” MEANS THE AMOUNT BY WHICH THE PRINCIPAL OF ANY NOTE HAS BEEN WRITTEN DOWN BY ANY ONE OR MORE WRITE-DOWNS.

AS REQUIRED UNDER THE MEXICAN CAPITALIZATION REQUIREMENTS, A FULL WRITE-DOWN (WHEREBY THE PRINCIPAL AMOUNT OF THE NOTES HAS BEEN WRITTEN DOWN TO ZERO) SHALL BE COMPLETED BEFORE ANY PUBLIC FUNDS ARE CONTRIBUTED OR ANY PUBLIC ASSISTANCE IS PROVIDED TO THE BANK IN THE TERMS OF ARTICLE 148, SECTION II, SUBSECTIONS A) AND B) OF THE MEXICAN BANKING LAW, INCLUDING, AMONG OTHERS IN THE FORM OF (I) SUBSCRIPTION OF SHARES, (II) GRANTING OF LOANS, (III) PAYMENT OF THE LIABILITIES OF THE BANK, (IV) GRANTING OF GUARANTIES AND (V) THE TRANSFER OF ASSETS AND LIABILITIES.

Subordination

THE INDENTURE FOR THE NOTES WILL PROVIDE THAT THE NOTES CONSTITUTE SUBORDINATED NON-PREFERRED INDEBTEDNESS (*OBLIGACIONES SUBORDINADAS NO PREFERENTES*) AND (I) WILL RANK SUBORDINATE AND JUNIOR IN RIGHT OF PAYMENT AND IN LIQUIDATION TO ALL PRESENT AND FUTURE SENIOR INDEBTEDNESS AND SUBORDINATED PREFERRED INDEBTEDNESS (*OBLIGACIONES SUBORDINADAS PREFERENTES*) OF THE BANK, (II) WILL RANK *PARI PASSU* WITHOUT PREFERENCE AMONG THEMSELVES AND WITH ALL OTHER PRESENT OR FUTURE UNSECURED SUBORDINATED NON-PREFERRED INDEBTEDNESS OF THE BANK AND (III) WILL RANK SENIOR ONLY TO ALL OUR PRESENT AND FUTURE CLASSES OF EQUITY OR CAPITAL STOCK OF THE BANK.

IN THE EVENT OF THE BANK’S INSOLVENCY (*RESOLUCIÓN*) OR LIQUIDATION, AND UPON ANY DISTRIBUTION OF ASSETS TO CREDITORS UPON ANY LIQUIDATION, DISSOLUTION, WINDING UP, REORGANIZATION, ASSIGNMENT FOR THE BENEFIT OF CREDITORS, MARSHALING OF ASSETS OR ANY BANKRUPTCY, INSOLVENCY, *LIQUIDACIÓN* OR *RESOLUCIÓN* OR SIMILAR PROCEEDINGS IN CONNECTION WITH THE INSOLVENCY OR BANKRUPTCY OF THE BANK, (1) ALL PRINCIPAL, PREMIUM, IF ANY, AND INTEREST DUE OR TO BECOME DUE ON ALL SENIOR INDEBTEDNESS AND SUBORDINATED PREFERRED INDEBTEDNESS MUST BE PAID IN FULL BEFORE THE HOLDERS OF SUBORDINATED NON-PREFERRED INDEBTEDNESS (INCLUDING THE NOTES) ARE ENTITLED TO RECEIVE OR RETAIN ANY PAYMENT IN RESPECT THEREOF, AND (2) THE HOLDERS OF UNSECURED SUBORDINATED NON-PREFERRED INDEBTEDNESS (INCLUDING THE NOTES) WILL BE ENTITLED TO RECEIVE *PARI PASSU* AMONG THEMSELVES ANY PAYMENT IN RESPECT THEREOF. THE NOTES AND ALL OTHER SUBORDINATED NON-PREFERRED INDEBTEDNESS WILL BE SENIOR TO ALL CLASSES OF EQUITY OR CAPITAL STOCK OF THE BANK.

Definitions

For the purposes of the Notes:

(1) The term “*Senior Indebtedness*” is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, unless the terms thereof specifically provide that it is not superior in right of payment and in liquidation to the Subordinated Preferred Indebtedness or Subordinated Non-Preferred Indebtedness (including the Notes), and any deferrals, renewals or extensions of such Senior Indebtedness;

(2) The term “*Subordinated Preferred Indebtedness*” refers to *obligaciones subordinadas preferentes* and is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment and in liquidation to Senior Indebtedness, but is senior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness (including the Notes) and all classes of capital stock of the Bank, and any deferrals, renewals or extensions of such Subordinated Preferred Indebtedness;

(3) The term “*Subordinated Non-Preferred Indebtedness*” (including the Notes) refers to *obligaciones subordinadas no preferentes* and is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment and in liquidation to Senior Indebtedness and Subordinated Preferred Indebtedness, but is senior in right of payment and in liquidation to all classes of capital stock of the Bank, and any deferrals, renewals or extensions of such Subordinated Non-Preferred Indebtedness;

(4) The term “*Indebtedness for Money Borrowed*” is defined in the Indenture to mean any obligation of, or any obligation guaranteed by, the Bank (to the extent permitted under applicable law) for the repayment of borrowed money, whether or not evidenced by notes, debentures, debt securities or other written instruments, but shall not include (a) any trade accounts payable in the ordinary course of business, (b) any such indebtedness that by its terms ranks junior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness, (c) indebtedness to any of the Bank’s employees, (d) indebtedness of the Bank which, when incurred, was without recourse to the Bank, and (e) any other indebtedness that would otherwise qualify as Indebtedness for Money Borrowed to the extent that such indebtedness, by its terms, ranks *pari passu* with or junior in right of payment and in liquidation to any of the indebtedness described in clause (a) or (b) above; and

(5) The term “*Mexican Capitalization Requirements*” is defined in the Indenture to mean the capitalization requirements for commercial banks, including the Bank, set forth under the Mexican Banking Law and the General Rules Applicable to Mexican Banks, as such laws and regulations may be amended or superseded.

Redemption

Optional Redemption

THE BANK HAS THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES ON THE FIRST CALL DATE AND ON ANY INTEREST PAYMENT DATE THEREAFTER, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) OR IN PART, AT PAR PLUS ACCRUED AND UNPAID (AND NOT CANCELED) INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE DATE OF REDEMPTION (AN “OPTIONAL REDEMPTION”).

THE BANK MAY REDEEM THE NOTES ONLY IF (I) THE BANK IS THEN IN COMPLIANCE WITH THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO SUCH OPTIONAL REDEMPTION, THE BANK MAINTAINS EACH OF ITS CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-R OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE THE “MINIMUM REGULATORY CAPITAL RATIOS”, OR THE BANK ISSUES SECURITIES THAT REPLACE THE NOTES SUCH THAT IT REMAINS IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) THE BANK HAS OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE, AS EVIDENCED BY AN OFFICER’S CERTIFICATE DELIVERED TO THE TRUSTEE PRIOR TO THE DELIVERY OF THE NOTICE OF REDEMPTION TO THE HOLDERS; *PROVIDED, HOWEVER, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, THEN THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR OPTIONAL REDEMPTION.*

IN THE EVENT OF SUCH AN OPTIONAL REDEMPTION, THE BANK IS REQUIRED TO OBTAIN THE AUTHORIZATION OF *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE. THE BANK’S OBLIGATION TO OBTAIN *BANCO DE MÉXICO*’S AUTHORIZATION TO REDEEM THE NOTES SHALL NOT GRANT ANY RIGHTS TO THE TRUSTEE OR THE HOLDERS OF THE NOTES TO HAVE THE NOTES REDEEMED, EVEN IF SUCH AUTHORIZATION IS OBTAINED.

Withholding Tax Redemption

THE BANK HAS THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES AT ANY TIME, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) BUT NOT IN PART, AT PAR PLUS ACCRUED AND UNPAID (AND NOT CANCELED) INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE DATE OF REDEMPTION, UPON THE OCCURRENCE OF A WITHHOLDING TAX EVENT (AS DEFINED BELOW)

AFFECTING THE NOTES (A “WITHHOLDING TAX REDEMPTION”); *PROVIDED, HOWEVER*, THAT IN THE EVENT OF SUCH A WITHHOLDING TAX REDEMPTION, THE BANK MAY ONLY REDEEM THE NOTES IF (I) THE BANK SHALL BE IN COMPLIANCE WITH THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO THE WITHHOLDING TAX REDEMPTION, THE BANK MAINTAINS EACH OF ITS CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-R OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE THE “MINIMUM REGULATORY CAPITAL RATIOS”, OR THE BANK ISSUES SECURITIES THAT REPLACE THE NOTES SUCH THAT IT REMAINS IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) THE BANK HAS OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE, AS EVIDENCED BY AN OFFICER’S CERTIFICATE DELIVERED TO THE TRUSTEE PRIOR TO THE DELIVERY OF THE NOTICE OF REDEMPTION TO THE HOLDERS; *PROVIDED, HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, THEN THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR WITHHOLDING TAX REDEMPTION.

IN THE EVENT OF SUCH A WITHHOLDING TAX REDEMPTION, THE BANK IS REQUIRED TO OBTAIN THE AUTHORIZATION OF *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE. THE BANK’S OBLIGATION TO OBTAIN *BANCO DE MÉXICO*’S AUTHORIZATION TO REDEEM THE NOTES SHALL NOT GRANT ANY RIGHTS TO THE TRUSTEE OR THE HOLDERS OF THE NOTES TO HAVE THE NOTES REDEEMED, EVEN IF SUCH AUTHORIZATION IS OBTAINED.

FOR THE PURPOSES OF THE FOREGOING, THE TERM “WITHHOLDING TAX EVENT” IS DEFINED IN THE INDENTURE TO MEAN (I) THE RECEIPT BY THE BANK AND THE DELIVERY TO THE TRUSTEE OF AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM IN MEXICO OR THE CAYMAN ISLANDS (OR IN THE RELEVANT JURISDICTION, IN THE CASE OF A WITHHOLDING TAX EVENT INVOLVING A RELEVANT JURISDICTION OTHER THAN MEXICO OR THE CAYMAN ISLANDS) EXPERIENCED IN SUCH MATTERS TO THE EFFECT THAT, AS A RESULT OF (A) ANY AMENDMENT TO OR CHANGE (INCLUDING ANY ANNOUNCED PROSPECTIVE CHANGE) IN THE LAWS OR TREATIES (OR ANY RULES OR REGULATIONS THEREUNDER) OF ANY RELEVANT JURISDICTION AFFECTING TAXATION, (B) ANY JUDICIAL DECISION OR OFFICIAL ADMINISTRATIVE PRONOUNCEMENT OF ANY RELEVANT JURISDICTION, (EACH AN “ADMINISTRATIVE ACTION”), OR (C) ANY AMENDMENT TO OR CHANGE IN THE OFFICIAL PRONOUNCEMENT THAT PROVIDES FOR A POSITION THAT DIFFERS FROM THE THERETOFORE GENERALLY ACCEPTED POSITION, IN EACH CASE, BY ANY LEGISLATIVE BODY, COURT, GOVERNMENTAL AUTHORITY OR REGULATORY BODY HAVING APPROPRIATE JURISDICTION, AND PROVIDED THAT SUCH AMENDMENT, CHANGE, JUDICIAL DECISION OR PRONOUNCEMENT IS EFFECTIVE ON OR AFTER THE DATE OF ISSUANCE OF THE NOTES OR, WITH RESPECT TO ANY JURISDICTION OTHER THAN MEXICO AND THE CAYMAN ISLANDS, AFTER SUCH JURISDICTION HAS BECOME A RELEVANT JURISDICTION (COLLECTIVELY, A “CHANGE IN TAX LAW”), THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT THE BANK IS OR WILL BE LIABLE FOR MORE THAN A *DE MINIMUS* PAYMENT OF ADDITIONAL AMOUNTS IN RESPECT OF THE NOTES IN EXCESS OF THE GROSS AMOUNT OF ADDITIONAL AMOUNTS PAYABLE IN RESPECT OF THE NOTES PRIOR TO SUCH CHANGE IN TAX LAW AND (II) THE DELIVERY TO THE TRUSTEE OF AN OFFICER’S CERTIFICATE STATING THAT THE REQUIREMENT TO PAY SUCH ADDITIONAL AMOUNTS CANNOT BE AVOIDED BY TAKING REASONABLE MEASURES AVAILABLE TO THE BANK (SUCH MEASURES NOT INVOLVING ANY MATERIAL COST TO THE BANK OR THE INCURRING BY THE BANK OF ANY OTHER TAX OR PENALTY).

Special Event Redemption

THE BANK ALSO HAS THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES AT ANY TIME, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) BUT NOT IN PART, AT PAR PLUS ACCRUED AND UNPAID (AND NOT CANCELED) INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE REDEMPTION DATE, UPON THE OCCURRENCE OF A SPECIAL EVENT (AS DEFINED BELOW) AFFECTING THE NOTES (A “SPECIAL EVENT REDEMPTION”); *PROVIDED, HOWEVER*, IN THE EVENT OF SUCH A SPECIAL EVENT REDEMPTION WITH RESPECT TO THE NOTES, THE BANK MAY ONLY REDEEM THE NOTES IF (I) THE BANK SHALL BE IN COMPLIANCE WITH APPLICABLE MEXICAN CAPITALIZATION

REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO THE REDEMPTION, THE BANK MAINTAINS EACH OF ITS CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-R OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE THE “MINIMUM REGULATORY CAPITAL RATIOS”, OR THE BANK ISSUES SECURITIES THAT REPLACE THE NOTES SUCH THAT IT REMAINS IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) THE BANK HAS OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE, AS EVIDENCED BY AN OFFICER’S CERTIFICATE DELIVERED TO THE TRUSTEE PRIOR TO THE DELIVERY OF THE NOTICE OF REDEMPTION TO THE HOLDERS; *PROVIDED, HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, THEN THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR SPECIAL EVENT REDEMPTION.

IN THE EVENT OF SUCH A SPECIAL EVENT REDEMPTION, THE BANK IS REQUIRED TO OBTAIN THE AUTHORIZATION OF *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE. THE BANK’S OBLIGATION TO OBTAIN *BANCO DE MÉXICO*’S AUTHORIZATION TO REDEEM THE NOTES SHALL NOT GRANT ANY RIGHTS TO THE TRUSTEE OR THE HOLDERS OF THE NOTES TO HAVE THE NOTES REDEEMED, EVEN IF SUCH AUTHORIZATION IS OBTAINED.

FOR THE PURPOSES OF THE FOREGOING:

(1) THE TERM “SPECIAL EVENT” IN RESPECT OF THE NOTES IS DEFINED IN THE INDENTURE TO MEAN A CAPITAL EVENT OR A TAX EVENT (BOTH AS DEFINED BELOW);

(2) THE TERM “CAPITAL EVENT” IN RESPECT OF THE NOTES IS DEFINED IN THE INDENTURE TO MEAN THE REASONABLE DETERMINATION BY THE BANK THAT, AS A RESULT OF (A) THE OCCURRENCE OF ANY AMENDMENT TO OR CHANGE IN THE LAWS OR ANY REGULATIONS THEREUNDER OF MEXICO OR (B) ANY OFFICIAL ADMINISTRATIVE PRONOUNCEMENT OR JUDICIAL DECISION INTERPRETING OR APPLYING THESE LAWS OR REGULATIONS, WHICH AMENDMENT OR CHANGE IS EFFECTIVE OR WHICH PRONOUNCEMENT OR DECISION IS NOT KNOWN BY THE BANK ON THE ISSUE DATE AND ANNOUNCED ON OR AFTER THE ISSUE DATE, THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT THE NOTES WILL CEASE TO BE ELIGIBLE IN THEIR ENTIRETY TO BE TREATED AS TIER 1 CAPITAL (*CAPITAL BÁSICO*), OR THE THEN EQUIVALENT OF TIER 1 CAPITAL (*CAPITAL BÁSICO*) FOR PURPOSES OF THE MEXICAN CAPITALIZATION REQUIREMENTS, AS THEN IN EFFECT AND APPLICABLE TO THE BANK;

(3) THE TERM “TAX EVENT” IS DEFINED IN THE INDENTURE TO MEAN THE RECEIPT BY THE BANK OF AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM IN MEXICO EXPERIENCED IN SUCH MATTERS TO THE EFFECT THAT, AS A RESULT OF A CHANGE IN TAX LAW NOT KNOWN BY THE BANK ON THE ISSUE DATE, THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT INTEREST PAYABLE BY THE BANK ON THE NOTES IS NOT OR WILL NOT BE DEDUCTIBLE BY THE BANK IN WHOLE OR IN PART FOR MEXICAN INCOME TAX PURPOSES.

Redemption Procedures

IF THE BANK GIVES A NOTICE OF AN OPTIONAL REDEMPTION, A WITHHOLDING TAX REDEMPTION OR A SPECIAL EVENT REDEMPTION IN RESPECT OF THE NOTES IN ACCORDANCE WITH THE INDENTURE, AT LEAST ONE BUSINESS DAY PRIOR TO THE APPLICABLE REDEMPTION DATE, BY 11:00 A.M. NEW YORK CITY TIME, THE BANK SHALL DEPOSIT WITH THE TRUSTEE OR WITH A PAYING AGENT FUNDS SUFFICIENT TO PAY THE APPLICABLE REDEMPTION PRICE AND ACCRUED AND UNPAID (AND NOT CANCELED) INTEREST, TO THE APPLICABLE REDEMPTION DATE, ON THE NOTES SUBJECT TO REDEMPTION; *PROVIDED, HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED THE BANK SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR REDEMPTION. SUCH NOTICE WILL ALSO BE GIVEN TO THE HOLDERS IN ACCORDANCE WITH THE PROCEDURE SET FORTH IN “—NOTICES”. WITH RESPECT TO THE NOTES BEING REDEEMED AND HELD IN CERTIFICATED FORM, THE TRUSTEE, TO THE EXTENT FUNDS ARE LEGALLY AVAILABLE, WILL PAY THE APPLICABLE REDEMPTION PRICE TO THE HOLDERS THEREOF UPON SURRENDER OF THEIR CERTIFICATES EVIDENCING THE NOTES. IF NOT PREVIOUSLY CANCELED, INTEREST PAYABLE ON OR PRIOR TO THE REDEMPTION DATE SHALL BE PAYABLE TO THE HOLDERS OF THE

NOTES ON THE RELEVANT RECORD DATES. IF NOTICE OF REDEMPTION SHALL HAVE BEEN GIVEN AND FUNDS DEPOSITED WITH THE TRUSTEE TO PAY THE APPLICABLE REDEMPTION PRICE FOR THE NOTES BEING REDEEMED, THEN UPON THE REDEMPTION DATE, ALL RIGHTS OF THE HOLDERS OF THE NOTES WILL CEASE WITH RESPECT TO THE PORTION OF NOTES BEING SO REDEEMED, EXCEPT THE RIGHT OF THE HOLDERS OF THE NOTES TO RECEIVE THE APPLICABLE REDEMPTION PRICE, BUT WITHOUT INTEREST ON SUCH REDEMPTION PRICE, AND THE NOTES SO REDEEMED WILL CEASE TO BE OUTSTANDING. IN THE EVENT THAT ANY REDEMPTION DATE IN RESPECT OF THE NOTES IS NOT A BUSINESS DAY, THEN THE APPLICABLE REDEMPTION PRICE PAYABLE ON SUCH DATE WILL BE PAID ON THE NEXT SUCCEEDING DAY THAT IS A BUSINESS DAY (WITHOUT ANY INTEREST OR OTHER PAYMENT IN RESPECT OF ANY SUCH DELAY) WITH THE SAME FORCE AND EFFECT AS IF MADE ON SUCH REDEMPTION DATE. IN THE EVENT THAT PAYMENT OF THE APPLICABLE REDEMPTION PRICE IS IMPROPERLY WITHHELD OR REFUSED AND NOT PAID BY THE BANK (1) INTEREST DUE ON THE NOTES BEING REDEEMED WILL CONTINUE TO ACCRUE AT THE THEN APPLICABLE RATE, FROM THE REDEMPTION DATE ORIGINALLY ESTABLISHED BY THE BANK TO THE DATE SUCH APPLICABLE REDEMPTION PRICE IS ACTUALLY PAID, AND (2) THE ACTUAL PAYMENT DATE WILL BE THE REDEMPTION DATE FOR PURPOSES OF CALCULATING THE APPLICABLE REDEMPTION PRICE.

IF THE BANK has DELIVERED A NOTICE OF REDEMPTION, BUT PRIOR TO THE PAYMENT OF THE REDEMPTION AMOUNT WITH RESPECT TO SUCH REDEMPTION, A TRIGGER EVENT HAS OCCURRED, SUCH NOTICE OF REDEMPTION SHALL BE AUTOMATICALLY RESCINDED AND SHALL BE OF NO FORCE AND EFFECT, AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE.

IF THE BANK HAS DELIVERED A NOTICE OF REDEMPTION, BUT PRIOR TO THE DATE OF ANY SUCH REDEMPTION, *BANCO DE MÉXICO* HAS OBJECTED TO OR REFUSED TO GRANT PERMISSION TO THE BANK, TO REDEEM THE RELEVANT NOTES, SUCH NOTICE OF REDEMPTION SHALL BE AUTOMATICALLY RESCINDED AND SHALL BE OF NO FORCE AND EFFECT AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE.

IF THE BANK HAS DELIVERED A NOTICE OF REDEMPTION, BUT PRIOR TO THE PAYMENT OF THE REDEMPTION AMOUNT WITH RESPECT TO SUCH REDEMPTION THE BANK IS NOT IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS OR ANY ALTERNATIVE OR ADDITIONAL PRE-CONDITIONS REQUIRED BY *BANCO DE MÉXICO* AS A PREREQUISITE TO ITS AUTHORIZATION FOR SUCH REDEMPTION, SUCH NOTICE OF REDEMPTION SHALL BE AUTOMATICALLY RESCINDED AND SHALL BE OF NO FORCE AND EFFECT, AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE.

THE BANK SHALL GIVE NOTICE OF ANY SUCH RESCISSION TO THE HOLDERS OF THE NOTES IN ACCORDANCE WITH THE PROCEDURES SET FORTH IN THE INDENTURE AND TO THE TRUSTEE IN WRITING.

IN THE EVENT OF A PARTIAL OPTIONAL REDEMPTION OF THE NOTES, THE NOTES SHALL BE REDEEMED FROM EACH HOLDER THEREOF *PRO RATA* ACCORDING TO THE THEN CURRENT PRINCIPAL AMOUNT OF THE NOTES HELD BY THE RELEVANT HOLDER IN RELATION TO THE THEN CURRENT PRINCIPAL AMOUNT OF ALL NOTES; *PROVIDED, HOWEVER*, THAT GLOBAL NOTES TO BE REDEEMED THAT ARE HELD THROUGH DTC SHALL BE SELECTED IN ACCORDANCE WITH THE APPLICABLE PROCEDURES OF DTC. IN RESPECT OF THE NOTES HELD BY DTC OR ITS NOMINEE, THE DISTRIBUTION OF THE PROCEEDS FROM SUCH REDEMPTION WILL BE MADE TO DTC OR ITS NOMINEE AND DISBURSED BY DTC OR ITS NOMINEE IN ACCORDANCE WITH THE PROCEDURES APPLIED BY DTC OR ITS NOMINEE. IN DETERMINING THE PRORATION OF THE NOTES TO BE REDEEMED, THE BANK MAY MAKE SUCH ADJUSTMENTS AS MAY BE APPROPRIATE IN ORDER THAT ONLY THE NOTES IN AUTHORIZED DENOMINATIONS SHALL BE REDEEMED, SUBJECT TO THE MINIMUM DENOMINATIONS SET FORTH IN THIS OFFERING MEMORANDUM.

THE BANK SHALL DELIVER NOTICE OF ANY REDEMPTION TO THE TRUSTEE AT LEAST 40 DAYS PRIOR TO THE APPLICABLE REDEMPTION DATE (OR ANY SHORTER PERIOD THAT MAY BE AGREED UPON BY THE BANK AND THE TRUSTEE). THE BANK SHALL, OR SHALL CAUSE THE TRUSTEE TO, GIVE NOTICE OF ANY SUCH REDEMPTION AT LEAST 30 DAYS BUT NOT MORE THAN 60 DAYS PRIOR TO THE REDEMPTION DATE TO EACH HOLDER OF THE NOTES IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE. UNLESS THE BANK DEFAULTS IN PAYMENT OF THE APPLICABLE

AMOUNTS DUE ON, OR IN THE REPAYMENT OF, THE NOTES, ON AND AFTER THE APPLICABLE REDEMPTION DATE, INTEREST DUE WILL CEASE TO ACCRUE ON THE NOTES CALLED FOR REDEMPTION.

IF ANY SCHEDULED REDEMPTION DATE IS NOT A BUSINESS DAY, PAYMENT OF INTEREST, IF ANY, AND PRINCIPAL SHALL BE POSTPONED TO THE NEXT BUSINESS DAY, BUT INTEREST ON THAT PAYMENT WILL NOT ACCRUE DURING THE PERIOD FROM AND AFTER THE SCHEDULED REDEMPTION DATE.

ANY WITHHOLDING TAX REDEMPTION OR SPECIAL EVENTS REDEMPTION MAY OCCUR ON A NON-INTEREST PAYMENT DATE, IN THE BANK'S DISCRETION.

Open Market Purchases and Other Repurchase of Notes

Subject to applicable law, the Bank may at any time and from time to time repurchase, or procure others to repurchase for its account, the Notes in the open market, by tender or by private agreement in any manner and at any price or at differing prices. Notes purchased or otherwise acquired by the Bank shall be surrendered to the Trustee for cancellation (in which case all Notes so surrendered will forthwith be canceled in accordance with applicable law and thereafter may not be reissued or resold). Any such purchases will be subject to the satisfaction of the following conditions: (x) (a) the Bank maintains, and after giving effect to the repurchase of the Notes will maintain, each of its Capital Ratios equal to, or exceeding, the then-applicable Capital Ratios required by the CNBV in accordance with Section IV, c), 1 of Annex 1-R of the General Rules Applicable to Mexican Banks or any successor regulation, which as of the date of this offering memorandum are the Minimum Regulatory Capital Ratios, or (b) the Bank issues securities that replace the amount of Notes so canceled such that it remains in compliance with the Mexican Capitalization Requirements, and (y) the Bank has obtained the authorization from *Banco de México* to repurchase the Notes prior to the applicable repurchase date; *provided, however*, that if at any time a Trigger Event shall have occurred, then the Bank shall have no obligation to repurchase any Notes it had agreed to repurchase.

Rule 144A Information

For so long as any of the Notes remain outstanding and are “restricted securities” within the meaning of Rule 144 (a) (3) under the Securities Act, the Bank shall furnish, upon the request of any holder, such information as is specified in Rule 144A (d) (4) under the Securities Act: (i) to such holder, and (ii) to a prospective purchaser of such Note (or beneficial interests therein) who is a qualified institutional buyer (“**QIB**”) designated by such holder, in each case in order to permit compliance by such holder with Rule 144A in connection with the resale of such Note (or beneficial interest therein) in reliance upon Rule 144A. All such information shall be in the English language.

Periodic Reports

So long as the Notes are outstanding, the Bank will furnish to the Trustee, who will in turn furnish to the holders of such Notes upon written request:

(a) Within 120 days following the end of each of the Bank's fiscal years (ending December 31), an English version of its consolidated audited balance sheets, statements of income, statements of shareholders equity and statements of cash flow and the related notes thereto for the two most recent fiscal years prepared in accordance with Mexican Banking GAAP (“**GAAP**”), together with an audit report thereon by the Bank's independent auditors; and

(b) Within 60 days following the end of the first three fiscal quarters in each of the Bank's fiscal years, an English version of its consolidated unaudited balance sheets, statements of income, statements of shareholders equity and statements of cash flows and the related notes thereto for the quarterly period then ended and the corresponding quarterly period in the prior fiscal year and prepared in accordance with GAAP.

In addition, the Bank shall furnish to the holders of the Notes, upon the request of such holders, any information required to be delivered pursuant to Rule 144A (d) (4) under the Securities Act so long as such Notes are not freely transferable under the Securities Act by Persons who are not “affiliates” under the Securities Act.

Enforcement Events and Remedies

There are no events of default under the Notes. In addition, under the terms of the Indenture, any Write-Down or cancellation of interest will not constitute an Enforcement Event.

Enforcement Events

Each of the following events described in clauses (i), (ii) and (iii) is an “Enforcement Event”:

- (i) certain events involving the insolvency (*resolución*) or liquidation of the Bank;
- (ii) a Principal Non-Payment Event (as defined below); or
- (iii) breach of a Performance Obligation (as defined below).

Remedies

- (i) *The occurrence of an insolvency (resolución) or liquidation of the Bank.* If an insolvency (*resolución*) or liquidation of the Bank occurs, the Current Principal Amount of the Notes, without any accrued and unpaid interest to the date of such occurrence, shall become immediately due and payable and neither the Trustee nor the holders of the Notes are required to declare such amount to be due and payable. In that event, holders of the Notes may not be able to collect the full amount payable under the Notes and laws applicable to an insolvency (*resolución*) or liquidation may affect the timing or amount paid to holders of the Notes. See “Risk Factors—Risks Relating to the Notes—The Notes do not contain events of default and if the Bank does not satisfy its obligations under the Notes, whether due to a Write-Down or otherwise, your remedies will be limited.”
- (ii) *Principal Non-Payment Event.* In the event of any redemption of the Notes described under “—Redemption” above, if the Bank does not make payment of principal in respect of the Notes for a period of fourteen (14) calendar days or more after the date on which such payment is due (a “Principal Non-Payment Event”), then the Trustee, on behalf of the holders and beneficial owners of the Notes, may, at its discretion, or shall at the direction of holders of 25% or more of the aggregate Current Principal Amount of the outstanding Notes, subject to any applicable laws, institute proceedings for the Bank’s declaration of insolvency (*resolución*) or liquidation. In such event, whether or not instituted by the Trustee, the Trustee may prove the claims of the holders and beneficial owners of the Notes and the Trustee. For the avoidance of doubt, the Trustee may not declare the principal amount of any outstanding Notes to be due and payable and may not pursue any other legal remedy, including a judicial proceeding for the collection of the sums due and unpaid on the Notes.
- (iii) *Breach of a Performance Obligation.* In the event of a breach of any term, obligation or condition binding on the Bank under the Notes or the Indenture (other than any of the Bank’s payment obligations under or arising from the Notes or the Indenture, including payment of any principal or interest, including any damages awarded for breach of any obligation) (such obligation, a “Performance Obligation”), the Trustee may (but shall not be obligated to) without further notice institute such proceedings against the Bank as it may deem fit to enforce the Performance Obligation; *provided* that the Bank shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise (including any damages) earlier than the same would otherwise have been payable under the Notes or the Indenture, if any.

For the avoidance of doubt, the breach by the Bank of any Performance Obligation shall not give the Trustee acting on behalf of the holders with respect to the Notes and/or the holders or beneficial owners of the Notes a claim for damages, and, in such circumstances, the sole and exclusive remedy that the Trustee and/or the holders or beneficial owners of the Notes may seek under the Notes and the Indenture is specific performance under New York law. By its acquisition of the Notes, each holder and beneficial owner of Notes acknowledges and agrees that such holder and beneficial owner will not seek, and will not direct the Trustee to seek, a claim for damages against the Bank in respect of a breach by it of a Performance Obligation and that the sole and exclusive remedy that such holder and the Trustee acting on behalf of the holders with respect to the Notes may seek under the Notes and the Indenture for a breach by the Bank of a Performance Obligation is specific performance under New York law. See “Risk Factors—Risks Relating to the Notes—The Notes do not contain events of default and if the Bank does not satisfy its obligations under the Notes, whether due to a Write-Down or otherwise, your remedies will be limited.”

No Other Remedies

Other than the limited remedies specified above, no remedy against the Bank shall be available to the Trustee (acting on behalf of the holders of the Notes) or to the holders and beneficial owners of the Notes. For the avoidance of doubt, such limitations shall not apply to the Bank’s obligations to pay the fees and expenses of, and to indemnify, the Trustee, and the

Trustee's rights to apply money collected to first pay its fees and expenses shall not be subject to the subordination provisions set forth in the Indenture.

The Notes are perpetual securities in respect of which there is no fixed redemption date or maturity date. Holders and beneficial owners of the Notes may not request the redemption of any of the Notes at any time.

Trustee's Duties

Holders of not less than a majority in aggregate of the Current Principal Amount of the Notes may on behalf of all holders of the Notes waive any past Enforcement Event that results from a breach by the Bank of a Performance Obligation.

Holders of a majority in aggregate of the Current Principal Amount of the Notes may not waive any past Enforcement Event that results from an insolvency (*resolución*) or liquidation of the Bank.

If an Enforcement Event has occurred and is continuing, the Trustee will have no obligation to take any action at the direction of any holders of the Notes, unless they have offered the Trustee security or indemnity satisfactory to the Trustee in its sole discretion. The holders of a majority in aggregate of the Current Principal Amount of the Notes shall have the right to direct the time, method and place of conducting any proceeding in the name of and on the behalf of the Trustee for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Notes. However, this direction (**(a)**) must not be in conflict with any rule of law or the Indenture and (**(b)**) must not be unjustly prejudicial to the holders of the Notes not taking part in the direction (it being understood that the Trustee does not have an affirmative duty to ascertain whether or not such actions are unduly prejudicial to such Holders), *provided, however*, that the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction.

Modification of Indenture; Waiver of Covenants

Subject to authorization by *Banco de México*, the Bank and the Trustee may, without the consent of any holders of Notes, amend, waive or supplement each of the Indenture or the Notes in certain circumstances, including, among other things, to cure any ambiguity, omission, defect or inconsistency, to conform the text of the Indenture or the Notes to any provision in this "*Description of the NC10.5 Notes*" and to make any other change that does not adversely affect the rights of any relevant holder in any material respect. In addition, subject to authorization by *Banco de México*, the Bank and the Trustee may amend, waive or supplement the Indenture or the Notes with the written consent of the holders of at least a majority in aggregate of the Current Principal Amount of the Notes. However, without the consent of the holder of each Note and subject to authorization by *Banco de México* and the approval by 75% (seventy-five percent) of the members of the Board of Directors of the Bank as provided by the Mexican Banking Law (as evidenced by a Board Resolution), the Bank may not, among other things:

- change any Interest Payment Date (or Interest Periods) on any Note;
- reduce the principal amount of or interest on any Note (except in the case of a Write-Down or a cancellation of interest, as applicable);
- change the currency of payment of principal or interest on any Note;
- modify any other payment provision of any Note, including any provision relating to the obligation of the Bank to pay Additional Amounts, in any manner adverse to the holders of the Notes;
- impair the right to sue for the enforcement of any payment on or with respect to any Note;
- reduce the percentage in principal amount of outstanding Notes that is required for the consent of the holders in order to modify or amend the Indenture or to waive compliance with some provisions of the Indenture or to waive any Enforcement Event; or
- modify the provisions relating to any Trigger Event, subordination provisions, provisions relating to consolidation, merger, conveyance or transfer of the Bank and/or all of its properties, and any provision dealing with insolvency (*resolución*) or liquidation of the Bank and the governing law of the Notes, in each case in any manner adverse to the holders of the Notes.
- The holders of not less than a majority in aggregate of the Current Principal Amount of the Notes may waive any past non-compliance or Enforcement Event under the Indenture, except the non-compliance with a

provision that cannot be modified without the consent of each holder of a Note that would be affected, or with respect to any provision, the approval of which requires the consent of the Holders of at least 66 2/3% in aggregate of the Current Principal Amount of the outstanding Notes. Upon the occurrence of any such waiver, such past non-compliance or Enforcement Event shall be deemed to have been cured and not to have occurred for every purpose of the Indenture.

Consolidation, Merger, Sale or Transfer of Assets

The Bank may not, without the consent of holders of at least 66 2/3% in aggregate of the Current Principal Amount of the Notes, consolidate with or merge into any other person, or convey or transfer, in one transaction or a series of transactions, all or substantially all of its properties and assets to any person, unless:

- (1) the resulting entity, if other than the Bank, shall be organized and existing under the laws of Mexico and, by execution of a supplemental indenture delivered to and in form satisfactory to the Trustee, assumes all of the obligations of the Bank to:
 - (x) pay the principal of, and interest (and any Additional Amounts, if any) on, the Notes; and
 - (y) perform and observe all of the other obligations of the Bank under the Indenture;
- (2) immediately after giving effect to any such transaction, no Enforcement Event, shall have happened and be continuing; and
- (3) the Bank has delivered to the Trustee an officer's certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance or transfer of asset and comply with the foregoing provisions relating to such transaction and all conditions precedent in the Indenture relating to such a transaction have been complied with.

In case of any such consolidation, merger, conveyance or transfer, such successor person will succeed to and be substituted for the Bank as obligor on the Notes with the same effect as if it had issued the Notes. Upon the assumption of its obligations by any such successor person in such circumstances, subject to certain exceptions, the Bank will be discharged from all obligations under the Notes and the Indenture.

Restrictions Applicable to Mexican Financial Institutions

Unless otherwise permitted by applicable law, the Indenture will provide that the Notes (i) may not constitute collateral granted in favor of Mexican credit institutions (*instituciones de crédito*) including the Bank and (ii) may not be directly or indirectly acquired by the Bank for its own account (except as set forth under “—*Open Market Purchases and Other Repurchase of Notes*”) or by any person controlled by the Bank, or by any of the following entities:

- (a) Mexican financial entities (*entidades financieras*) of any kind that acquire the Notes for their own accounts except for (1) investment funds authorized to invest in subordinated instruments as part of their investment assets, (2) securities brokers (*casas de bolsa*) that acquire the Notes for placement with investors, (3) insurance companies (*instituciones y sociedades mutualistas de seguros*) and bonding companies (*instituciones de fianzas*) to the extent they acquire the Notes to invest their technical reserves and for securities fluctuations, (4) the holding company of the financial group to which the Bank belongs, in terms of the Mexican Law to Regulate Financial Groups, and (5) the Bank, in the event set forth in section II of the first paragraph of article 28 of the Circular 3/2012; *provided, however*, that the exceptions referred to in (1), (2) and (3) of this paragraph shall not apply to (x) investment companies in which the Bank or any other entity that forms part of the Bank's financial group (*grupo financiero*) holds, directly or indirectly, the majority of its fixed capital and (y) financial entities that form part of the Bank's financial group (*grupo financiero*);
- (b) Mexican or non-Mexican entities with respect to which the Bank (1) owns voting stock representing more than 50 percent of their outstanding paid-in capital, (2) has control of the shareholders' meetings of such entity, as such term is defined in the Mexican Securities Market Law or (3) is in a position to appoint the majority of the members of such entity's board of directors;
- (c) Mexican pension or retirement funds if managed by the Bank or another entity that forms part of the Bank's financial group (*grupo financiero*);
- (d) the Bank or another entity that forms part of its financial group (*grupo financiero*) acting in its capacity of trustee, representative, agent or attorney-in-fact if, by acting in such capacity, it has discretionary investment authority; and

(e) related parties to the Bank, as defined in article 73 of the Mexican Banking Law, except in the case that the respective notes are placed through:

(i) public offer; or

(ii) any other mechanism, different to a public offering, subject to the previous authorization of *Banco de México*, at the request of the Bank in which it states the convenience to carry out the aforementioned mechanism instead of the public offering, pursuant to the provisions of article 27 of the Circular 3/2012.

Any Mexican financial entity or Mexican pension or retirement fund that is not otherwise prevented from investing in the Notes may acquire, together with any other such entity that is an affiliate or that forms part of the same financial group or corporate group on a collective basis, up to 10% of the aggregate principal amount of the outstanding Notes.

Notices

Notice to holders of the Notes, if they are global Notes, will be given in accordance with the procedures of the applicable clearing system; if they are certificated Notes, notice to holders will be given by mail to the addresses of such holders as they appear in the security register. Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to another holder.

Notices to be given by any holders of the Notes to the Trustee shall be in writing to the Trustee at its corporate trust office. While any of the Notes are represented by a Global Note, such notice may be given by any holder to the Trustee through DTC in such manner as DTC may approve for this purpose.

Book-Entry System

The Notes will be initially represented by one or more Global Notes (as defined below).

The Global Notes representing the Notes will be issued in the form of one or more registered notes in global form, without interest coupons and will be deposited with a custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

The Notes are being offered and sold in this initial offering in the United States solely to qualified institutional buyers under Rule 144A under the Securities Act and in offshore transactions to persons other than U.S. persons, as defined in Regulation S under the Securities Act, in reliance on Regulation S. Following this offering, the Notes may be sold:

- to qualified institutional buyers under Rule 144A;
- to non-U.S. persons outside the United States in reliance on Regulation S; and
- under other exemptions from, or in transactions not subject to, the registration requirements of the Securities Act, as described under “Transfer Restrictions”.

Rule 144A Global Notes

Notes offered and sold to qualified institutional buyers under Rule 144A are referred to collectively as the “*Rule 144A Global Notes*”. Interests in the Rule 144A Global Notes will be available for purchase only by qualified institutional buyers.

Regulation S Global Notes

Notes offered and sold in offshore transactions in reliance on Regulation S under the U.S. Securities Act of 1933 to persons which are non-U.S. persons are referred to collectively as the “*Regulation S Global Notes*” and, together with the Rule 144A Global Notes, the “*Global Notes*”.

On or prior to the 40th day after the date of issuance of the Notes sold pursuant to Regulation S, any resale or transfer of beneficial interests in the Regulation S Global Notes to U.S. persons shall not be permitted unless such resale or transfer is made pursuant to Rule 144A or Regulation S.

Investors may hold their interest in a Global Note representing the Notes through organizations that are participants in DTC (including, Euroclear or Clearstream).

Exchanges Among the Global Notes

Transfers by an owner of a beneficial interest in a Regulation S Global Note representing the Notes to a transferee who takes delivery of that interest through a Rule 144A Global Note representing the Notes will be made only in accordance with applicable procedures and upon receipt by the Trustee of a written certification from the transferor of the beneficial interest in the form provided in the Indenture to the effect that the transfer is being made to a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A.

Transfers by an owner of a beneficial interest in a Rule 144A Global Note representing the Notes to a transferee who takes delivery of the interest through a Regulation S Global Note representing the Notes will be made only upon receipt by the Trustee of a certification from the transferor of the beneficial interest in the form provided in the Indenture that the transfer is being made outside the United States to a non-U.S. person in accordance with Regulation S or, if available, Rule 144 under the Securities Act.

Any beneficial interest in one of the Global Notes representing the Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note representing the Notes will, upon transfer, cease to be an interest in that Global Note and become an interest in the other Global Note and, accordingly, will then be subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Book-entry Procedures for the Global Notes

Ownership of beneficial interests in a Global Note representing the Notes will be limited to DTC and to persons that may hold interests through institutions that have accounts with DTC. Beneficial interests in a Global Note will be shown on, and transfers of those ownership interests will be effected only through, records maintained by DTC, and its respective participants for that Global Note. The conveyance of notices and other communications by DTC to its participants and by its participants to owners of beneficial interests in the Notes will be governed by arrangements among them, subject to any statutory or regulatory requirements in effect.

DTC holds the securities of its respective participants and facilitates the clearance and settlement of securities transactions among its respective participants through electronic book-entry changes in accounts.

Principal and interest payments on the Notes represented by a Global Note will be made to DTC, as the sole registered owner and the sole holder of the Notes represented by the Global Note for all purposes under the Indenture. Accordingly, the Bank, the Trustee, any paying agents, transfer agents or registrars will have no responsibility or liability for:

- any aspect of DTC's records relating to, or payments made on account of, beneficial ownership interests in a Note represented by a Global Note;
- any other aspect of the relationship between DTC and its participants or the relationship between those participants and the owners of beneficial interests in a Global Note held through those participants; or
- the maintenance, supervision or review of any of DTC's records relating to those beneficial ownership interests.

DTC

DTC has advised the Bank that upon receipt of any payment of principal of or interest on a Global Note representing the Notes, DTC will credit, on its book-entry registration and transfer system, the accounts of participants with payments in amounts proportionate to their respective beneficial interests in the principal amount of that Global Note as shown on DTC's records. The initial purchasers of the Notes will initially designate the accounts to be credited. Payments by participants to owners of beneficial interests in a Global Note will be governed by standing instructions and customary practices, as is the case with securities held for customer accounts registered in "street names," and will be the sole responsibility of those participants.

The Notes represented by a Global Note can be exchanged for definitive Notes of the same series in registered form only if:

- DTC notifies the Bank that it is unwilling or unable to continue as depositary for that Global Note or at any time DTC ceases to be a clearing agency registered under the Exchange Act, and a successor depositary is not appointed by the Bank within 90 calendar days; or

- the Bank, in its sole discretion, determines that such Global Note will be exchangeable for definitive Notes in registered form and notify the Trustee of its decision.

A Global Note representing the Notes that can be exchanged under the preceding paragraph will be exchanged for definitive Notes that are issued in authorized denominations in registered form for the same aggregate amount. Those definitive Notes will be registered in the names of the owners of the beneficial interests in the relevant Global Note as directed by DTC and may bear the legend as set forth under “*Transfer Restrictions*”.

Registrar, Transfer Agent and Paying Agents

The Trustee will act as registrar for the Notes. The Trustee will also act as transfer agent and paying agent for the Notes. The Bank has the right at any time to vary or terminate the appointment of any paying agents and to appoint additional or successor agents in respect of the Notes. Registration of transfers of the Notes will be effected without charge, but upon payment (with the giving of such indemnity as the Bank may require) in respect of any tax or other governmental charges that may be imposed in relation to it. The Bank will not be required to register or cause to be registered the transfer of the Notes after the Notes have been called for redemption.

Listing

Application is expected to be made to list the Notes on the SGX-ST. In the event that the Notes are admitted for listing on the SGX-ST, the Bank will use its commercially reasonable efforts to maintain such listing, *provided* that if (1) as a result of applicable rules and regulations relating to listing on the SGX-ST, the Bank could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which the Bank would otherwise use to prepare its published financial information, or (2) the Bank determines that it is unduly burdensome to maintain a listing on the SGX-ST, the Bank may delist the Notes from the SGX-ST in accordance with the rules of the SGX-ST and seek an alternative admission to listing, trading and/or quotation for the Notes on a different listing authority, stock exchange and/or quotation system as the Bank may decide. If such alternative admission to listing, trading and/or quotation of the Notes is not available to the Bank or is, in its commercially reasonable judgment, unduly burdensome, an alternative admission to listing, trading and/or quotation of the Notes may not be obtained. Although there is no assurance as to the liquidity that may result from a listing on the SGX-ST or any other stock exchange, delisting the Notes from the SGX-ST or any other stock exchange may have a material effect on the ability of holders of the Notes to resell the Notes in the secondary market.

Subsequent Holders’ Agreement

Holders of the Notes that acquire the Notes in the secondary market shall be deemed to acknowledge, agree to be bound by and consent to the same provisions specified herein to the same extent as the holders and beneficial owners of the Notes that acquire the Notes upon their initial issuance, including, without limitation, with respect to the acknowledgment and agreement to be bound by and consent to the terms of the Notes, including in relation to interest cancellation, the Write-Down and the limitations on remedies specified in “—*Enforcement Events and Remedies*” above.

The Trustee

The Bank of New York Mellon will act as Trustee under the Indenture. Notices to the Trustee should be directed to the Trustee at its Corporate Trust Office, located at 240 Greenwich Street, Floor 7-East, New York, NY 10286, Attention: Global Finance Americas – Banco Mercantil del Norte, S.A. – Banorte. The Trustee also will initially act as registrar, paying agent, transfer agent and agent for service of demands and notices in connection with the Notes and the Indenture. The Trustee may resign or be removed under circumstances described in the Indenture and the Bank may appoint a successor Trustee to act in connection with the Indenture. Any action described in this offering memorandum to be taken by the Trustee may then be taken by the successor trustee. Except during the continuation of an Enforcement Event, the Trustee has only its express duties under the Indenture and no implied duties.

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Bank or its affiliates with the same rights the Trustee would have if it were not trustee. Any paying agent, registrar or co-registrar may do the same with like rights.

The Indenture contains some limitations on the right of the Trustee should it become a creditor of the Bank, to obtain payment of claims in some cases or to realize on some property received regarding any such claim, as security or otherwise. The Trustee will be permitted to engage in transactions with the Bank. The occurrence of an Enforcement Event under the Indenture could create a conflicting interest (as such term is defined in the Trust Indenture Act of 1939, as amended) for the

Trustee. In this case, if the Enforcement Event has not been cured or waived within 90 calendar days after the Trustee has or acquires a conflicting interest, the Trustee generally is required to eliminate the conflicting interest or resign as trustee for the Notes. In the event of the Trustee's resignation, the Bank will promptly appoint a successor trustee for the Notes.

The Trustee may be removed by the holders of a majority of the Current Principal Amount of outstanding Notes if an Enforcement Event under the Indenture has occurred and is continuing. No resignation or removal of the Trustee and no appointment of a successor trustee shall be effective until the acceptance of appointment by the successor trustee in accordance with the provisions of the Indenture.

By its acquisition of the Notes, each holder of the Notes, to the extent permitted by applicable law, waives any and all claims against the Trustee for, agrees not to initiate a suit against the Trustee in respect of, and agrees that the Trustee shall not be liable for, any action that the Trustee takes, or abstains from taking, in either case in accordance with any Write-Down or Enforcement Event on the terms set forth in the Indenture.

By its acquisition of the Notes, each holder of the Notes acknowledges and agrees that, upon a Trigger Event the Trustee shall not be required to take any further directions from holders of the Notes under the Indenture, which authorizes holders of a majority in aggregate outstanding principal amount of the Notes to direct certain actions relating to the Notes.

Governing Law; Consent to Jurisdiction

THE INDENTURE AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK. (i) WHETHER A TRIGGER EVENT (LEADING TO A WRITE-DOWN) OR AN INTEREST CANCELLATION EVENT (LEADING TO A CANCELLATION OF INTEREST) HAS OCCURRED IS BASED UPON MEXICAN LAW OR A DETERMINATION BY THE APPLICABLE MEXICAN REGULATOR, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME); (ii) WHETHER A WITHHOLDING TAX EVENT OR A TAX EVENT HAS OCCURRED IS BASED UPON A DETERMINATION IN ACCORDANCE WITH MEXICAN LAW (OR OTHER APPLICABLE LAW IN THE CASE OF A WITHHOLDING TAX EVENT INVOLVING A JURISDICTION OTHER THAN MEXICO), AS AMENDED FROM TIME TO TIME, EVIDENCED BY AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM AND, IF REQUIRED, A CERTIFICATION BY the bank; AND (III) WHETHER A CAPITAL EVENT HAS OCCURRED IS DETERMINED BY the bank, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME). THE RANKING AND SUBORDINATION OF THE NOTES, WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, MEXICAN LAW (AS AMENDED FROM TIME TO TIME). THE BANK, EACH PARTY TO THE INDENTURE AND EACH HOLDER OF A NOTE WILL WAIVE ANY RIGHTS IT MAY HAVE UNDER THE LAW OF THE STATE OF NEW YORK NOT TO GIVE EFFECT TO ANY SUCH DETERMINATION TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW. ANY PROCEEDINGS IN RESPECT OF THE INSOLVENCY (*RESOLUCIÓN*) OR LIQUIDATION OF THE BANK WILL BE CONDUCTED IN ACCORDANCE WITH THE MEXICAN BANKING LAW, AS AMENDED FROM TIME TO TIME, OR ANY SUCCESSOR THEREOF, AND ANY MERGER OR CONSOLIDATION SHALL BE SUBJECT TO APPLICABLE APPROVALS UNDER THE MEXICAN BANKING LAW AND ANY OTHER APPLICABLE MEXICAN LAWS, AS AMENDED FROM TIME TO TIME, OR ANY SUCCESSOR THEREOF.

THE BANK AND EACH PARTY TO THE INDENTURE WILL CONSENT TO THE JURISDICTION OF THE SUPREME COURT OF THE STATE OF NEW YORK, COUNTY OF NEW YORK, AND THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK, EACH IN THE BOROUGH OF MANHATTAN, AND WILL AGREE THAT ALL DISPUTES UNDER THE INDENTURE AND THE NOTES MAY BE SUBMITTED TO THE JURISDICTION OF SUCH COURTS. THE BANK AND EACH PARTY TO THE INDENTURE WILL IRREVOCABLY CONSENT TO AND WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW ANY OBJECTION THAT THE BANK MAY HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING AGAINST THE BANK OR ITS PROPERTIES, ASSETS AND REVENUES WITH RESPECT TO THE INDENTURE AND THE NOTES OR ANY SUCH SUIT, ACTION OR PROCEEDING IN ANY SUCH COURT AND ANY RIGHT TO WHICH THE BANK MAY BE ENTITLED BY VIRTUE OF ITS PRESENT OR FUTURE DOMICILE OR FOR ANY OTHER REASON.

TO THE EXTENT THAT THE BANK OR ANY OF ITS REVENUES, ASSETS OR PROPERTIES SHALL BE ENTITLED TO ANY IMMUNITY FROM SUIT, FROM THE JURISDICTION OF ANY SUCH COURT, FROM ATTACHMENT PRIOR TO JUDGMENT, FROM ATTACHMENT IN AID OF EXECUTION OF JUDGMENT, FROM EXECUTION OF A JUDGMENT OR FROM ANY OTHER LEGAL OR JUDICIAL PROCESS REMEDY,

THE BANK WILL IRREVOCABLY AGREE NOT TO CLAIM AND WILL IRREVOCABLY WAIVE SUCH IMMUNITY TO THE FULLEST EXTENT PERMITTED BY THE LAWS OF SUCH JURISDICTION.

THE bank WILL AGREE THAT SERVICE OF ALL WRITS, CLAIMS, PROCESS AND SUMMONS IN ANY SUIT, ACTION OR PROCEEDING AGAINST THE BANK OR ITS PROPERTIES, ASSETS OR REVENUES WITH RESPECT TO THE INDENTURE AND THE NOTES OR ANY SUIT, ACTION OR PROCEEDING TO ENFORCE OR EXECUTE ANY JUDGMENT BROUGHT AGAINST THE BANK IN THE STATE OF NEW YORK MAY BE MADE UPON CT CORPORATION SYSTEM, 28 LIBERTY STREET, FLOOR 42, NEW YORK, NEW YORK 10005, AND THE BANK WILL IRREVOCABLY APPOINT CT CORPORATION SYSTEM AS ITS AGENT TO ACCEPT SUCH SERVICE OF ANY AND ALL SUCH WRITS, CLAIMS, PROCESS AND SUMMONSES.

Currency Rate Indemnity

The Bank has agreed that, if a judgment or order made by any court for the payment of any amount in respect of the Indenture or any Notes is expressed in a currency other than U.S. dollars, the Bank will indemnify, to the fullest extent permitted by applicable law, the relevant recipient against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. This indemnity will constitute a separate and independent obligation from the Bank's other obligations under the Indenture, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due under the Indenture or the Notes.

Replacement of Notes

In case of mutilated, defaced, destroyed, lost or stolen Notes, application for replacement thereof may be made to the Trustee or the Bank. Any such Note shall be replaced by the Trustee in compliance with such procedures, on such terms as to evidence and indemnification as the Trustee and the Bank may require and subject to any applicable law or regulation. All such costs as may be incurred in connection with the replacement of any Notes shall be borne by the applicant. Mutilated Notes must be surrendered before new ones will be issued.

TRANSFER RESTRICTIONS

The Notes of each series are subject to restrictions on transfer as summarized below. By purchasing Notes of either or both series you will be deemed to have made the following acknowledgements, representations to and agreements with the initial purchasers and us:

1. You acknowledge that:
 - The offering is being made in accordance with Rule 144A and Regulation S;
 - the Notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
 - unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.
2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that either:
 - you are a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and are purchasing Notes for your own account or for the account of another qualified institutional buyer, and you are aware that the initial purchasers are selling the Notes to you in reliance on Rule 144A; or
 - you are not a U.S. person (as defined in Regulation S) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing Notes in an offshore transaction in accordance with Regulation S.
3. You acknowledge that neither we nor the initial purchasers nor any person representing us or the initial purchasers has made any representation to you with respect to us or the offering of the Notes, other than the information contained in this offering memorandum.
4. You represent that you are purchasing Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the Notes pursuant to Rule 144A or any other available exemption from registration under the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree that the Notes may be offered, sold or otherwise transferred only:
 - (a) under a registration statement that has been declared effective under the Securities Act;
 - (b) for so long as the Notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A;
 - (c) through offers and sales that occur outside the United States to non-U.S. purchasers within the meaning of Regulation S; or
 - (d) under any other available exemption from the registration requirements of the Securities Act,subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller's or account's control.
5. You understand that the certificates evidencing the Global Notes (other than the Regulation S Global Notes) will bear a legend substantially to the following effect unless otherwise determined by us:

THIS IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE REFERRED TO HEREINAFTER.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION (“DTC”), NEW YORK, NEW YORK TO THE BANK OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR’S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (REGISTRO NACIONAL DE VALORES) MAINTAINED BY THE MEXICAN NATIONAL BANKING AND SECURITIES COMMISSION (COMISIÓN NACIONAL BANCARIA Y DE VALORES, OR CNBV), AND, THEREFORE MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO. THE NOTES MAY BE OFFERED TO MEXICAN INSTITUTIONAL OR ACCREDITED INVESTORS (INVERSIONISTAS INSTITUCIONALES OR INVERSIONISTAS CALIFICADOS), PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (LEY DEL MERCADO DE VALORES) AND THE REGULATIONS THEREUNDER. AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW, THE BANK WILL NOTIFY THE CNBV OF THE TERMS AND CONDITIONS OF THIS OFFERING AND THE ISSUANCE OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE DELIVERED TO THE CNBV TO COMPLY WITH ARTICLE 7, SECOND PARAGRAPH, OF THE MEXICAN SECURITIES MARKET LAW AND REGULATIONS THEREUNDER, AND FOR STATISTICAL AND INFORMATIONAL PURPOSES. THE DELIVERY TO AND THE RECEIPT BY THE CNBV OF SUCH NOTICE DOES NOT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES OR THE SOLVENCY, LIQUIDITY OR CREDIT QUALITY OF THE BANK OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THE OFFERING MEMORANDUM AND DOES NOT RATIFY OR VALIDATE ANY ACTIONS OR OMISSIONS, IF ANY, IN CONTRAVENTION OF APPLICABLE LAW. THE CONTENT, ACCURACY, CORRECTEDNESS AND TIMELINESS OF THE INFORMATION CONTAINED HEREIN ARE OUR EXCLUSIVE RESPONSIBILITY. THE ACQUISITION OF THE NOTES BY AN INVESTOR WHO IS A RESIDENT OF MEXICO WILL BE MADE UNDER SUCH INVESTOR’S RESPONSIBILITY.

THE NOTE REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (I) REPRESENTS THAT IT, AND ANY ACCOUNT FOR WHICH IT IS ACTING, (A) IS A “QUALIFIED INSTITUTIONAL BUYER” (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) OR (B) IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN “OFFSHORE TRANSACTION” PURSUANT TO RULE 903 OR 904 OF REGULATION S AND, WITH RESPECT TO (A) AND (B), EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO SUCH ACCOUNT, (2) AGREES FOR THE BENEFIT OF THE COMPANY THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT (A) (I) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, (II) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, (III) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (IV) IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (V) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE), AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS

“OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH PARAGRAPH 2A(V) ABOVE, THE COMPANY RESERVES THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THIS LEGEND SHALL ONLY BE REMOVED AT THE OPTION OF THE ISSUER.

6. If you are a non-U.S. purchaser acquiring a beneficial interest in a Regulation S Global Note offered pursuant to this offering memorandum, you acknowledge and agree that, until the expiration of the 40-day “distribution compliance period” within the meaning of Regulation S, any offer, sale, pledge or other transfer shall not be made by it in the United States or to, or for the account or benefit of, a U.S. person, except pursuant to Rule 144A to persons reasonably believed to be a QIB taking delivery thereof in the form of a beneficial interest in a Global Note, and that each Regulation S Global Note will contain a legend to substantially the following effect:

THIS IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE REFERRED TO HEREINAFTER.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION (“DTC”), NEW YORK, NEW YORK TO THE BANK OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR’S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (REGISTRO NACIONAL DE VALORES) MAINTAINED BY THE MEXICAN NATIONAL BANKING AND SECURITIES COMMISSION (COMISIÓN NACIONAL BANCARIA Y DE VALORES, OR CNBV), AND, THEREFORE MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO. THE NOTES MAY BE OFFERED TO MEXICAN INSTITUTIONAL OR ACCREDITED INVESTORS (INVERSIONISTAS INSTITUCIONALES OR INVERSIONISTAS CALIFICADOS), PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (LEY DEL MERCADO DE VALORES) AND THE REGULATIONS THEREUNDER. AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW, THE BANK WILL NOTIFY THE CNBV OF THE TERMS AND CONDITIONS OF THIS OFFERING AND THE ISSUANCE OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE DELIVERED TO THE CNBV TO COMPLY WITH ARTICLE 7, SECOND PARAGRAPH, OF THE MEXICAN SECURITIES MARKET LAW AND REGULATIONS THEREUNDER, AND FOR STATISTICAL AND INFORMATIONAL PURPOSES. THE DELIVERY TO AND THE RECEIPT BY THE CNBV OF SUCH NOTICE DOES NOT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES OR THE SOLVENCY, LIQUIDITY OR CREDIT QUALITY OF THE BANK OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THE OFFERING MEMORANDUM AND DOES NOT RATIFY OR VALIDATE ANY ACTIONS OR OMISSIONS, IF ANY, IN CONTRAVENTION OF APPLICABLE LAW. THE ACQUISITION OF THE NOTES BY AN INVESTOR WHO IS A RESIDENT OF MEXICO WILL BE MADE UNDER SUCH INVESTOR’S RESPONSIBILITY.

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE OR OTHER SECURITIES LAWS. PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS

DEFINED IN REGULATION S (“REGULATION S”) UNDER THE SECURITIES ACT), THIS SECURITY MAY NOT BE REOFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE REFERRED TO HEREIN.

7. You represent that either (i) you are not, and for so long as you hold the Notes or any interest therein will not be, and you are not purchasing the Notes with the assets of, or for or on behalf of, (1) an employee benefit plan (as defined in Section 3(3) of ERISA) subject to Title I of ERISA or any other plan, individual retirement account or arrangement that is subject Section 4975 of the Code (each, a “Plan”), (2) any governmental, church or non-U.S. plan or other arrangement (a “Non-ERISA Arrangement”) that is subject to any applicable federal, state, local, non U.S. or Similar Laws, or (3) any entity whose underlying assets are deemed to be the assets of a Plan pursuant to 29 C.F.R. Section 2510.3-101 (as modified by Section 3 (42) of ERISA) or otherwise or (ii) your purchase, holding and disposition of the Notes is exempt from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code (or, in the case of a Non-ERISA Arrangement, from any Similar Law) pursuant to the exemption provided by U.S. Department of Labor Prohibited Transaction Class Exemption 96-23, 95-60, 91-38, 90-1 or 84-14, Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or another applicable statutory or administrative exemption or, in the case of a Non-ERISA Arrangement, a substantially similar exemption under Similar Laws.
8. You acknowledge that we, the initial purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of Notes is no longer accurate, you will promptly notify us and the initial purchasers. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

Each purchaser that is acquiring Notes pursuant to Regulation S under the Securities Act represents that it is not acquiring the Notes with a view to the resale, distribution or other disposition thereof to a U.S. person or in the United States.

FORM OF NOTES, CLEARING AND SETTLEMENT

Global Notes

The notes of each series will be issued in the form of one or more registered notes in global form, without interest coupons (the “Global Notes”), as follows:

- notes sold to persons reasonably believed to be qualified institutional buyers under Rule 144A will be represented by a Restricted Global Note; and
- notes sold in offshore transactions to non-U.S. persons in reliance on Regulation S will be represented by a Regulation S Global Note.

Upon issuance, each of the Global Notes will be deposited with the applicable Trustee as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

Ownership of beneficial interests in each Global Note will be limited to persons who have accounts with DTC (“DTC participants”), including Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream”), or persons who hold interests through DTC participants. We expect that under procedures established by DTC:

- upon deposit of each Global Note with DTC’s custodian, DTC will credit portions of the principal amount of the Global Note to the accounts of the DTC participants designated by the initial purchasers; and
- ownership of beneficial interests in each Global Note will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in the Global Note).

Beneficial interests in the Regulation S Global Note will initially be credited within DTC to Euroclear and Clearstream on behalf of the owners of such interests. Investors may hold their interests in the Global Notes directly through DTC, Euroclear or Clearstream, if they are participants in those systems, or indirectly through organizations that are participants in those systems.

Beneficial interests in the Global Notes may not be exchanged for notes in physical, certificated form except in the limited circumstances described below. Each Global Note and beneficial interests in each Global Note will be subject to restrictions on transfer as described under “Transfer Restrictions.”

Exchanges Between the Global Notes

Beneficial interests in one Global Note may generally be exchanged for interests in another Global Note of the same series. Depending on whether the transfer is being made during or after the 40-day period commencing on the original issue date of the Notes of the applicable series, and to which Global Note the transfer is being made, the transferor may be required to provide certain written certifications in the form provided in the respective indenture.

A beneficial interest in a Global Note that is transferred to a person who takes delivery through another Global Note of the same series will, upon transfer, become subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Book-Entry Procedures for the Global Notes

All interests in the Global Notes will be subject to the operations and procedures of DTC, Euroclear and Clearstream. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. None of us, the Trustees, the initial purchasers nor any of our respective agents are responsible for those operations or procedures.

DTC has advised that it is:

- a limited purpose trust company organized under the New York State Banking Law;
- a “banking organization” within the meaning of the New York State Banking Law;
- a member of the U.S. Federal Reserve System;

- a “clearing corporation” within the meaning of the New York Uniform Commercial Code; and
- a “clearing agency” registered under Section 17A of the U.S. Securities Exchange Act of 1934, as amended.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. DTC’s participants include securities brokers and dealers, including the initial purchasers; banks and trust companies; clearing corporations; and certain other organizations. Indirect access to DTC’s system is also available to others such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Investors who are not DTC participants may beneficially own securities held by or on behalf of DTC only through DTC participants or indirect participants in DTC.

So long as DTC or its nominee is the registered owner of a Global Note, DTC or its nominee will be considered the sole owner or holder of the Notes represented by that Global Note for all purposes under the respective indenture. Except as provided below, owners of beneficial interests in a Global Note:

- will not be entitled to have Notes represented by the Global Note registered in their names;
- will not receive or be entitled to receive physical, certificated Notes; and
- will not be considered the registered owners or holders of the Notes under the respective indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the applicable Trustee under the respective indenture.

As a result, each investor who owns a beneficial interest in a Global Note must rely on the procedures of DTC to exercise any rights of a holder of Notes under the respective indenture (and, if the investor is not a participant or an indirect participant in DTC, on the procedures of the DTC participant through which the investor owns its interest).

Payments of principal, premium, if any, and interest with respect to the notes represented by a Global Note will be made by the applicable Trustee to DTC’s nominee as the registered holder of the Global Note. Neither we nor the Trustees (nor any of our respective agents) will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a Global Note, for any aspect of the records relating to or payments made on account of those interests by DTC, or for maintaining, supervising or reviewing any records of DTC relating to those interests.

Payments by participants and indirect participants in DTC to the owners of beneficial interests in a Global Note will be governed by standing instructions and customary practices and will be the responsibility of those participants or indirect participants and not of DTC, its nominee or us.

Transfers between participants in DTC will be effected under DTC’s procedures and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream will be effected in the ordinary way under the rules and operating procedures of those systems.

Cross-market transfers between DTC participants, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected within DTC through the DTC participants that are acting as depositaries for Euroclear and Clearstream. To deliver or receive an interest in a Global Note held in a Euroclear or Clearstream account, an investor must send transfer instructions to Euroclear or Clearstream, as the case may be, under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets its settlement requirements, Euroclear or Clearstream, as the case may be, will send instructions to its DTC depositary to take action to effect final settlement by delivering or receiving interests in the relevant Global Notes in DTC, and making or receiving payment under normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream participants may not deliver instructions directly to the DTC depositaries that are acting for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant that purchases an interest in a Global Note from a DTC participant will be credited on the business day for Euroclear or Clearstream immediately following the DTC settlement date. Cash received in Euroclear or Clearstream from the sale of an interest in a Global Note to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account as of the business day for Euroclear or Clearstream following the DTC settlement date.

DTC, Euroclear and Clearstream have agreed to the above procedures to facilitate transfers of interests in the Global Notes among participants in those settlement systems. However, the settlement systems are not obligated to perform these procedures and may discontinue or change these procedures at any time. Neither we, the Trustees nor any of our respective agents will

have any responsibility for the performance by DTC, Euroclear or Clearstream or their participants or indirect participants of their obligations under the rules and procedures governing their operations.

Certificated Notes

Beneficial interests in the Global Notes may not be exchanged for Notes in physical, certificated form unless:

- DTC notifies us at any time that it is unwilling or unable to continue as depositary for the Global Notes and a successor depositary is not appointed within 90 days;
- DTC ceases to be registered as a clearing agency under the Securities Exchange Act of 1934, as amended, and a successor depositary is not appointed within 90 days;
- we, at our option, notify the applicable Trustee that we elect to cause the issuance of certificated Notes; or
- certain other events provided in the respective indenture occur, including the occurrence and continuance of an event of default with respect to the Notes.

In all cases, certificated Notes delivered in exchange for any Global Note will be registered in the names, and issued in any approved denominations, requested by the depositary and will bear a legend indicating the transfer restrictions of that particular Global Note.

For information concerning paying agents and transfer agents for any notes in certificated form, see “*Description of the NC6.5 Notes—General*,” “*Description of the NC6.5 Notes—Interest*,” “*Description of the NC6.5 Notes—Registrar, Transfer Agent and Paying Agents*,” “*Description of the NC10.5 Notes—General*,” “*Description of the NC10.5 Notes—Interest*” and “*Description of the NC10.5 Notes—Registrar, Transfer Agent and Paying Agents*.”

TAXATION

The following discussion summarizes certain U.S. federal income tax, Mexican federal income tax and Cayman Islands income tax consequences to beneficial owners arising from the purchase, ownership or disposition of the Notes. The summary does not purport to be a comprehensive description of all potential U.S. federal income tax, Mexican federal income tax and Cayman Islands income tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes, and is not intended as tax advice to any particular investor. This discussion is for general information purposes only and is based upon the federal tax laws of the United States and Mexico (including the Mexican Income Tax Law –Ley del Impuesto sobre la Renta- and the Mexican Federal Tax Code – Código Fiscal de la Federación) and the tax laws of the Cayman Islands as in effect on the date of this offering memorandum, which are subject to change, and such changes may have retroactive effect. This summary does not describe any tax consequences arising under the laws of any state, municipality or other taxing jurisdiction other than federal income tax consequences applicable in the United States and Mexico and income tax consequences applicable in the Cayman Islands.

Prospective purchasers of the Notes should consult their own tax advisors as to the United States, Mexican, Cayman Islands or other tax consequences (including tax consequences arising under double-taxation treaties that are in full force and effect) of the purchase, ownership and disposition of the Notes, including, in particular, the application of the tax considerations discussed below to their particular situations, as well as the application of state, local, municipal, foreign or other tax laws.

Certain United States Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations related to the purchase, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, hold or dispose of the Notes. In particular, the summary deals only with holders that will acquire Notes as part of the initial offering and will hold them as capital assets for U.S. federal income tax purposes. It does not address the tax treatment of holders that may be subject to special tax rules, such as:

- banks, mutual funds and other financial institutions;
- real estate investment trusts and regulated investment companies;
- traders in securities who elect to apply a mark-to-market method of accounting;
- tax-exempt organizations or governmental organizations;
- insurance companies;
- dealers or brokers in securities or foreign currency;
- individual retirement and other deferred accounts;
- U.S. Holders whose functional currency is not the U.S. dollar;
- U.S. expatriates and former citizens or long-term residents of the United States;
- persons that are resident or ordinarily resident in or have permanent establishment in a jurisdiction outside the United States;
- U.S. Holders who actually or constructively own 10% or more (by vote or value) of the Bank's outstanding stock (including the Notes and any other securities treated as equity for U.S. federal income tax purposes);
- persons who hold their Notes as part of a straddle, hedging, conversion, constructive sale or other risk reduction transaction;
- persons who purchase or sell their Notes as part of a wash sale for tax purposes;
- persons who hold Notes in connection with a trade or business conducted outside of the United States; and
- "S corporations," partnerships or other entities or arrangements classified as partnerships for U.S. federal income tax purposes, or other pass-through entities (and investors therein).

Moreover, this discussion does not address any tax consequences relating to any alternative minimum tax or the Medicare tax on investment income or arising under special timing rules prescribed under Section 451(b) of the Code or any tax consequences other than U.S. federal income tax consequences (such as the estate or gift tax or consequences arising under the tax laws of any state, locality or other political subdivision of the United States or other countries or jurisdictions).

This summary is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed U.S. Treasury regulations, in each case as of the date hereof, changes to any of which subsequent to the date of this offering memorandum may affect the tax consequences described herein, possibly with retroactive effect. No ruling has or will be sought from the IRS with respect to any statement or conclusion in this discussion, and there can be no assurance that the IRS will not challenge such statement or conclusion in the following discussion or, if challenged, that a court will uphold such statement or conclusion. Each holder should consult its own tax advisors about the tax consequences of the purchase, ownership and disposition of the Notes in light of such holder's particular circumstances, including the tax consequences under state, local, foreign and other tax laws and the possible effects of any changes in applicable tax laws.

For purposes of this discussion, a "U.S. Holder" means a beneficial owner of Notes that for U.S. federal income tax purposes is:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (ii) the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership, including for this purpose any arrangement or entity that is treated as a partnership for U.S. federal income tax purposes, holds Notes the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A holder that is a partnership for U.S. federal income tax purposes and the partners in such partnership are urged to consult their tax advisors about the U.S. federal income tax consequences of the acquisition of Notes.

Characterization of the Notes

The determination of whether an obligation represents debt, equity, or some other instrument or interest is based on all the relevant facts and circumstances. Despite the fact that the Notes are denominated as debt, the Notes should be treated as an equity interest in the Bank for U.S. federal income tax purposes. The Notes have several equity-like features, including (1) the absence of a fixed maturity date, (2) provisions for the cancellation of interest payments and the Write-Down of principal, and (3) the subordination of the Notes to Senior Indebtedness and Subordinated Preferred Indebtedness of the Bank. By purchasing a Note, each holder agrees to treat the Note as an equity interest in the Bank for U.S. federal income tax purposes. Accordingly, each "interest" payment should be treated as a distribution by the Bank with respect to such equity interest, and any reference in this discussion to "dividends" or "distributions" refers to the "interest" payments on the Notes. However, the Bank's characterization of the Notes is not binding on the IRS. The remainder of this discussion assumes that the Notes will be characterized as equity in the Bank for U.S. federal income tax purposes.

Tax Treatment of Payments on the Notes

Subject to the discussion below under "—PFIC Rules," payments of stated interest on the Notes will be treated as distributions on our stock and will generally be included in a U.S. Holder's gross income as dividend income on the date actually or constructively received to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent the amount of such payments exceeds our current and accumulated earnings and profits, such payments generally will be treated first as a non-taxable return of capital to the extent of such U.S. Holder's adjusted tax basis in such Notes (thereby reducing the U.S. Holder's adjusted tax basis in such U.S. Holder's Notes) and then as gain (which will be treated in the manner described below under "—Sale, Exchange, Redemption or Write-Down of the Notes"). Because we have not and do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that payments of stated interest on the Notes generally will be reported as dividends.

Subject to the discussion below under “—PFIC Rules,” dividends received by an individual generally will be subject to taxation at the maximum rate applicable to long-term capital gains if the dividends give rise to “qualified dividend income.” Generally, dividends will be treated as giving rise to qualified dividend income if: (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States which the United States Treasury Department determines to be satisfactory for these purposes and which includes an exchange of information provision; (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a PFIC (as described below under “—PFIC Rules”); and (iii) certain holding period and other requirements are met. We expect that dividends received or accrued on the Notes will be of the type of dividend that is eligible to give rise to qualified dividend income, although there is some uncertainty as to the application of the qualified dividend rules to instruments that are treated as equity for U.S. federal income tax purposes but have the legal form of debt. Dividends received or accrued on the Notes generally will be foreign-source income in the “passive category income” basket, and will not be eligible for the dividends-received deduction generally available to U.S. corporations with respect to dividends received from other U.S. corporations. U.S. Holders should consult their own tax advisors regarding the availability of this reduced dividend tax rate for interest payments on the Notes.

Sale, Exchange, Redemption or Write-Down of the Notes

Subject to the discussion below under “—PFIC Rules,” a U.S. Holder will generally recognize U.S.-source capital gain or loss upon the sale, exchange, redemption or other taxable disposition of Notes or a total Write-Down of Notes in an amount equal to the difference between the amount realized on such disposition (or zero in the case of a total Write-Down) and the holder’s adjusted tax basis in such Notes. Any capital gain or loss will be long-term if the Notes have been held for more than one year at the time of such sale, exchange, redemption or other taxable disposition or Write-Down. Certain non-corporate U.S. Holders (including individuals) may be eligible for preferential rates of taxation on long-term capital gains. The deductibility of capital losses is subject to limitations. U.S. Holders should consult their own tax advisors regarding potential tax consequences to them (including any impacts on their adjusted tax basis in the Notes) in case of a partial Write-Down of the Notes.

PFIC Rules

Special U.S. federal income tax rules would apply to us if we were classified as a PFIC. We will be classified as a PFIC in any taxable year in which, after taking into account our income and gross assets (and the income and assets of our subsidiaries pursuant to applicable “look-through rules”) either (i) 75% or more of our gross income consists of certain types of “passive income” or (ii) 50% or more of our assets (determined on the basis of a quarterly average) is attributable to “passive assets” (that is, assets that produce or are held for the production of passive income). For this purpose, passive income generally includes, among other things, dividends, interest, rents, royalties, gains from the disposition of passive assets and gains from commodities transactions.

The application of the PFIC rules to banks is unclear under present U.S. federal income tax law. Banks generally derive a substantial part of their income from assets that are interest bearing or that otherwise could be considered passive under the PFIC rules. The IRS recently issued proposed U.S. Treasury regulations (the “2021 Proposed Regulations”), and previously issued a notice in 1989 (Notice 89-81, the “Notice”) and proposed U.S. Treasury regulations in 1996 (as amended in 1998, the “1998 Proposed Regulations”), that exclude from passive income any income derived in the active conduct of a banking business by a qualifying foreign bank (the “active bank exception”). The 2021 Proposed Regulations are proposed to be effective for taxable years of shareholders beginning on or after January 14, 2021, while the 1998 Proposed Regulations are proposed to be effective for taxable years beginning after December 31, 1994, and provide that taxpayers may apply the 1998 Proposed Regulations to a taxable year beginning after December 31, 1986, provided the 1998 Proposed Regulations are consistently applied to that taxable year and all subsequent taxable years.

The 2021 Proposed Regulations, the Notice, and the 1998 Proposed Regulations each have different requirements for qualifying as a foreign bank, and for determining the banking income that may be excluded from passive income under the active bank exception, but the preamble to the 2021 Proposed Regulations authorizes taxpayers to rely upon the Notice or the 1998 Proposed Regulations to determine whether income of a foreign bank may be treated as non-passive. Under the Notice, a non-U.S. bank must, among other things, derive at least 60% of its gross income from “bona fide” banking activities, which include the acceptance of deposits from unrelated persons which represent at least 50% of its total liabilities for the taxable year, and making loans to unrelated persons which represent at least 50% of the average principal of all loans outstanding during the taxable year. Under both the 2021 Proposed Regulations and the 1998 Proposed Regulations, a qualifying foreign bank must be licensed in the country of its incorporation to do business as a bank and must also carry on one or more specified activities, including regularly receiving bank deposits from unrelated customers in the course of its banking business. Under the 2021 Proposed Regulations, income earned by an entity engaged in the active conduct of a banking, financing or similar business from making loans is generally treated as non-passive income. Under both the Notice and 1998 Proposed Regulations, loans made in the ordinary course of a banking business are not treated as passive assets. Under the Notice, however, interbank

deposits are not treated as loans made in the ordinary course of a banking business. Under the 1998 Proposed Regulations, however, such loans are treated as loans made in the ordinary course of a banking business, and, therefore, would not be treated as passive assets.

We believe that we should qualify as an active bank under the 2021 Proposed Regulations, the Notice and the 1998 Proposed Regulations, assuming that the 2021 Proposed Regulations and the 1998 Proposed Regulations are finalized in their current form, based upon our regulatory status under Mexican law, our banking activities performed in the ordinary course of business (including lending, accepting deposits and depositing money in other banks), and the proportion of our income derived from activities that are “bona fide” banking activities for U.S. federal income tax purposes. Accordingly, we believe that we were not a PFIC for our 2023 taxable year (the latest period for which the determination can be made). Furthermore, based on our current regulatory status under Mexican law, the nature of our activities, and the composition of our assets and sources of income (taking into account the proceeds from the offering), we do not expect to be a PFIC for the current taxable year or for any foreseeable future taxable year.

Because a PFIC determination is a factual determination that must be made following the close of each taxable year and is based on, among other things, the composition of our assets and income, and because neither the 2021 Proposed Regulations nor the 1998 Proposed Regulations (although retroactive in application) are currently in force, there can be no assurance that we will not be considered a PFIC for the current year or any subsequent year.

If we are treated as a PFIC for any taxable year, unless a U.S. Holder is eligible to, and elects to be taxed annually on a mark-to-market basis with respect to our Notes, as described below, any gain realized on a sale or other taxable disposition of our Notes and certain “excess distributions” will be treated as ordinary income and will be subject to U.S. federal income tax as if (a) the excess distribution or gain had been realized ratably over the U.S. Holder’s holding period for our Notes, (b) the amount deemed realized in each year had been subject to tax in each such year at the highest marginal rate for such year (other than income allocated to the current period of any taxable period before we became a PFIC, which would be subject to tax at the U.S. Holder’s regular ordinary income rate for the current year and would not be subject to the interest charge discussed below), and (c) the interest charge generally applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years. In addition, payments on the Notes would not be eligible for treatment as “qualified dividend income.” If we are treated as a PFIC and, at any time, we invest in non-U.S. corporations that are classified as PFICs (“Subsidiary PFICs”), U.S. Holders generally will be deemed to own, and also would be subject to the PFIC rules with respect to, their indirect ownership interest in each such Subsidiary PFIC. If we are treated as a PFIC, a U.S. Holder could incur liability for the deferred tax and interest charge described above if either (1) we receive a distribution from, or dispose of all or part of our interest in, a Subsidiary PFIC or (2) the U.S. Holder disposes of all or part of our Notes. Further, a U.S. Holder of our Notes would be subject to additional U.S. tax form filing requirements, including reporting on IRS Form 8621 (or appropriate successor form) any payments received and gains realized with respect to each PFIC in which the U.S. Holder holds a direct or indirect interest, and the statute of limitations for collections may be suspended for a U.S. Holder that does not file the appropriate form.

In some cases, a U.S. Holder of a PFIC can avoid the interest charge and the other adverse PFIC consequences described above by making a “qualified electing fund” (“QEF”) election to be taxed currently on its share of the PFIC’s undistributed income. We, however, do not intend to provide information that would allow U.S. Holders to avoid the foregoing consequences by making a QEF election.

A U.S. Holder of stock in a PFIC (but not a Subsidiary PFIC, as discussed below) may make a “mark-to-market” election, provided the PFIC stock is “marketable stock” as defined under applicable U.S. Treasury regulations (*i.e.*, “regularly traded” on a “qualified exchange” or “other market”). It is unclear whether instruments such as the Notes, which we are treating as equity for U.S. federal income tax purposes but are denominated as debt instruments, will be treated as stock for purposes of the mark-to-market election. Under applicable U.S. Treasury regulations, a “qualified exchange” includes a national securities exchange that is registered with the SEC or the national market system established under the Exchange Act, or a foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located and meets certain trading, volume, listing, financial disclosure and other requirements. Under applicable U.S. Treasury regulations, PFIC stock traded on a qualified exchange is regularly traded on such exchange for any calendar year during which such stock is traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter. We cannot assure U.S. Holders that our Notes will be treated as “marketable stock” for any taxable year.

If an effective mark-to-market election is made with respect to the Notes, an electing U.S. Holder generally would (i) include in gross income, entirely as ordinary income, an amount equal to the excess, if any, of the fair market value of the Notes as of the close of such taxable year and such holder’s adjusted tax basis in the Notes, (ii) deduct as an ordinary loss the excess, if any, of such holder’s adjusted tax basis of the Notes over the fair market value of the Notes at the end of the taxable year, but only to the extent of the net amount previously included in gross income as a result of the mark-to-market election and (iii)

upon the sale or other taxable disposition of a U.S. Holder's Notes, include any gain recognized as ordinary gain and any loss as ordinary loss, but only to the extent of the net amount previously included in gross income as a result of the mark-to-market election. A U.S. Holder's adjusted tax basis in our Notes would increase or decrease by the amount of the gain or loss taken into account under the mark-to-market regime. Although a U.S. Holder may be eligible to make a mark-to-market election with respect to our Notes, no such election may be made with respect to the stock of any Subsidiary PFIC that such U.S. Holder is treated as owning, because such Subsidiary PFIC stock is not marketable. The mark-to-market election is made with respect to marketable stock in a PFIC on a shareholder-by-shareholder basis and, once made, is effective for all subsequent tax years unless the Notes are no longer regularly traded on a qualified exchange or other market or the election is revoked with the consent of the IRS. Special rules would apply if the mark-to-market election is not made for the first taxable year in which a U.S. person owns stock of a PFIC.

U.S. Holders should consult with their own independent tax advisors regarding the application of the PFIC rules to our Notes and the availability and advisability of making an election with respect to the Notes to avoid the adverse tax consequences of the PFIC rules should we be considered a PFIC for any taxable year.

Information Reporting and Backup Withholding

Payments on the Notes and proceeds from the sale or other disposition of the Notes, by a U.S. paying agent or other U.S. intermediary, or made into the United States, generally will be reported to the IRS unless the U.S. Holder establishes a basis for exemption. In addition, certain U.S. Holders may be subject to backup withholding tax in respect of such payments if they do not provide their taxpayer identification numbers or certification of exempt status.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a credit against a U.S. Holder's United States federal income tax liability, if any, or as a refund, provided the required information is timely furnished to the IRS.

Specified Foreign Financial Assets

Individual U.S. Holders that own "specified foreign financial assets" with an aggregate value in excess of U.S.\$50,000 on the last day of the taxable year or U.S.\$75,000 at any time during the taxable year are generally required to file an information statement along with their tax returns, currently on IRS Form 8938, with respect to such assets. "Specified foreign financial assets" include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which may include Notes issued in certificated form) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. U.S. Treasury regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. Holders who fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in the Notes, including the application of the rules to their particular circumstances.

Certain Mexican Income Tax Consequences

The following summary contains a description of certain Mexican federal income tax consequences of the purchase, holding and disposition of the Notes by a Non-Mexican Holder (as defined below). It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, hold or dispose of the Notes. In addition, it does not describe any tax consequences (1) arising under the laws of any taxing jurisdiction other than Mexico, (2) arising under laws other than the federal tax laws of Mexico (excluding the laws, rules and regulations of any state or municipality within Mexico), or (3) that are applicable to a resident of Mexico for tax purposes that may purchase, hold or dispose of the Notes.

For purposes of this summary, the term "Non-Mexican Holder" shall mean a holder that is not a resident of Mexico for tax purposes, as defined by the Mexican Federal Tax Code (*Código Fiscal de la Federación*), or that does not conduct a trade or business in Mexico through a permanent establishment for tax purposes in Mexico, to which income is attributable.

Pursuant to the Mexican Federal Tax Code:

- an individual is a resident of Mexico for tax purposes, if such individual has established his or her primary home in Mexico. In the event such individual also has a home available to him/her in another country then, the individual will be deemed a resident of Mexico for tax purposes when his or her "center of vital interests" (*centro de intereses vitales*) is located within Mexican territory. It will be deemed that an individual has

his/her center of vital interests in Mexico if, among other considerations (1) at least 50% of his or her aggregate annual income derives from Mexican sources, or (2) the main center of his or her professional activities is located in Mexico. Mexican nationals who file a change of tax residence to a country or jurisdiction that does not have a comprehensive exchange of information agreement with Mexico, in which his or her income is subject to a preferred tax regime pursuant to the provisions of the Mexican Income Tax Law, will be considered residents of Mexico for tax purposes during the year of filing of the notice of such residence change and during the following three years;

- unless otherwise evidenced, Mexican nationals are deemed residents of Mexico for tax purposes. An individual will also be considered a resident of Mexico for tax purposes, if such individual is a Mexican federal government employee, regardless of the location of the individual's center of vital interests; and
- a legal entity is a resident of Mexico for tax purposes if the principal administration of its business or its place of effective management is established in Mexico. If a legal entity (including foreign legal arrangements treated as legal entities for Mexican tax purposes) or an individual has a permanent establishment in Mexico, any and all income attributable to that permanent establishment of such resident would be subject to Mexican income tax, in accordance with applicable tax provisions.

This summary is based upon Mexican Income Tax Law and Mexican Federal Tax Code in effect as of the date of this offering memorandum, which are subject to change. Prospective purchasers of the Notes should consult their own tax advisors as to the Mexican or other tax consequences of the purchase, holding and disposition of Notes, including, in particular, the effect of any state or municipal tax laws in effect in Mexico. Residents of Mexico who become holders of Notes are urged to analyze the tax consequences, under Mexican and other laws, of the purchase, holding or disposition of the Notes.

Mexico has entered into, and is negotiating several, tax treaties with various countries, that may affect the Mexican withholding tax liability of Non-Mexican Holders. Prospective purchasers of the Notes should consult their own tax advisors as to the tax consequences, if any, of such treaties in respect of the purchase, holding or disposition of the Notes.

Payment of Interest

Under the Mexican Income Tax Law and regulations thereunder, payments of interest made by our Cayman Islands branch, in respect of the Notes (including payments of principal in excess of the issue price for the Notes, if any, which under Mexican law are deemed to be interest), to a Non-Mexican Holder will not be subject to Mexican withholding or other similar taxes.

Payment of Principal

Under the Mexican Income Tax Law and regulations thereunder, payments of principal made by our Cayman Islands branch, in respect of the Notes, to a Non-Mexican Holder will not be subject to Mexican withholding or other similar taxes.

Taxation of Dispositions and Acquisitions of the Notes

Under the Mexican Income Tax Law, gains resulting from the sale or disposition of the Notes by a Non-Mexican Holder to another Non-Mexican Holder, will not be subject to Mexican income tax withholding. Also, amounts deemed to be interest deriving from Notes acquired at a discount by a Non-Mexican Holder from another Non-Mexican Holder will not be subject to income tax withholding in Mexico.

Taxation of Make-Whole Amounts

Under the Mexican Income Tax Law and regulations thereunder, the payment of make-whole amounts, made by our Cayman Islands branch, as a result of the optional redemption of the Notes as provided in “*Description of the NC6.5 Notes—Redemption—Optional Redemption*” and “*Description of the NC10.5 Notes—Redemption—Optional Redemption*” if applicable, to a Non-Mexican Holder will not be subject to Mexican withholding or other similar taxes.

Other Mexican Taxes

Under current Mexican laws, a Non-Mexican Holder will not be liable for Mexican estate, gift, inheritance, succession or similar taxes with respect to the acquisition, ownership or disposition of the Notes, nor will it be liable for any Mexican stamp, issue, registration or similar taxes.

Certain Cayman Islands Income Tax Consequences

The following is a discussion of certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws:

- Payments of interest and principal on the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the Notes, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;
- No stamp duty is payable in respect of the issue or transfer of the Notes although duty may be payable if Notes are executed in or brought into the Cayman Islands; and
- No stamp duties or other similar taxes or charges are payable under the laws of the Cayman Islands in respect of the execution or delivery of the Notes or the performance or enforcement of them, unless they are executed in or thereafter brought within the jurisdiction of the Cayman Islands (e.g. for the purposes of enforcement) in which case stamp duty of 0.25% of the principal amount specified on the face of each Note up to a maximum of CI\$250.00 (U.S.\$304.88) unless CI\$500.00 (U.S.\$609.76) has been paid in respect of the entire issue of Notes, will be payable. An instrument of transfer in respect of a Note if executed in or brought within the jurisdiction of the Cayman Islands will be subject to a Cayman Islands stamp duty of CI\$100.00 (U.S.\$121.95). Subject as aforesaid, a holder of a Note will not incur or become liable for any transfer or other similar taxes or charges under the laws of the Cayman Islands by reason of the acquisition, ownership or disposal of the Notes.

The Cayman Islands – Automatic Exchange of Financial Account Information

The Cayman Islands has signed an intergovernmental agreement to improve international tax compliance and the exchange of information with the United States (the “US IGA”). The Cayman Islands has also signed, along with over 100 other countries, a multilateral competent authority agreement to implement the OECD Standard for Automatic Exchange of Financial Account Information – Common Reporting Standard (the “CRS”).

Cayman Islands regulations have been issued to give effect to the US IGA and CRS (together, the “AEOI Regulations”). Pursuant to the AEOI Regulations, the Cayman Islands Tax Information Authority (the “CITIA”) has published guidance notes on the application of the AEOI Regulations. All Cayman Islands “Financial Institutions” (including the Issuer) are required to comply with the registration, due diligence and reporting requirements of the AEOI Regulations, unless they are able to rely on an exemption that allows them to become a “Non-Reporting Financial Institution” (as defined in the relevant AEOI Regulations) with respect to one or more of the AEOI regimes, in which case only the registration requirement would apply under the CRS. The Issuer does not propose to rely on any Non-Reporting Financial Institution exemption and will therefore intends to comply with all of the requirements of the AEOI Regulations as a “Reporting Financial Institution.” As such, the Issuer is required to (i) register with the IRS to obtain a Global Intermediary Identification Number (for the purposes of the US IGA only), (ii) register with the CITIA, and thereby notify the CITIA of its status as a “Reporting Financial Institution,” (iii) adopt and implement written policies and procedures setting out how it will address its obligations under the CRS, (iv) conduct due diligence on its accounts to identify whether any such accounts are considered “Reportable Accounts,” (v) report information on such Reportable Accounts to the CITIA, and (vi) file a CRS Compliance Form with the CITIA. The CITIA will transmit such information to the applicable overseas fiscal authorities relevant to a reportable account (e.g., the IRS in the case of US Reportable Account) annually on an automatic basis. Under the terms of the US IGA, withholding will not be imposed on payments made to the Issuer unless the IRS has specifically listed the Issuer as a non-participating financial institution, or on payments made by the Issuer to the holders of the Notes unless the Issuer has otherwise assumed responsibility for withholding under United States tax law.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated November 13, 2024, we have agreed to sell to the initial purchasers and the initial purchasers have agreed, severally and not jointly, to purchase the principal amount of Notes opposite their name on the table below.

Initial Purchasers of the Notes	Principal Amount of the NC6.5 Notes	Principal Amount of the NC10.5 Notes
Barclays Capital Inc.	U.S.\$261,627,907	U.S.\$261,627,907
Goldman Sachs & Co. LLC.....	U.S.\$261,627,907	U.S.\$261,627,907
Morgan Stanley & Co. LLC	U.S.\$174,418,605	U.S.\$174,418,605
MUFG Securities Americas Inc.	U.S.\$52,325,581	U.S.\$52,325,581
Total	U.S.\$750,000,000	U.S.\$750,000,000

The purchase agreement provides that the initial purchasers are required to purchase all of the Notes of each series, if any are purchased. The purchase agreement also provides that if an initial purchaser defaults, the purchase commitments of non-defaulting initial purchasers may be increased or the offering may be terminated.

The initial purchasers propose to offer the Notes of each series initially at the offering price on the cover page of this offering memorandum and may also offer the Notes of each series to selling group members at the offering price less a selling concession. After the initial offering, the offering prices may be changed. The offering of the Notes by the initial purchasers is subject to receipt and acceptance and subject to the initial purchasers' right to reject any order in whole or in part. The initial purchasers may offer and sell the Notes through their affiliates.

We have agreed that, for a period of 30 days from the date of the initial offering of the Notes of each series, other than with respect to the Notes, we will not, without the prior consent of the initial purchasers, offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or announce the offering of, or file a registration statement for, any U.S. dollar-denominated debt similar to either series of Notes that is issued or guaranteed by us or any of our direct or indirect subsidiaries or enter into any agreement to do any of the foregoing.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to persons reasonably believed to be qualified institutional buyers in reliance on Rule 144A under the Securities Act and to persons in offshore transactions in reliance on Regulation S. Each of the initial purchasers has agreed that, except as permitted by the purchase agreement, it will not offer, sell or deliver the Notes of any series (1) as part of its distribution at any time, or (2) otherwise until 40 days after the later of the commencement of this offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each broker/dealer to which it sells the Notes of any series in reliance on Regulation S during such 40-day period, a confirmation or other notice detailing the restrictions on offers and sales of such Notes within the United States, or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S. Resales of the Notes of each series are restricted as described under “*Transfer Restrictions*.”

In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a broker/dealer (whether or not it is participating in the offering), may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

We expect that delivery of the Notes will be made to investors on or about November 20, 2024, which will be the fifth business day in the United States following the date of this offering memorandum. Under Rule 15c6-1 of the Securities Exchange Act, trades in the secondary market generally are required to settle in one business day, unless the parties to any such trades expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of the pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in “T+5,” to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade Notes prior to their settlement should consult their own advisor.

General

Purchasers of Notes sold outside the United States may be required to pay stamp taxes and other charges in compliance with the laws and practices of the country of purchase in addition to the price to investors on the cover page of this offering memorandum.

The initial purchasers and their respective affiliates are full-service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities and other financial and non-financial activities and services. The initial purchasers or their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including commercial banking, financial advisory and investment banking services, for us and our affiliates in the ordinary course of business for which they received or will receive customary fees and expenses. The initial purchasers or their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including commercial banking, financial advisory and investment banking services for other financial institutions whose interests differ from ours.

In the ordinary course of their various business activities, the initial purchasers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investment and securities activities may involve assets, securities and/or instruments of the issuer directly, as collateral securing other obligations or otherwise and/or persons and entities with relationships with the issuer. If any of the initial purchasers or their affiliates has a lending relationship with us, certain of those initial purchasers or their affiliates routinely hedge, and certain other of those initial purchasers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The initial purchasers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

We have agreed to indemnify the several initial purchasers against liabilities or to contribute to payments which they may be required to make in that respect.

Application will be made to have the Notes of each series listed on the Singapore Stock Exchange. The initial purchasers have advised us that they intend to make a market in the Notes of each series as permitted by applicable law. They are not obligated, however, to make a market in the Notes and any market-making may be discontinued at any time at their sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any market for the Notes.

The initial purchasers may engage in over-allotment, stabilizing transactions and covering transactions.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchasers.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Covering transactions involve purchases of Notes in the open market after the distribution has been completed in order to cover short positions.

These stabilizing transactions and covering transactions may cause the price of the Notes of each series to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

The Notes, are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA. For these purposes, a “retail investor” means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The Notes discussed in this offering memorandum are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors. Relevant regulations in the EEA include the PRIIPs Regulation and MiFID II (the “Regulations”).

The Regulations set out various obligations in relation to (i) the manufacturing and distribution of financial instruments and (ii) the offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write down or convertible securities, such as the Notes.

Potential investors should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Notes (or any beneficial interests therein), including the Regulations. The Issuer and each of the initial purchasers is required to comply with some or all of the Regulations.

By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from the Issuer and/or the initial purchasers, each prospective investor in relation to the Notes (or any beneficial interests therein) represents, warrants, agrees with and undertakes to the Issuer and each of the initial purchasers that:

- (i) it is not a retail client in the EEA as defined in MiFID II;
- (ii) whether or not it is subject to the Regulations, it will not:
 - (A) sell or offer the Notes (or any beneficial interests therein) to retail clients in the EEA (as defined in MiFID II); or
 - (B) communicate (including the distribution of this offering memorandum) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (as defined in MiFID II); and
- (iii) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) MiFID II and any such other applicable laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

Each prospective investor further acknowledges that:

- (i) the identified target market for the Notes (for the purposes of the product governance obligations in MiFID II) is eligible counterparties and professional clients; and
- (ii) no key information document under PRIIPs has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Prohibition of Sales to Retail Investors in the UK

The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the UK. For these purposes, the expression retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No. 2017/565 as it forms part of the domestic law of the UK by virtue of EUWA; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of UK MiFIR. Consequently, no key information document required by the UK PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore, offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

This communication is only being distributed to and is only directed at (i) persons who are outside the UK or (ii) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Order”) or (iii) high net worth companies, and other persons to whom it may be lawfully communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “Relevant Persons”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire the Notes will be engaged in only with, Relevant Persons. Any person in the UK who is not a Relevant Person should not act or rely on this document or any of its contents.

Each of the initial purchasers have advised that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21

of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the UK.

The Notes are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors. In the UK, relevant regulations include the PI Instrument, the UK PRIIPs Regulation and the UK MiFIR (the “UK Regulations”).

The UK Regulations set out various obligations in relation to (i) the manufacturing and distribution of financial instruments and (ii) the offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write down or convertible securities, such as the Notes.

Potential investors should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Notes (or any beneficial interests therein), including the UK Regulations. The Issuer and each of the initial purchasers is required to comply with some or all of the UK Regulations.

By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from the Issuer and/or the initial purchasers, each prospective investor in relation to the Notes (or any beneficial interests therein) represents, warrants, agrees with and undertakes to the Issuer and each of the initial purchasers that:

(i) it is not a retail client in the UK as defined in UK MiFIR or the PI Instrument;

(ii) whether or not it is subject to the Regulations, it will not:

(A) sell or offer the Notes (or any beneficial interests therein) to retail clients in the UK (as defined in UK MiFIR or the PI Instrument); or

(B) communicate (including the distribution of this offering memorandum) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the UK (in each case as defined in UK MiFIR or the PI Instrument). In selling or offering Notes or making or approving communications relating to the Notes, that prospective investor may not rely on the limited exemptions set out in the PI Instrument; and,

(iii) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the UK) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) UK MiFIR, the UK MiFIR Product Governance Rules, and any such other applicable laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

Each prospective investor further acknowledges that:

(i) the identified target market for the Notes (for the purposes of the product governance obligations in UK MiFIR Product Governance Rules) is eligible counterparties and professional clients: and

(ii) no key information document under the UK PRIIPs Regulation has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Switzerland

This offering memorandum is not intended to constitute an offer or solicitation to purchase or invest in the Notes. The Notes may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act (“FinSA”) and no application has or will be made to admit the Notes to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this offering memorandum nor any other offering or marketing material relating to the Notes constitutes a prospectus pursuant to the FinSA, and neither this offering memorandum nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Hong Kong

The Notes may not be offered or sold in Hong Kong by means of any document other than (i) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, The Laws of Hong Kong) and any rules made thereunder, or (ii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap.32, The Laws of Hong Kong), or which do not constitute an offer to the public within the meaning of the Companies Ordinance, and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance and any rules made thereunder.

Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of the Notes to the public in Singapore.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the “FIEL”) and each initial purchaser has agreed that it has not offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Mexico

The Notes have not been and will not be registered with the RNV maintained by the CNBV, and therefore the Notes may not be publicly offered or sold nor can they be subject of brokerage activities in Mexico. The Notes may be offered and sold, on a private placement basis, in Mexico to investors that qualify as institutional investors (*inversionistas institucionales*) or accredited investors (*inversionistas calificados*), pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law and the regulations thereunder. As required under the Mexican Securities Market Law, the Bank will notify the CNBV of the offering and issuance of the Notes outside of Mexico and the terms of the Notes. Such notice will be submitted to the CNBV to comply with Article 7, second paragraph, of the Mexican Securities Market Law, and regulations thereunder, and for statistical and informational purposes. The delivery of such notice to, and the receipt of such notice by, the CNBV, does not imply any certification as to the investment quality of the Notes the Bank’s solvency, liquidity or credit quality or the accuracy or completeness of the information set forth in this offering memorandum and does not ratify or validate any actions or omissions, if any, in contravention of applicable law. This offering memorandum may not be publicly distributed in Mexico. The acquisition of the Notes by an investor who is a resident in Mexico will be made under such investor’s responsibility.

Chile

The offer of the Notes will begin on November 13, 2024 and is subject to General Rule No. 336 of the Chilean Securities Commission (*Superintendencia de Valores y Seguros de Chile*) (“SVS”). The Notes being offered are not registered in the Securities Registry (*Registro de Valores*) or in the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the SVS and, therefore, the Notes are not subject to the supervision of the SVS. As with all unregistered securities, the issuer of the Notes is not required to disclose public information about the Notes in Chile. The Notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

La oferta de los valores comienza el 13 de noviembre de 2024 y está acogida a la NCG 336 de la superintendencia de Valores y Seguros de Chile (la “SVS”). La oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la SVS, por lo que los valores no están sujetos a la fiscalización de dicho organismo. Por

tratarse de valores no inscritos, no existe obligación por parte del emisor de entregar en Chile información pública respecto de los valores. Estos valores no pueden ser objeto de oferta pública a menos que sean inscritos en el registro de valores correspondiente.

Colombia

The Notes may not be offered, sold or negotiated in Colombia, except under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations. Furthermore, foreign financial entities must abide by the terms of Decree 2555 of 2010 to offer privately the Notes to their Colombian clients.

Peru

This offering memorandum and the Notes have not been, and will not be, registered with or approved by the *Superintendencia del Mercado de Valores*, the Lima Stock Exchange or the *Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones*. Accordingly, the Notes cannot be offered or sold in Peru, except in compliance with the applicable securities laws and regulations of Peru. This notice is for information purposes only and it does not constitute a public offering of any kind in Peru.

Canada

The Notes may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to Section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the initial purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with the offering of the Notes.

Cayman Islands

No invitation, whether directly or indirectly, may be made to members of the public in the Cayman Islands to subscribe for the Notes unless the Issuer is listed on the Cayman Islands Stock Exchange. The Notes may, however, be offered and sold to ordinary non-resident and exempted companies in the Cayman Islands.

Brazil

The Notes have not been, and will not be, registered with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or the CVM. The Notes may not be offered or sold in Brazil, except in circumstances that do not constitute a public offering or unauthorized distribution under Brazilian laws and regulations. The Notes are not being offered into Brazil. Documents relating to the offering of the Notes, as well as information contained therein, may not be supplied to the public in Brazil, nor be used in connection with any public offer for subscription or sale of the Notes to the public in Brazil.

CERTAIN ERISA CONSIDERATIONS

ERISA imposes certain requirements on “employee benefit plans” (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, “ERISA Plans”) and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA’s general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan’s investments be made in accordance with the documents governing the ERISA Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, “Plans”) and certain persons (referred to a “parties in interest” or “disqualified persons”) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the Plan that engages in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code.

Governmental, church or non-U.S. plans or other arrangements (each, a “Non-ERISA Arrangement”), while not subject to the fiduciary responsibility provisions of Title I of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to federal, state, local, non U.S. or Similar Law. Fiduciaries of any such plans should consult with their counsel before purchasing any Notes.

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any Notes are acquired by a Plan with respect to which the Bank or any of its subsidiaries is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire Notes and the circumstances under which such decision is made. Those exemptions include, without limitation:

- PTCE 96-23 (for certain transactions determined by in-house asset managers);
- PTCE 91-38 (for certain transactions involving bank collective investment funds);
- PTCE 95-60 (for certain transactions involving insurance company general accounts);
- PTCE 90-1 (for certain transactions involving insurance company pooled separate accounts);
- PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers); and
- Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code (for certain transactions with service providers).

There can be no assurance that any class exemption, statutory exemption or other exemption will be available with respect to any particular transaction involving the Notes, or that, if an exemption is available, it will cover all aspects of any particular transaction. By its purchase of any Notes, the purchaser thereof will be deemed to have represented and agreed either that (i) it is not and for so long as it holds Notes will not be a Plan, an entity whose underlying assets include the assets of any Plan, or Non-ERISA Arrangement that is subject to Similar Laws or (ii) its purchase, holding and any subsequent disposition of the Notes is exempt from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code (or, in the case of a Non-ERISA Arrangement, from any Similar Laws) pursuant to the exemption provided by U.S. Department of Labor Prohibited Transaction Class Exemption 96-23, 95-60, 91-38, 90-1 or 84-14, Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or another applicable statutory or administrative exemption or, in the case of a Non-ERISA Arrangement, a substantially similar exemption under Similar Laws. Similarly, each transferee of any Notes, by virtue of the transfer of such Notes to such transferee, will be deemed to have represented and agreed either that (i) it is not and for so long as it holds Notes will not be a Plan, an entity whose underlying assets include the assets of any Plan or a Non-ERISA Arrangement that is subject to any Similar Laws or (ii) its purchase, holding and any subsequent disposition of the Notes is exempt from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code (or, in the case of a Non-ERISA Arrangement, from any Similar Law) pursuant to the exemption provided by U.S. Department of Labor Prohibited Transaction Class Exemption 96-23, 95-60, 91-38, 90-1 or 84-14, Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or another applicable statutory or administrative exemption or, in the case of a Non-ERISA Arrangement, a substantially similar exemption under Similar Laws.

We intend to treat the Notes as indebtedness without any substantial equity features for purposes of applying ERISA or Section 4975 of the Code. If a Plan owns an equity interest in an entity or indebtedness having substantial equity features issued by an entity, the “plan assets” of such Plan may include an undivided portion of the entity’s underlying assets to which such equity interest or indebtedness relates, in addition to such equity interest or indebtedness, unless an exception to such “look through” treatment under ERISA applies. There is an exception for an “operating company,” which includes a company primarily engaged directly or through majority-owned subsidiaries in the production or sale of products or services (other than the investment of capital). There is little guidance as to what activities constitute the “investment of capital” so as to cause a company to be ineligible to be treated as an “operating company.” We consider ourselves to qualify as an “operating company” under ERISA, although no assurances are provided that such determination will be respected or our qualification might not change based on our then current activities. The application of ERISA or Section 4975 of the Code to our underlying assets and activities could materially and adversely affect our operations. In addition, under such circumstances, ERISA Plan fiduciaries who decide to acquire the Notes could, under certain circumstances, be liable for prohibited transactions or other violations as a result of their investment in the Notes or as co-fiduciaries for actions taken by or on behalf of the Bank. With respect to an individual retirement account (an “IRA”) that invests in the Notes, the occurrence of a prohibited transaction involving the individual who established the IRA, or his beneficiaries, could cause the IRA to lose its tax-exempt status.

The Notes are contractual financial instruments. The financial exposure provided by the Notes is not and is not intended to be a substitute or proxy for individualized investment management or advice for the benefit of any purchaser or noteholder. The Notes have not been designed and will not be administered in a manner intended to reflect the individualized needs or objectives of any purchaser or noteholder.

Each purchaser or noteholder acknowledges and agrees that:

- (i) the purchaser, noteholder or purchaser or noteholder’s fiduciary has made and will make all investment decisions for the purchaser or noteholder, and the purchaser or noteholder has not and will not rely in any way upon the Bank or its affiliates to act as a fiduciary or adviser of the purchaser or noteholder with respect to (A) the design and terms of the Notes, (B) the purchaser or noteholder’s investment in the Notes, or (C) the exercise, or failure to exercise, any rights that the Bank or its affiliates may have under or with respect to the Notes;
- (ii) the Bank and its affiliates have acted and will act solely for their own account in connection with (A) all transactions relating to the Notes and (B) all hedging transactions in connection with their obligations under the Notes;
- (iii) any and all assets and positions relating to hedging transactions by the Bank or its affiliates are assets and positions of those entities and are not assets and positions held for the benefit of any purchaser or noteholder;
- (iv) the interests of the Bank and its affiliates may be adverse to the interests of any purchaser or noteholder; and
- (v) neither the Bank nor any of its affiliates are fiduciaries or advisers of the purchaser or noteholder in connection with any such assets, positions or transactions, and any information that the Bank or any of its affiliates may provide is not intended to be impartial investment advice.

Each purchaser and holder of the Notes has exclusive responsibility for ensuring that its purchase, holding and/or disposition of the Notes does not violate the fiduciary or prohibited transaction rules of ERISA, Section 4975 of the Code or any Similar Laws.

The foregoing summary is general in nature and not intended to be all encompassing. This summary does not purport to be complete, and future legislation, court decisions, administrative regulations, rulings or administrative pronouncements could significantly modify the requirements summarized above. Any of these changes may be retroactive and may thereby apply to transactions entered into prior to the date of their enactment or release. Any Plan fiduciary or other persons who proposes to cause a Plan or Non-ERISA Arrangement to purchase any Notes should consult with its counsel regarding the potential applicability of ERISA, Section 4975 of the Code or Similar Laws to such an investment, and the availability of an applicable exemption.

The sale of any Notes to any Plan or Non-ERISA Arrangement is in no respect a representation by the Bank or any of its affiliates or representatives that such an investment is appropriate or meets all relevant legal requirements with respect to investments by Plans or Non-ERISA Arrangement generally or any particular Plan or Non-ERISA Arrangement. Accordingly, each fiduciary or other person considering an investment in the Notes for any Plan or Non-ERISA Arrangement should consult with its legal advisor concerning an investment in, or any transaction involving, the Notes.

LEGAL MATTERS

Certain matters relating to the validity of the Notes will be passed upon for us by White & Case, S.C., Mexico, White & Case LLP, New York, New York, and Maples and Calder (Cayman) LLP, Cayman Islands. Certain legal matters will be passed upon for the initial purchasers by Ritch, Mueller y Nicolau, S.C. special Mexican counsel, and Cleary Gottlieb Steen & Hamilton LLP, New York, New York.

INDEPENDENT AUDITOR

Our Audited Consolidated Financial Statements as of December 31, 2023 and 2022 and for the years ended December 31, 2023, 2022 and 2021 included in this offering memorandum have been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C., affiliated member firm of Deloitte Touche Tohmatsu Limited, independent auditors, as stated in their report, which are included in this offering memorandum. Our Unaudited Condensed Consolidated Interim Financial Statements as of September 30, 2024 and for the nine-month period ended September 30, 2024 and 2023 included in this offering memorandum have been subject to a review of interim financial information by Galaz, Yamazaki, Ruiz Urquiza, S.C., affiliated member firm of Deloitte Touche Tohmatsu, independent auditors, as stated in their review report, which are included in this offering memorandum.

GENERAL INFORMATION

Clearing Systems

Application has been made to have the Notes of each series accepted for clearance through The Depository Trust Company. For the Rule 144A Global NC6.5 Note, the ISIN number is US05971PAD06 and the CUSIP number is 05971P AD0. For the Regulation S Global NC6.5 Note, the ISIN number is USP1400MAD04 and the CUSIP number is P1400M AD0. For the Rule 144A Global NC10.5 Note, the ISIN number is US05971PAE88 and the CUSIP number is 05971P AE8. For the Regulation S Global NC10.5 Note, the ISIN number is USP1400MAE86 and the CUSIP number is P1400M AE8.

Listing

Application is expected to be made to list the Notes of each series on the SGX, and the Bank will use commercially reasonable efforts to obtain and maintain listing of the Notes on the SGX-ST; however, the Notes are not yet listed and the Bank cannot assure the holders of the Notes that they will be accepted for listing. Copies of our bylaws, the respective indenture, as may be amended or supplemented from time to time, our published annual audited consolidated financial statements and any published quarterly unaudited consolidated financial statements will be available at our principal executive offices, as well as at the offices of the applicable Trustee, registrar, paying agent and transfer agent, and at the offices of the Singapore listing agent, paying agent and transfer agent, as such addresses are set forth in this offering memorandum. We believe the auditor's reports included herein have been accurately reproduced. Upon the issue of the Notes in definitive form, we will appoint and maintain a paying and transfer agent in Singapore for so long as any of the Notes of either series are listed on the SGX-ST. For so long as the Notes of either series are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the Global Notes are exchanged for Notes in definitive form. In addition, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST via SGXNet and such announcement will include all material information with respect to the delivery of the Notes in definitive form, including details of the paying agent in Singapore. Each series of Notes will be traded on the SGX-ST in a minimum board lot size of SGD200,000 (or its equivalent in foreign currencies) for so long as such series of Notes are listed on the SGX-ST.

From and after the date the Notes are listed on the SGX-ST and so long as it is required by the rules of such exchange, notices with respect to the Notes will also be announced through the SGX-ST via SGXNet and may, if the Issuer deems it necessary, be published in a leading English language newspaper having general circulation in Singapore (which is expected to be The Business Times (Singapore Edition)).

The Notes will not be registered with RNV maintained by the CNBV and, pursuant to the Mexican Securities Market Law, may not be offered or sold publicly or otherwise be subject to brokerage activities in Mexico, except that the Notes may be offered in Mexico to investors that qualify as institutional or accredited investors pursuant to a private placement exemption set forth in Article 8 of the Mexican Securities Market Law and regulations thereunder. As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the Notes outside of Mexico. Such notice will be submitted to the CNBV to comply with a legal requirement and for information purposes only, and the delivery to and the receipt by the CNBV of such notice does not imply any certification as to the investment quality of the Notes, our solvency, liquidity or credit quality or the accuracy or completeness of the information included in this offering memorandum and does not ratify or validate any actions or omissions, if any, in contravention of applicable law.

Authorization

We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of each series of Notes.

ANNEX A – SIGNIFICANT DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND U.S. GAAP

Mexican banks prepare their financial statements in accordance with Mexican Banking GAAP as prescribed by the CNBV. Mexican Banking GAAP encompasses general accounting rules for banks as issued by the CNBV and MFRS prescribed by the CINIF to the extent that the aforementioned accounting criteria do not address or supersede the accounting to be followed. Mexican Banking GAAP differs in certain significant respects from U.S. GAAP. Such differences might be material to the financial information contained in this offering memorandum. A summary of the significant differences that relate to balances or transactions maintained by Banorte is presented below. We have made no attempt to identify or quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of the Company, including the terms of this offering and the financial information contained in this offering memorandum. Potential investors should consult with their own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP, and how those differences might affect the financial information herein.

This summary should not be taken as exhaustive of all differences between Mexican Banking GAAP and U.S. GAAP. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented in financial statements, including the notes thereto. We have not included in this offering memorandum a reconciliation of our Mexican Banking GAAP financial statements to U.S. GAAP.

Loan Loss Reserve

We classify our loan portfolio according to the provisions established by the CNBV, which require the rating and creation of allowances for loan losses for each type of loan, providing for the assignment of a rating based on risk (*i.e.*, country, financial and industry), payment records and the value of guarantees for each borrower balance that exceeds 4,000,000 UDIS. The remainder is classified parametrically based on the number of months elapsed as of the first default. This rating is used, among other things, to estimate a potential loan loss provision. Also, the CNBV allows the creation of additional reserves based on preventive criteria.

A loan loss reserve for each loan based on a prescribed range of reserves associated to each risk category.

The outstanding balance of past-due loans is recorded as non-performing and Stage 3 as follows:

- when there is evidence that the customer has declared bankruptcy;
- loans with a single payment of principal and interest at maturity are considered past due 30 calendar days after the date of maturity;
- loans with a single payment of principal at maturity and with scheduled interest payments are considered past due 30 calendar days after principal becomes past due and 90 calendar days after interest becomes past due;
- loans whose payment of principal and interest had been agreed to in scheduled payments are considered past due 90 days after the first installment is past due;
- in the case where a revolving line of credit is granted, loans are considered past due when payment has not been received for two normal billing periods or, when the billing period is not monthly, 60 calendar days following maturity; and
- customer bank accounts showing overdrafts are reported as non-performing and Stage 3 loans at the time the overdraft occurs.

The U.S. GAAP methodology for recognition of current expected credit loan losses (“CECL”) is provided by the Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) 326 *Financial Instruments – Credit Losses*, 450 Contingencies (previously Statement of Financial Accounting Standard (“SFAS”) No. 5, “Accounting for Contingencies”) and ASC 310 Receivables (previously SFAS No. 114, “Accounting by Creditors for Impairment of a Loan”), which establish that an estimate of the expected credit losses on loans and receivables should be recognized as an allowance immediately, upon either origination or acquisition of the asset, and adjusted as of the end of each subsequent reporting period. The expected credit losses should (1) reflect losses expected over the contractual life of the asset and (2) consider historical loss experience, current conditions, and reasonable and supportable forecasts.

Under Mexican Banking GAAP, loans may be written-off when collection efforts have been exhausted or when they have been fully provisioned. On the other hand, for U.S. GAAP, loans (or portions of particular loans) should be written-off in the period that they are deemed uncollectible.

Non-Accrual Loans

Under Mexican Banking GAAP, the recognition of interest income is suspended when loans become past due based on the number of past due periods as established by the CNBV.

Under U.S. GAAP, the accrual of interest is generally discontinued when, in the opinion of management, it is expected that the borrower will not be able to fully pay its principal and interest. Generally, this occurs when loans are 90 days or more past due. Any accrued but uncollected interest is reversed against interest income at that time.

Foreclosed Assets

Under Mexican Banking GAAP, there are two categories of foreclosed assets: (1) those received as payment in-kind and (2) those that are repossessed by judicial order. For both categories, foreclosed assets are recorded at the lesser of cost or estimated net realizable value.

On date of foreclosure, if the book value (contractual value) of the loan to be foreclosed is higher than net realizable value of the foreclosed asset the difference will be charged to the loan loss allowance. If the book value (contractual value) of the loan to be foreclosed is lower than the net realizable value of the repossessed asset, the carrying amount of the foreclosed asset is the book value of the loan. Foreclosed assets are subsequently adjusted by standard provisions as issued by the CNBV. The provisions depend on the nature of the foreclosed asset and the number of months outstanding.

Under U.S. GAAP, as required by ASC 470 *Debt* (previously SFAS No. 15, “Accounting by Debtors and Creditors for Troubled Debt Restructurings”), foreclosed assets received in full satisfaction of a receivable are reported at the time of foreclosure or physical possession at their estimated fair value less estimated costs of sale. If the foreclosed asset qualifies as an asset held for a long lived asset to be disposed by sale in accordance with ASC 360 *Property, Plant and Equipment* (previously SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”), such asset is thereafter carried at the lower of its carrying amount or fair value less estimated sale costs. Those assets not eligible for being considered as assets to be disposed of by sale are considered assets to be held and used and are depreciated based on their useful lives and are subject to impairment tests under ASC 360.

Investment Valuation

Under Mexican Banking GAAP, investments are divided into the following categories:

- Trading securities are defined as those in which management invests to obtain gains from short-term price fluctuations. The unrealized gains or losses resulting from the mark-to-market of these investments are recognized in the statement of income for the period.
- For-sale securities are those in which management invests to obtain medium-term earnings. The unrealized gains or losses resulting from the mark-to-market of equity securities, net of deferred taxes, is recognized in stockholders' equity.
- Held-to-maturity investments are those instruments in which management invests with the intention of holding them until maturity and are recorded at amortized cost. Furthermore, on November 9, 2009, the CNBV issued a ruling to amend the General Rules Applicable to Mexican Banks, which allows securities to be reclassified to the category of securities held to maturity or from the category of trading securities to that of securities available for sale, albeit with the prior express authorization of the CNBV.

Under Mexican Banking GAAP, the fair value amounts are determined by independent third-party price quotes or in certain cases based on internal valuation methods. The fair value adjustment for for-sale equity securities is reflected in equity and includes the related deferred income tax effects and loss from monetary position (if determined). All amounts are reversed into earnings upon sale or maturity of the securities.

Under Mexican Banking GAAP, provisions must be made for permanent impairment of for-sale or held-to-maturity securities. If the conditions that led to the provision being established improve sufficiently, then the provision can be reversed.

For U.S. GAAP, under ASC 320 Investments—Debt and Equity Securities (previously SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities”):

- Debt securities must be classified, according to management’s intent and ability to hold the security, within one of the following categories: held-to-maturity, trading, or available-for-sale. Marketable equity securities must be classified as either trading securities or available-for-sale securities.
- Trading securities are those actively bought and sold. Such securities are recorded at fair value, with resulting unrealized gains and losses recognized in the statement of income.
- Securities which management has the intent and ability to hold to maturity are classified as held-to-maturity, a classification allowed only for debt securities, except for preferred stock with required redemption dates. Held-to-maturity securities are carried at amortized cost.
- All other debt securities and marketable equity securities that are not classified as debt securities or held-to-maturity securities are classified as available-for-sale securities. Available-for-sale securities are recorded at fair value with the resulting unrealized gains and losses recorded net of applicable deferred taxes as other comprehensive income (“OCI”), a separate component of shareholders’ equity until realized, at which time the realized gain or loss is recorded in the income statement. Non-marketable equity securities are valued at cost, less a provision for other-than temporary impairment in value.

U.S. GAAP has specific criteria limiting reclassifications of securities within the held-to-maturity classification. If any sales are made from the held-to-maturity portfolio other than in certain specific circumstances, then all held-to-maturity securities are deemed to be tainted and are consequently classified as available-for-sale.

U.S. GAAP does not contemplate the monetary position effect which is presently recognized under Mexican Banking GAAP. Nevertheless, under U.S. GAAP, if there is a decline in carrying amount of an available-for-sale or held-to-maturity security below its fair value, it is judged to be other-than-temporary, the cost basis of the individual security is written down to its fair value and the amount of the write-down is recorded as charged to income. The new written down value of the security forms the new cost basis of the security. An impairment loss cannot be reversed if conditions improve.

For Mexican Banking GAAP purposes, any foreign currency effects on available-for-sale debt securities are reported in earnings. However, under U.S. GAAP and per ASC 310-10-35 (*Fair Value Changes of Foreign-Currency-Denominated Available-for-Sale Debt Securities* paragraphs 36-37) (formerly EITF 96-15 “Accounting for the Effects of Changes in Foreign Currency Exchange Rates on Foreign-Currency-Denominated Available-for-Sale Debt Securities”), the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities should be reported in stockholders’ equity. This fair value serves as the basis under which other-than temporary impairment is considered.

Fair Value of Financial Instruments

Mexican Banking GAAP defines fair value as the amount an interested and informed market participant would be willing to exchange for the purchase or sale of an asset or to assume or settle a liability in a free market. This definition can consider either an entry or an exit price.

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition only considers an exit price. Consideration must be given to the principal and most advantageous market and the highest and best use of the asset.

Furthermore, U.S. GAAP establishes a three-level hierarchy to be used when measuring and disclosing fair value in a company’s financial statements. Categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The following is a description of the three hierarchy levels:

- Level 1—Listed prices for identical instruments in active markets.
- Level 2—Listed prices for similar instruments in active markets; listed prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Repurchase Agreements

Under Mexican Banking GAAP, at the contracting date of the repurchase transaction, when the financial institution is the reselling party, the entry of cash or a debit settlement account, and an account payable at fair value, initially at the agreed-upon price, is recorded and represents the obligation to reconstitute cash to the repurchasing party. Subsequently, during the term of the repurchase transaction, the account payable is valued at fair value by recognizing the interest on the repurchase agreement using the effective interest method in results of the year. In relation to the collateral granted, the credit institution will reclassify the financial assets in its balance sheet as restricted, which will be valued based on the criteria described above in this note until the maturity of the repurchase transaction.

When an entity acts as repurchasing party, the withdrawal of funds available is recognized on the contracting date of the repurchase transaction or a credit settlement account, with an account receivable recorded at fair value, initially at the agreed-upon price, which represents the right to recover the cash paid. The account receivable will be valued subsequently during the term of the repurchase agreement at fair value through the recognition of interest on the repurchase agreement based on the effective interest method in the results of the year. Similarly, if the repurchasing party becomes a reselling party based on the performance of another repurchase transaction with the collateral received in guarantee for the initial transaction, the interest generated by the second repurchase transaction must be recognized in the results of the year when accrued, according to the effective interest method, and also affects the valued account payable according to the applied cost.

Under U.S. GAAP, repurchase agreements are transfer transactions subject to specific provisions and conditions that must be met in order for a transaction to qualify as a sale rather than a secured borrowing. In most cases, banks in the U.S. enter into repurchase transactions that qualify as secured borrowings. Accordingly, our assets subject to a repurchase agreement would not be derecognized.

Derivatives

Under Mexican Banking GAAP, the assets and/or liabilities arising from transactions with derivative financial instruments are recognized or canceled in the financial statements on the date the transaction is carried out, regardless of the date of settlement or delivery of the asset. Financial institutions initially recognize all derivatives as assets or liabilities in the balance sheet at fair value, taking into consideration the execution price. Any transaction costs that are directly attributable to the acquisition of the derivative are directly recognized in results. All derivatives are valued at fair value without deducting any estimated sale costs or other types of disposal. The period net valuation effects are recognized in the results of the period as trading gain/loss.

Under Mexican Banking GAAP, a financial institution should consider the following the CNBV requirements for the purposes of classifying a derivative financial instrument:

- Hedging of an open risk position - Consists of the purchase or sale of derivative financial instruments to reduce the risk of a transaction or group of transactions. If they are fair value hedges, the primary position covered is valued at market and the net effect of the derivative hedge instrument is recorded in results of the period. If they are cash flow hedges, the hedge derivative instrument is valued at market and the valuation for the effective portion of the hedge is recorded within OCI account in stockholders' equity. Any ineffective portion is recorded in results.
- Trading positions - Consist of the positions assumed by the financial institution as market participant for purposes other than hedging risk positions. In forward and futures contracts, the balances represent the difference between the fair value of the contract and the contracted forward price. If the difference is positive, it is considered as surplus value and presented under assets; however, if negative, it is considered as a shortfall and presented under liabilities. In options, their balance represents the fair value of the premium and they are valued at fair value, recognizing the valuation effects in the results for the year. In swaps, the balance represents the difference between the fair value of the swap asset and liability.

Under U.S. GAAP, ASC 815 *Derivatives and Hedging* (previously SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities") provides that:

- Derivative financial instruments, although considered to be an effective hedge from an economic perspective that have not been designated as a hedge for accounting purposes are recognized in the balance sheet at fair value with changes in the fair value recognized in earnings concurrently with the change in fair value of the underlying assets and liabilities.

- For all derivative instruments that qualify as fair value hedges for accounting purposes, of existing assets, liabilities or firm commitments, the change in fair value of the derivative should be accounted for in the statement of income, and be fully or partially offset in the statement of income by the change in fair value of the underlying hedged item.
- For all derivative contracts that qualify as hedges of cash flows for accounting purposes, the change in the fair value of the derivative should be initially recorded in OCI in stockholders' equity. Once the effects of the underlying hedged transaction are recognized in earnings, the corresponding amount in OCI is reclassified to the statement of income to offset the effect of the hedged transaction.
- All derivative instruments that qualify as hedges are subject to periodic effectiveness testing. Effectiveness is the derivative instrument's ability to generate offsetting changes in the fair value or cash flows of the underlying hedged item. The ineffective portion of the change in fair value for a hedged derivative is immediately recognized in earnings, regardless of whether the hedged derivative is designated as a cash flow or fair value hedge.

Under Mexican Banking GAAP, the designation of a derivative instrument as a hedge of a net position ("macro hedging") is allowed. However, macro hedging is not permitted under U.S. GAAP.

However under U.S. GAAP, certain implicit or explicit terms included in host contracts that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument, must be separated from the host contract and accounted for at fair value. Under Mexican Banking GAAP, the recognition of embedded derivative instruments is required beginning in 2009.

Securitized Transactions and the Consolidation of Special-Purpose Entities

Under Mexican Banking GAAP, as of January 1, 2009, securitized transactions must fulfill the requirements established in accounting criterion C-1 "Recognition and derecognition of financial assets" in order to be considered a sale and transfer of assets. If this is not the case, these assets must remain on the balance sheet, together with the respective debt issuances and the effects on results based on this criterion. Furthermore, a company must consolidate a special-purpose entity (SPE) when the economic basis of the relationship between both entities shows that the SPE is controlled by the former. Also, all securitized transactions made before the effective date of criterion C-1, are not consolidated since this criterion was issued considering a prospective implementation.

Under U.S. GAAP, ASC 860 *Transfers and Servicing* (previously SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement 125") provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. The guidance focuses on control. Under that approach, after a transfer of financial assets (*e.g.* a securitization), an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. This Statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings.

A transfer of financial assets in which the transferor surrenders control over those assets is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The transferor has surrendered control over transferred assets if and only if all of the following conditions are met:

- The transferred assets have been isolated from the transferor (beyond the reach of the transferor and its creditors), even in bankruptcy;
- Each transferee (or, if the transferee is a qualifying special-purpose entity ("QSPE") (for more information on control that eliminates the QSPE exemption under U.S. GAAP beginning in 2016, see "*—Consolidation*"), each holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received, and no condition both constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor; and
- The transferor does not maintain effective control over the transferred assets through either (1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, (2) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call, or (3) an agreement that permits the transferee to require the transferor to repurchase the transferred financial assets at

a price that is so favorable to the transferee that it is probable that the transferee will require the transferor to repurchase them.

Insurance and Postretirement Activities

According to the accounting practices prescribed by the Mexican National Insurance and Surety Commission (Mexican Insurance GAAP), commissions and costs at the origination of each policy are charged to income as incurred. In addition, for life insurance policies, any amount received from individuals is considered as premium income. As required by U.S. GAAP, commissions and costs at origination are capitalized and amortized over the life of the policy using the effective interest method (deferred acquisition costs). Furthermore, premiums received in excess for life insurance policies are recorded as premium income.

Also, under the accounting practices prescribed by the National System of Saving for the Retirement Commission, the direct costs associated with the reception of new clients for the administration of the bills of retirement is recognized in income as incurred. Under U.S. GAAP the costs are capitalized and amortized over the time in which the borrowed service is yielded, which the time is based on average in which the clients remain active in the company.

Under Mexican Insurance GAAP, certain reserves (disaster) are calculated using internal models previously approved by the Mexican National Insurance and Surety Commission. Generally, pension reserves are based on the present value of benefits to be paid together with fees suggested by this Commission. U.S. GAAP establishes the use of a fee that allows policy benefits to be covered through premiums collected for pension reserves. Under U.S. GAAP, provisions for disaster reserves are based on actuarial calculations for losses incurred using the experience of the Financial Group.

The Financial Group records a reserve for catastrophic events under Mexican Banking GAAP as a liability which is not allowed by U.S. GAAP.

Business Combinations

Through December 31, 2004, under Mexican Banking GAAP, the excess of the purchase price over the adjusted book value of net assets acquired was recorded as goodwill and amortized over 20 years (negative goodwill if book value exceeded the purchase price was recognized over a period not exceeding five years). Upon the adoption of NIF B-7, "Business Acquisitions," which is similar to the required accounting practices established by U.S. GAAP, requires the purchase price to be ascribed to the fair value of separately identifiable assets and liabilities acquired and that the difference between the purchase price and the fair value of identifiable assets and liabilities be allocated to goodwill or negative goodwill, as applicable.

U.S. GAAP, requires an acquirer in a business combination to (a) recognize assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at fair value as of the acquisition date, and (b) expense all acquisition-related costs. ASC 805-10 (SFAS No. 141(R)), also amends ASC 740-10 (SFAS No. 109, "Accounting for Income Taxes") to require that any reductions to an acquired entity's valuation allowances on deferred taxes and acquired tax contingencies that occur after the measurement period be recorded as a component of income tax expense.

Employee Retirement Obligations

Mexican Banking GAAP requires the recognition of a severance indemnity liability calculated based on actuarial computations. Similar recognition criteria under U.S. GAAP are established in ASC 712 *Compensation—Nonretirement Postemployment Benefits* (previously SFAS No. 112, "Employers' Accounting for Post-employment Benefits"), which requires that a liability for certain termination benefits provided under an ongoing benefit arrangement such as these statutorily mandated severance indemnities, be recognized when the likelihood of future settlement is probable and the liability can be reasonably estimated.

Under Mexican Banking GAAP, pension and seniority premium obligations are determined in accordance with NIF D-3. Under U.S. GAAP, such costs are accounted for in accordance with ASC 715 *Compensation—Retirement Benefits* (previously SFAS No. 87, "Employers' Accounting for Pensions"), whereby the liability is measured, similar to Mexican Banking GAAP, using the projected unit credit method at either corporate or government bonds based discount rates. The U.S. GAAP standard became effective on January 1, 1989 whereas NIF D-3 became effective on January 1, 1993. Therefore, a difference between Mexican Banking GAAP and U.S. GAAP exists due to the accounting for the transition obligation at different implementation dates.

Post-retirement benefits are accounted for under U.S. GAAP in accordance with ASC 715 (previously SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"), which applies to all post-retirement benefits, such as life insurance provided outside a pension plan or other postretirement health care and welfare benefits expected to be

provided by an employer to current and former employees. The cost of postretirement benefits is recognized over the employees' service periods and actuarial assumptions are used to project the cost of health care benefits and the present value of those benefits. For Mexican Banking GAAP purposes, as required by NIF D-3, we account for such benefits in a manner similar to U.S. GAAP. SFAS No. 106 became effective on January 1, 2003 whereas NIF D-3 became effective on January 1, 1993.

In addition, under U.S. GAAP, the accounting for defined benefit postretirement plans, which include seniority premiums within Mexico, was amended in 2006 such that an employer is required to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its balance sheet, recognizing changes in that funded status in the year in which the changes occur through OCI. Accordingly, unrecognized items may exist in Mexican FRS which are included as part of the employee benefit liability under U.S. GAAP.

Starting January 1, 2016, amendments to NIF D-3 became effective, in which unrecognized actuarial items, should be treated as follows:

- a) the whole balance of the modifications to the plan (past service) not yet recorded, should be recorded affecting the retained earnings of the oldest period presented;
- b) the accumulated unrecorded Profit or Losses of the Plan (GPP) (for entities that used the projected unit credit method), should be recorded affecting the initial balance of OCI for remedies of the oldest period presented.

Therefore, a difference arises since U.S. GAAP has not amended the recognition of actuarial remeasurements.

Guarantees

For Mexican Banking GAAP purposes, guarantees are recorded at cost at inception and disclosed in memorandum accounts unless payments in connection with the guarantee are probable, where the amounts expected to be paid are recorded.

For U.S. GAAP purposes, guarantees are accounted for under ASC 460 *Guarantees* (previously FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB interpretation No. 34"), which requires that an entity recognizes, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing such guarantee.

For Mexican Banking GAAP purposes, guarantees are recorded at cost at inception and disclosed in memorandum accounts unless payments in connection with the guarantee are probable, where the amounts expected to be paid are recorded.

Equity Method Investees

Under Mexican Banking GAAP, investments in associates in which we have more than a 10% ownership, are accounted for by the equity method.

For U.S. GAAP purposes, investments in associated companies in which we have a 20 to 50% ownership over which we can exert significant influence on the company, but do not have a controlling interest, are accounted for by the equity method. Investments in which we have less than a 20% ownership are generally accounted for under the cost method.

Retained Earnings Adjustments

Where specific approval is given by the CNBV, certain adjustments and provisions which are created during the year may be charged to retained earnings and not to the statement of income for the period.

Under U.S. GAAP, when adjustments which relate to correction of errors in the prior year occur, the prior period financial statements are required to be restated. Under U.S. GAAP, loss provisions or other operating and non-operating expenses are recognized as a charge to income.

Deferred Income Tax

Mexican Banking GAAP is similar to U.S. GAAP with respect to accounting for deferred income taxes in that an asset and liability approach is required. Under Mexican Banking GAAP, deferred tax assets must be reduced by a valuation allowance if it is "highly probable" that all or a portion of the deferred tax assets will not be realized. The determination of the need for a valuation allowance must consider future taxable income and the reversal of temporary taxable differences. Net deferred income tax assets or liabilities are presented within long-term assets or liabilities.

Under U.S. GAAP, deferred income taxes are also accounted for using the asset and liability approach. However, under U.S. GAAP, a valuation allowance is recognized if, based on the weight of all positive and negative available evidence, it is “more likely than not” that all or a portion of the deferred tax asset will not be realized. In order to make this determination, entities must consider future reversals of taxable temporary differences, future taxable income, taxable income in prior carryback years and tax planning strategies. Additionally, if the company has experienced recurring losses, little weight, if any, may be placed on future taxable income as objective evidence to support the recoverability of a deferred income tax asset.

Consolidation

Under Mexican Banking GAAP, an entity is required to consolidate subsidiaries over which it has established control, despite not holding a majority of the voting common stock of the subsidiary. Determining whether an entity has control is based on an analysis of the following criteria: 1) power over the investee, 2) exposure, or rights, to variable returns from an entity’s involvement with the investee, and 3) the entity’s ability to use its power over the investee to affect the amount of the entity’s returns.

Under U.S. GAAP, when a company has a controlling financial interest (either through a majority voting interest or through the existence of other control factors) in an entity, such entity’s financial statements should be consolidated, irrespective of whether the activities of the subsidiary are non-homogeneous with those of the parent.

Effective beginning January 1, 2019, Accounting Standards Update No. 2009-16, seeks to improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting.

Effects of Inflation

Through December 31, 2007, Mexican Banking GAAP required that the effects of inflation be recorded in financial information and that financial statements be restated to constant Pesos as of the latest balance sheet date presented. Beginning January 1, 2008, Mexican Banking GAAP modified the accounting for the recognition of the effects of inflation and defines two economic environments: (i) an “inflationary environment,” in which the cumulative inflation of the three preceding years is 26% or more, in which case the effects of inflation should be recognized using the comprehensive method; and (ii) a “non-inflationary environment”, in which the cumulative inflation of the three preceding years is less than 26%, in which case, no inflationary effects should be recognized in the financial statements.

Under U.S. GAAP, historical costs must be maintained in the basic financial statements. Business enterprises are encouraged to disclose certain supplemental information concerning changing prices on selected statement of income and balance sheets items. Typically, however, no gain or loss on monetary position is recognized in the financial statements. However, specific rules and regulations established by the SEC allow for the presentation of inflation in a company’s reconciliation from local GAAP to U.S. GAAP for companies registering securities with the SEC for sale in the United States, when, for local purposes, such company prepares comprehensive price-level adjusted financial statements, as required or permitted by their home-country GAAP.

The recording of appraisals of fixed assets is prohibited, with the objective of maintaining historical cost in the balance sheet. Although the effects of inflation are not recognized in the financial statements under U.S. GAAP, the SEC recognizes that presentation indicating the effects of inflation is more meaningful than historical cost-based financial reporting for Mexican entities because it represents a comprehensive measure of the effects of price level changes in the inflationary Mexican economy. For this reason, the effects of inflation accounting are generally not eliminated from the financial statements of Mexican companies making offerings in the United States securities markets in situations when Mexican MFRS or Mexican Banking GAAP are reconciled to U.S. GAAP.

In addition, under MFRS, NIF B-15, “Foreign Currency Transactions and Translation of Financial Statements of Foreign Operations” allows the restatement of information for prior periods in order to compare such information to information of the most current period presented, based on a weighted average restatement factor that reflects the relative inflation and currency exchange movements of the countries in which we operate. The restatement provisions of NIF B-15 do not meet the SEC’s Regulation S-X requirement that the financial statements be stated in the same currency for all periods, because changes in foreign currency exchange rates are included in the restatement factor. Under U.S. GAAP, the primary financial statements should be presented in the same constant reporting currency for all periods.

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**Banco Mercantil del Norte, S.A.,
Institución de Banca Múltiple,
Grupo Financiero Banorte and
Subsidiaries**

Consolidated Financial Statements
for the Years Ended December 31,
2023 and 2022, and Independent
Auditors' Report Dated February
28, 2024



**Banco Mercantil del Norte, S. A.,
Institución de Banca Múltiple,
Grupo Financiero Banorte and Subsidiaries**

Independent Auditors' Report and Consolidated Financial Statements as of December 31, 2023 and 2022

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Independent Auditors' Report to the Board of Directors and Stockholders of Banco Mercantil del Norte, S.A., Institution of Multiple Banking, Grupo Financiero Banorte and Subsidiaries

Opinion

We have audited the consolidated financial statements of Banco Mercantil del Norte, S. A., Institución de Banca Múltiple, Grupo Financiero Banorte and Subsidiaries (the "Institution"), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the consolidated statements of comprehensive income, consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements including a summary of material accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Institution as of December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the accounting criteria established by the National Banking and Securities Commission (the Commission) through the "General Provisions applicable to Credit Institutions" (the Accounting Criteria).

Other Matter

The accompanying consolidated financial statements, where required, present unaudited financial information within their Notes, which is required in the Provisions established by the Commission.

The accompanying consolidated financial statement have been translated into English for the convenience of users.

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 5 and 13 to consolidated financial statements)

The methodology for calculating allowance for loan losses requires that the expected loss 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 non-compliance.

To carry out the above identification, said rules establish a method, which considers a series of qualitative and quantitative factors, such as: 1) in consumer loans: payment behavior, potential losses and credit risk; 2) in mortgage loans: delinquency periods, possibility of non-payment and net potential losses of the guarantees received; and 3) in commercial credits: evaluation of the ability to repay the credit, financial risk, payment history, as well as the corresponding guarantees.

It has been considered a key audit matter due to the importance of the book value of the loan portfolio and its corresponding allowance for loan losses, and because the process for determining the estimate requires considering the completeness and accuracy of the information. source used, in addition to updating each of the credit risk factors mentioned above in the calculations of said estimates.



Our audit procedures to cover this key audit issue included:

- a) Test the design and implementation, and operational effectiveness of the relevant controls regarding the valuation of allowance for loan losses of the Institution.
- b) Repurchase the valuation on a sample of credits, considering the risk factors and the source of information used to carry out this calculation. In addition, we review the source of information used to determine and update each of the risk factors in the calculation.
- c) Our tests were developed with the involvement of our team of credit risk specialists, who ensured that the models to determine the preventive estimates used by the Institution were in accordance with the stipulated and authorized models (so it corresponds to the internal models) by the Commission.
- d) We validate the correct presentation and disclosure in the consolidated financial statements.

Information Other than the Consolidated Financial Statements and the Auditors' Report

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 presented before 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 of the consolidated financial statements does 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 read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work we have performed, we concluded that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 preparing of the consolidated financial statements, management is responsible for assessing the Institution's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Institution or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institution's consolidated 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 auditor's 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 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 Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Institution to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Institution 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 have communicated 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 auditor's 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.
Affiliated member firm of Deloitte Touche Tohmatsu Limited



C.P.C. Daniel Castellanos Cárdenas

Registration in the General Administration
Of Federal Tax Audit No. 17195
Monterrey, Nuevo León, México

February 28, 2024



BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2023 and 2022
(In millions of Mexican pesos)

ASSETS	2023	2022
CASH AND CASH EQUIVALENTS	Ps. 100,128	Ps. 107,581
MARGIN SECURITIES (DERIVATIVE FINANCIAL INSTRUMENTS)	4,918	5,478
INVESTMENTS IN SECURITIES		
Trading Financial Instrument	109,121	134,685
Financial Instruments to Collect or Sell	161,049	114,771
Financial instruments to collect principal and interest	94,624	88,050
	364,794	337,506
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	83,103	74,371
DERIVATIVE FINANCIAL INSTRUMENTS		
For trading purposes	28,791	35,576
For hedging purposes	4,442	1,854
	33,233	37,430
LOAN PORTAFOLIO WITH CREDIT RISK STAGE 1		
Commercial loans		
Business loans	369,978	328,895
Financial institution's loans	43,454	29,690
Government loans	164,035	165,940
Consumer loans	172,325	142,071
Mortgage loans		
Medium and residential	248,257	221,771
Low-income housing	2	2
Loans acquired from INFONAVIT or FOVISSSTE	1,618	1,932
TOTAL LOAN PORTAFOLIO WITH CREDIT RISK STAGE 1	999,669	890,301
LOAN PORTAFOLIO WITH CREDIT RISK STAGE 2		
Commercial loans		
Business loans	1,233	966
Consumer loans	2,935	2,277
Mortgage loans		
Medium and residential	3,193	3,130
Loans acquired from INFONAVIT or FOVISSSTE	69	97
TOTAL LOAN PORTAFOLIO WITH CREDIT RISK STAGE 2	7,430	6,470
LOAN PORTAFOLIO WITH CREDIT RISK STAGE 3		
Commercial loans		
Business loans	2,883	3,750
Consumer loans	119	3,528
Mortgage loans	7	
Medium and residential	4,820	1,553
Loans acquired from INFONAVIT or FOVISSSTE		312
TOTAL LOAN PORTAFOLIO WITH CREDIT RISK STAGE 3	1,831	9,143
LOAN PORTFOLIO	346	905,914
(Plus/Minus) DEFERRED ITEMS	10,006	2,058
(Minus) ALLOWANCE FOR LOAN LOSSES	1,017,105	(16,961)
LOAN PORTFOLIO, NET	2,436	891,011
ACQUIRED COLLECTION RIGHTS, net	(18,749)	654
TOTAL LOAN PORTFOLIO, net	1,000,792	891,665
OTHER ACCOUNTS RECEIVABLE, net	38,352	36,343
FORECLOSED ASSETS, net	4,792	2,844
ADVANCE PAYMENTS AND OTHER ASSETS, net	4,959	8,614
PROPERTY, FURNITURE AND EQUIPMENT, net	25,623	24,538
ASSETS FOR RIGHTS OF USE OF PROPERTY, FURNITURE AND EQUIPMENT, net	3,795	6,951
PERMANENT STOCK INVESTMENTS	1,570	1,461
DEFERRED INCOME TAX ASSETS	-	565
INTANGIBLE ASSETS, net	13,843	15,493
GOODWILL	1,497	1,413
TOTAL ASSETS	Ps. 1,682,493	Ps. 1,552,253



LIABILITIES AND STOCKHOLDERS' EQUITY	2023	2022
DEPOSITS		
Demand deposits	Ps. 685,561	Ps. 619,559
Time deposits		
General public	332,098	274,201
Money market	8,098	4,954
Senior debt issued	43,718	17,002
Global account of deposits without movements	3,656	3,253
	1,073,131	918,969
INTERBANK AND OTHER LOANS		
Short-term loans	5,525	7,181
Long-term loans	4,584	7,641
	10,109	14,822
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	206,018	218,928
COLLATERAL SOLD OR PLEDGED		
Repurchase or resale agreements (creditor balance)	83,098	72,429
DERIVATIVE FINANCIAL INSTRUMENTS		
For trading purposes	21,488	29,116
For hedging purposes	2,259	3,956
	23,747	33,072
LEASE LIABILITY	3,835	6,606
OTHER ACCOUNTS PAYABLES		
Creditors from settlements of transactions	9,465	7,116
Creditors from collaterals received in cash	19,747	20,643
Contributions payable	1,519	1,025
Sundry creditors and other payables	31,450	30,685
	62,181	59,469
FINANCIAL INSTRUMENTS THAT QUALIFY AS LIABILITY		
Subordinated debentures	55,421	65,981
INCOME TAX LIABILITIES	2,501	7,380
EMPLOYEE BENEFIT LIABILITY	10,346	8,797
DEFERRED CREDITS AND ADVANCED COLLECTIONS	1,140	1,123
TOTAL LIABILITIES	1,531,527	1,407,576



STOCKHOLDERS' EQUITY		
PAID-IN CAPITAL		
Common stock	18,795	18,795
Additional paid-in capital	4,500	4,651
	23,295	23,446
OTHER CAPITAL		
Capital reserves	18,959	18,959
Retained earnings from prior years	115,000	108,126
Other comprehensive income		
Result from valuation of securities to collect or sell	(969)	(2,326)
Result from valuation of instruments for cash flow hedging	183	(1,572)
Defined remeasurements for employee benefits	(1,993)	(1,924)
Cumulative Translation Adjustment	(191)	(37)
	130,989	121,226
CONTROLLING INTEREST	154,284	144,672
NON-CONTROLLING INTEREST	(3,318)	5
TOTAL STOCKHOLDERS' EQUITY	150,966	144,677
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	Ps. 1,682,493	Ps. 1,552,253

"These Consolidated Statements of Financial Position were formulated in accordance with the Accounting Criteria for Credit Institutions, issued by the National Banking and Securities Commission, based on the provisions of Articles 99, 101 and 102 of the Law of Credit Institutions, of general and mandatory observance, applied consistently, reflecting the operations carried out by the institution up to the aforementioned date, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

The accompanying Consolidated Statements of financial positions have been approved by the Board of Directors in accordance with the responsibility assigned to them.

"The historical balance of capital stock as of December 31, 2023 is \$14,420 million pesos"

"The attached Notes are an integral part of these consolidated financial 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
Deputy Managing Director – Accounting



**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS
FROM JANUARY 1 TO DECEMBER 31, 2023 and 2022**
(In millions of Mexican pesos)

	2023	2022
Interest income	Ps. 327,638	Ps. 226,642
Interest expense	(226,763)	(141,399)
NET INTEREST INCOME	100,875	85,243
Allowance for loan losses	(15,782)	(11,722)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES	85,093	73,521
Commission and fee income	34,985	31,163
Commission and fee expense	(17,780)	(14,975)
Brokerage revenues	2,276	2,931
Other operating income (expenses)	(4,002)	(4,831)
Non-interest expense	(44,406)	(40,942)
	(28,927)	(26,654)
OPERATING INCOME	56,166	46,867
Equity in earnings of unconsolidated subsidiaries and associated companies	175	168
INCOME BEFORE INCOME TAX	56,341	47,035
Current income tax	(14,425)	(12,486)
INCOME BEFORE DISCONTINUED OPERATIONS	41,916	34,549
NET INCOME	Ps. 41,916	Ps. 34,549
Other comprehensive income:		
Financial instruments to collect or sell valuation	1,352	(4,045)
Result from valuation of instruments for cash flow hedging	1,755	1,138
Defined remeasurements for employees benefits	(69)	113
Cumulative Translation Adjustment	(154)	(71)
	2,884	(2,865)
COMPREHENSIVE INCOME	Ps. 44,800	Ps. 31,684
Attributable net income to:		
Controlling interest	Ps. 41,946	Ps. 34,549
Non-controlling interest	(30)	-
	Ps. 41,916	Ps. 34,549
Attributable comprehensive income to:		
Controlling interest	Ps. 44,830	Ps. 31,684
Non-controlling interest	(30)	-
	Ps. 44,800	Ps. 31,684
Earnings per ordinary share	Ps. 0.0291	Ps. 0.240

"These consolidated comprehensive income statements were formulated in accordance with the Accounting Criteria for Credit Institutions, issued by the National Banking and Securities Commission, based on the provisions of Articles 99, 101 and 102 of the Law on Credit Institutions, of general and obligatory observance, applied consistently, reflecting all the income and expenses derived from the operations carried out by the institution during the aforementioned period, which were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions.

The accompanying consolidated comprehensive 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.

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**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FROM JANUARY 1 TO DECEMBER 31, 2023 and 2022
(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 to collect and sell	Result from valuation of instruments for cash flow hedging
Balances, December 31, 2021	Ps. 18,795	Ps. 3,851	Ps. 18,959	Ps. 106,018	Ps. 1,719	(Ps. 2,710)
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Share repurchase for executive shares' plan payable in equity instruments	-	800	-	-	-	-
Dividends Decreed by the Ordinary General Assembly of Shareholders on May 16 and June 22, 2022	-	-	-	(26,416)	-	-
Total transactions approved by stockholders	-	800	-	(26,416)	-	-
OTHER STOCKHOLDERS' TRANSACTIONS:						
Effect of subsidiaries, affiliates and mutual funds	-	-	-	(179)	-	-
Interest on subordinated obligations	-	-	-	(4,853)	-	-
Effect of adoption of changes in accounting criteria	-	-	-	(993)	-	-
Total	-	-	-	(6,025)	-	-
COMPREHENSIVE INCOME:						
Comprehensive income	-	-	-	34,549	-	-
OTHER COMPREHENSIVE INCOME:						
Financial instruments to collect or sell valuation	-	-	-	-	(4,177)	-
Effect of subsidiaries, affiliates and mutual funds	-	-	-	-	178	-
Cumulative Translation Adjustment	-	-	-	-	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	1,138
Defined remeasurements for employee benefits	-	-	-	-	-	-
Effect of adoption of changes in accounting criteria	-	-	-	-	(46)	-
Total	-	-	-	34,549	(4,045)	1,138
Non-controlling interest	-	-	-	-	-	-
Balances, December 31, 2022	18,795	4,651	18,959	108,126	(2,326)	(1,572)
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Share repurchase for executive shares' plan payable in equity instruments	-	1,011	-	-	-	-
Dividends Decreed by the Ordinary General Assembly of Shareholders on April 5, July 12 and October 18, 2023	-	-	-	(31,000)	-	-
Transfer of shares between entities under common control	-	(1,162)	-	-	-	-
Total transactions approved by stockholders	-	(151)	-	(31,000)	-	-
OTHER STOCKHOLDERS' TRANSACTIONS:						
Effect of subsidiaries, affiliates and mutual funds	-	-	-	(4,059)	-	-
Interest on subordinated obligations	-	-	-	(13)	5	-
Total	-	-	-	(4,072)	5	-
COMPREHENSIVE INCOME:						
Comprehensive income	-	-	-	41,946	-	-
OTHER COMPREHENSIVE INCOME:						
Financial instruments to collect or sell valuation	-	-	-	-	1,342	-
Cumulative Translation Adjustment	-	-	-	-	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	1,769
Defined remeasurements for employee benefits	-	-	-	-	-	-
Effect of subsidiaries, affiliates and mutual funds	-	-	-	-	10	(14)
Total	-	-	-	41,946	1,352	1,755
Non-controlling interest	-	-	-	-	-	-
Balances, December 31, 2023	Ps. 18,795	Ps. 4,500	Ps. 18,959	Ps. 115,000	(Ps. 969)	Ps. 183

"These consolidated statements of changes in stockholders' equity were formulated in accordance with the Accounting Criteria for Credit Institutions, issued by the National Banking and Securities Commission, based on the provisions of Articles 99, 101 and 102 of the Law of Credit Institutions, of general and obligatory observance, applied in a consistent manner, being reflected all the movements in the stockholders' equity accounts derived from the operations carried out by the institution during the aforementioned period, which were carried out and valued with adherence to sound banking practices and applicable legal and administrative provisions. These consolidated statements of changes in stockholders' equity were approved by the Board of Directors under the responsibility of the executives who sign it." The attached notes are an integral part of these consolidated statements of changes in stockholders' equity."

OTHER CAPITAL



	Defined remeasurements for employee benefits	Cumulative foreign currency translation adjustment	Total Controlling interest	Total Non- controlling interest	Total stockholders' equity
Balances, December 31, 2021	(Ps. 2,037)	Ps. 34	Ps. 144,629	Ps. 4	Ps. 144,633
TRANSACTIONS APPROVED BY STOCKHOLDERS:					
Share repurchase for executive shares' plan payable in equity instruments	-	-	800	-	800
Dividends Decreed by the Ordinary General Assembly of Shareholders on May 16 and June 22, 2022	-	-	(26,416)	-	(26,416)
Total transactions approved by stockholders	-	-	(25,616)	-	(25,616)
OTHER STOCKHOLDERS' TRANSACTIONS:					
Effect of subsidiaries, affiliates and mutual funds	-	-	(179)	-	(179)
Interest on subordinated obligations	-	-	(4,853)	-	(4,853)
Effect of adoption of changes in accounting criteria	-	-	(993)	-	(993)
Total	-	-	(6,025)	-	(6,025)
COMPREHENSIVE INCOME:					
Comprehensive income	-	-	34,549	-	34,549
OTHER COMPREHENSIVE INCOME:					
Financial instruments to collect or sell valuation	-	-	(4,177)	-	(4,177)
Effect of subsidiaries, affiliates and mutual funds	-	-	178	-	178
Cumulative Translation Adjustment	-	(71)	(71)	-	(71)
Result from valuation of instruments for cash flow hedging	-	-	1,138	-	1,138
Defined remeasurements for employee benefits	113	-	113	-	113
Effect of adoption of changes in accounting criteria	-	-	(46)	-	(46)
Total	113	(71)	31,684	-	31,684
Non-controlling interest	-	-	-	1	1
Balances, December 31, 2022	(1,924)	(37)	144,672	5	144,677
TRANSACTIONS APPROVED BY STOCKHOLDERS:					
Share repurchase for executive shares' plan payable in equity instruments	-	-	1,011	-	1,011
Dividends Decreed by the Ordinary General Assembly of Shareholders on April 5, July 12 and October 18, 2023	-	-	(31,000)	-	(31,000)
Transfer of shares between entities under common control	-	-	(1,162)	-	(1,162)
Total transactions approved by stockholders	-	-	(31,151)	-	(31,151)
OTHER STOCKHOLDERS' TRANSACTIONS:					
Effect of subsidiaries, affiliates and mutual funds	-	-	(4,059)	-	(4,059)
Interest on subordinated obligations	-	-	(8)	-	(8)
Total	-	-	(4,067)	-	(4,067)
COMPREHENSIVE INCOME:					
Comprehensive income	-	-	41,946	(30)	41,916
OTHER COMPREHENSIVE INCOME:					
Financial instruments to collect or sell valuation	-	-	1,342	-	1,342
Cumulative Translation Adjustment	-	(154)	(154)	-	(154)
Result from valuation of instruments for cash flow hedging	-	-	1,769	-	1,769
Defined remeasurements for employee benefits	(69)	-	(69)	-	(69)
Effect of subsidiaries, affiliates and mutual funds	-	-	(4)	-	(4)
Total	(69)	(154)	44,830	(30)	44,800
Non-controlling interest	-	-	-	(3,293)	(3,293)
Balances, December 31, 2023	(Ps. 1,993)	(Ps. 191)	Ps. 154,284	(Ps. 3,318)	Ps. 150,966

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**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FROM JANUARY 1 TO DECEMBER 31, 2023 and 2022**
(In millions of Mexican pesos)

	2023	2022
Operating activities		
Income before income tax	Ps. 56,341	Ps. 47,035
Adjustments for items associated with investing activities		
Depreciation of property, furniture and equipment	3,474	3,356
Amortization of intangible assets	609	609
Equity in earnings of unconsolidated subsidiaries and associated companies	(175)	(168)
Adjustments for items associated with financing activities		
Interest associated with interbank and other loans	1,046	946
Interest associated with financial instruments that qualify as liability	3,097	1,100
	8,051	5,843
Changes in operating activities:		
Changes in margin accounts (derivative financial instruments)	560	2,522
Changes in investments in securities (net)	(25,941)	(113,047)
Changes in debtor balances under repurchase and resale agreements (net)	(8,732)	187,164
Changes in derivative financial instruments (asset)	6,785	(8,672)
Change in loan portfolio (net)	(109,782)	(94,337)
Changes in acquired collection rights (net)	(440)	382
Changes in reinsurance and surety agencies (net)	(3,171)	(5,203)
Changes in merchandise inventory	(1,948)	(1,127)
Change in other accounts receivables	5,222	(3,643)
Change in foreclosed assets	154,162	112,755
Change in deposits	(5,760)	(7,685)
Change in interbank and other loans	(12,910)	110,337
Change in creditor balances under repurchase and sale agreements	10,669	(186,100)
Collateral sold or pledged	(7,627)	6,629
Change in liability position of derivative financial instruments	16	16
Change in hedging instruments related to operations	(2,515)	(2,276)
Change in assets / liabilities for employee benefits	1,548	1,421
Change in other account payable	(167)	23,801
Income tax payment	(18,214)	(7,247)
Net cash flows provided by operating activity	46,147	68,568
INVESTING ACTIVITIES:		
Payments for acquisition of property, furniture and equipment	(7,347)	(10,665)
Proceeds on disposal of property, furniture and equipment	3,305	695
Payment on acquisitions of subsidiaries and associated companies	(94)	(914)
Proceeds for cash dividends	142	42
Net cash flows in investment activity	(3,994)	(10,842)
FINANCING ACTIVITIES:		
Lease liability paid	(371)	(1,033)
Payments associated with financial instruments that qualify as equity	(4,059)	(4,853)
Dividends paid	(31,000)	(26,416)
Payments associated with financial instruments that qualify as liability	(13,657)	(15,694)
Interest of leasing paid	(370)	(396)
Net cash flow by financing activity	(49,457)	(48,392)
Net increase in cash and cash equivalents	(7,304)	9,334
Effects from changes in the value of cash and cash equivalents	(149)	(55)
Cash and cash equivalents at the beginning of the year	107,581	98,302
Cash and cash equivalents at the end of the year	Ps. 100,128	Ps. 107,581

"These consolidated statements of cash flows were formulated in accordance with the Accounting Criteria for Credit Institutions, issued by the National Banking and Securities Commission, based on the provisions of Articles 99, 101 and 102 of the Law of Credit Institutions, of general and mandatory observance, applied consistently, reflecting the cash inflows and cash outflows derived from the operations carried out by the institution during the aforementioned period, which were carried out and valued in accordance with sound banking practices and applicable legal and administrative provisions.

These consolidated cash flow statements were approved by the board of directors under the responsibility of the executives who sign it."

"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, 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
Deputy Managing Director – Accounting



**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022**
(In millions of Mexican pesos, except exchange rates and Note 33)

1 – ACTIVITY AND REGULATORY ENVIRONMENT

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and Subsidiaries (the Institution or Banorte), is a full-banking institution whose main activities are regulated by the Credit Institutions Law (LIC), the Mexican Central Bank (Banco de México) and the Mexican National Banking and Securities Commission (the “Commission”). Its activities consist of receiving deposits, accepting and granting loans and credits, attracting public funds, making investments in securities, carrying out repurchase agreements, performing transactions with derivative financial instruments (futures, swaps, options and forward contracts), together with other full service banking operations, in accordance with the LIC. The Subsidiaries' activities are supervised by the Commission.

The Subsidiaries' main activity involves financial operations such as managing retirement funds (until October 17, 2016, the date on which the spin-off of the Institution became effective).

The main regulating aspect compel the Institution to maintain a minimum capitalization index for market and credit 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 Institution complies satisfactorily with all of the above as of December 31, 2023.

By legal provision, the Institution is jointly and unlimitedly liable for the fulfillment of the obligations of the financial entities that are members of the group and unlimitedly for the losses of each and every one of said entities.

The Institution is a 98.26% owned subsidiary of Grupo Financiero Banorte, S.A.B. de C.V. (the Financial Group).

The powers of the Commission in its capacity as banking institutions' regulator include reviewing the Institution's financial information and requesting modifications to such information.

The Institution performs its activities throughout Mexico and until March 2017, in the United States of America.

The Institution's consolidated financial statements have been approved by the Board of Directors at their January 17, 2024 meeting in accordance with the responsibility assigned to them.

2 – SIGNIFICANT EVENTS DURING THE YEAR

Issuance of bank stock certificates

On February 22, 2023, the Institution placed the amount of Ps. 10,761 through the issuance of bank stock certificates, in two different issuances, under the recurring issuer program by up to Ps. 50,000 or its equivalent in Investment Units (“UDIs”), authorized on July 12, 2018 by the Commission.

The characteristics of the issuances are the following:

- T BANORTE 23-2 for an amount of Ps. 6,582 for a term of 2 years and TIIE28 rate plus spread of 0.04%.
- T BANORTE 23-3 for an amount of Ps. 4,180 for a term of 4 years and TIIE28 rate plus spread of 0.08%.



Partial amortization of structured bank bonds BANORTE 1-22

On April 10, 2023, the Institution exercised the right to partially amortize the BANORTE 1-22 structured bank bonds, issued on July 1, 2022, the amount of partial amortization was Ps. 167.

Amortization of BANORTE 23 bank stock certificates

On April 10, 2023, the Institution exercised the right to fully redeem the BANORTE 23 bank stock certificates, issued on January 12, 2023, the amortization amount was Ps. 15,151.

Issuance of bank stock certificates

On May 25, 2023, the Institution placed the amount of Ps. 9,813 through the issuance of bank stock certificates in three different issuances, under the recurring issuer program for up to Ps. 50,000 or its equivalent in UDIs, authorized on July 12, 2018 by the Commission.

The characteristics of the issue are the following:

- BANORTE 23-4 for an amount of Ps. 5,276 with a term of 3 years and TIIE rate plus spread of 30 basis points (bp).
- BANORTE 23-5 for an amount of Ps. 2,387 with a term of 7 years and a fixed rate of 9.41%.
- BANORTE 23U for an amount of 275 million UDIs (equivalent to Ps. 2,148) for a term of 10 years and a real rate of 4.68%.

Amortization of subordinated obligations BANORTE 08U

On August 22, 2023, the Institution exercised the right to fully amortize the preferred subordinated obligations that cannot be converted into BANORTE 08U shares, issued on March 11, 2008, the amortization amount was 276,936,300 UDIS.

Securitization of the portfolio of State and Municipal Governments

During December 2023, the Institution securitized the portfolio of State and Municipal Governments for the amount of Ps. 30,015, transferring said credits to a Trust created especially for the purposes of this transaction. The Trust issued stock certificates for Ps. 27,000 that it placed in the Stock Market, which guarantee its holders a specific rate of return of TIIE + 40 bp. As consideration for the loan portfolio, Banorte received cash of Ps. 26,126 from the Trust, which maintains an amount of Ps. 3,889 as part of its equity, to which Banorte will be entitled and which it will receive during the securitization period in the form of remainders of the Trust flow, after the settlement of its obligations.

Investment in Tarjetas del Futuro

The Institution made capital investments in Tarjetas del Futuro, S.A.P.I de C.V. (TDF) for a total amount of Ps. 1,135, which represents a participation of 4.99% of its share capital, in the acquisition a goodwill of Ps. 146 was generated, likewise, through this acquisition control of TDF was obtained, therefore as of December 2023, it consolidates its financial statements with those of the Institution.



3 – BASIS OF PRESENTATION

Presentation of consolidated financial statements

The consolidated financial statements as of December 31, 2023 and 2022, which are accompanied, have been prepared by Management assuming that the Institution 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 year ended as of December 31, 2023 and 2022 include balances and transactions in millions of Mexican pesos of purchasing power of such dates.

As of December 31, 2023 and 2022, the registration currency and functional currency of the Institution 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 2023 and 2022 was 19.50% and 14.16%, respectively. Therefore, the Mexican economy is considered as non-inflationary. However, assets, liabilities and stockholders' equity as of December 31, 2023 and 2022 include the restatement effects recorded up through December 31, 2007. The cumulative Mexican inflation over the three years including the year ended December 31, 2023 was 20.83%.

The Mexican inflation rates for the years ended December 31, 2023 and 2022 were 74.38% and 7.58%, respectively.

Consolidation of financial statements

The accompanying consolidated financial statements include those of Institution and its subsidiaries mentioned below. All significant intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2023 and 2022, the Institution's consolidated subsidiaries and its equity ownership is as follows:

	December 31, 2023	December 31, 2022
Administradora de Servicios Profesionales Especializados, S.A. de C.V.	99.99%	99.99%
Casa Servicios Administrativos, S.A. de C.V.	99.60%	99.60%
Bonds Finance Company Limited*	100.00%	100.00%
Fideicomiso BONY 469	100.00%	100.00%
Estrategia en Finanzas & Infraestructura, S.A. de C.V.	99.99%	99.99%
Fideicomiso de conversión FCICK16-1	97.50%	97.50%
Banorte Financial Services, INC.	100.00%	100.00%
Fideicomiso Bursa GEM 2023	100.00%	-
Tarjetas del Futuro, S.A.P.I. de C.V.	4.99%	-

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.



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 (16.9666 for 2023), 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 (17.7337 for 2023). 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 2022, comprehensive income includes the net income of the year, the result from valuation of securities to collect and sell; the effect of subsidiaries, affiliates, and mutual funds; the cumulative conversion effect; remeasurements for employee benefits; Interest on subordinated debentures, Commission special accounting criteria and the result from valuation of cash flow hedging instruments and effects of adoption of accounting guidance.

4 – CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES FOR THE ESTIMATION OF UNCERTAINTIES

In applying the Institution's accounting policies, which are described in note 5, management must make judgments, estimates and assumptions about the book values of assets and liabilities in the consolidated financial statements. Estimates and relative assumptions are based on experience and other factors considered relevant. Actual results could differ from these estimates.

Estimates and assumptions are reviewed on a regular basis. Changes to accounting estimates are recognized in the period in which the change is made and future periods if the change affects both the current period and subsequent periods.

a. Critical judgments when applying accounting policies

Below are critical judgments, apart from those involving estimates, made by management during the process of applying the Institution's accounting policies and that have a significant effect on the consolidated financial statements.



- *Business model evaluation*

The classification and evaluation of financial assets depend on the result of the SPPI tests (only principal and interest payments) and the business model test. The Institution determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular objective. This task includes judgments that reflect all relevant evidence including how the performance of the assets is evaluated and how their performance is measured, the risks that affect the performance of the assets and how the assets are managed and how the managers of the assets are compensated. The Institution monitors the financial assets evaluated at amortized cost and at fair value through other comprehensive income that were derecognized before their maturity, to understand the reason for their derecognition and if the reasons are consistent with the objective of the business for which assets are held. Monitoring is part of the Institution's ongoing assessment of whether the business model for the remaining financial assets is appropriate and if it is not appropriate, whether there has been a change in the business model and a prospective change should be made to those assets. These changes were not necessary during the periods presented

- *Significant increase in credit risk*

As explained in note 5, ECP (expected credit loss) is measured as an allocation equal to 12 months of the total expected loss for stage 1 assets, the total life of the total expected loss for stage 2 or 3 assets. An asset is moved to stage 2 when the credit risk has increased significantly since initial recognition. MFRS C-16 "Impairment of financial instruments" does not define what constitutes a significant increase in credit risk. In assessing whether credit risk has significantly increased, the Institution considers prospective quantitative and qualitative information.

b. Key sources of uncertainty in estimates

Key forward-looking assumptions and other key sources of uncertainty in estimates at the end of the period, which have a significant risk of resulting in significant adjustments to the carrying amounts of assets and liabilities during the coming year, are explained below.

Discount rate used to determine the book value of the defined benefit obligation

The determination of the benefits of the borrowed obligations depends on some assumptions, which include the selection of the discount rate. The discount rate is set by reference to the market return at the end of the period in corporate bonds. Significant assumptions need to be made when setting the criteria for the bonds and must be included in the yield curve. The most important criteria to consider for bond selection include the current size of corporate bonds, quality, and identification of exclusionary guidelines.

5 – SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Institution 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 (MFRS)) 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 Institution may not conform to Mexican Financial Reporting Standards ("MFRS") or other accounting principles generally accepted outside of Mexico.

Arithmetical translation of the consolidated financial statements from Mexican pesos into United States of America (U.S.) dollars for the year ended December 31, 2023

The consolidated financial statements are stated in millions of Mexican pesos ("Ps.") the currency of the country in which the Institution is incorporated and has its principal operations. The translations of Mexican pesos into U.S. dollars ("US\$") are included solely for the convenience of the readers and have been made at the rate of Ps. 16.9666 per one U.S. dollar on December 31, 2023, as issued by Banco de México. Such translation should not be construed as representations that the Mexican peso amounts have been, could have been, or could in the future, be converted into U.S. dollars at this rate or at any other rate, if at all.

Changes in accounting policies

Special accounting treatment of the support programs granted by the Holding Company derived from Hurricane Otis

Given the negative impact generated by the hydrometeorological phenomenon with severe impact in the state of Guerrero, Mexico, the Holding Company has determined to support its clients by implementing various support programs that will be applicable to all clients located in the aforementioned state. and subscribe to the program from October 24, 2023 until April 30, 2024, in accordance with the following:

Credit card:

- The support consists of maintain interests from the October 2023 cutoff and recommence interests in May 2024. This applied to the entire State of Guerrero. The accounts that were included were accounts with up to 2 payments due as of October 24, 2023.

Non-revolving consumer credit, housing credit and Pymes

- The support consists of a 6-month deferral without capitalization of interest, during which no payment of capital or interest is required and the term is extended by 6 months. Those credits are considered for all clients domiciled in the State of Guerrero, whose credit risk corresponds to stage 1 and stage 2 as of October 24, 2023.

By virtue of the above, on October 27, 2023, through official letter P307/2023, the Commission issued the Special Accounting Criteria, applicable to credit institutions for the period from October 24, 2023 to April 30, 2024, according to the following:

Those loans with the schemes of single payment of principal at maturity and periodic payments of interest, single payment of principal at maturity and interest at maturity, periodic payments of principal and interest, as well as revolving credits, which are renewed or restructured, were not transferred to the next immediate category with the highest credit risk in terms of what is established in paragraphs 98 to 112 of criterion B-6, the special accounting criterion applied only to credits that as of October 24, 2023 were registered as a credit portfolio with stage 1 and stage 2 credit risk and that the new maturity period does not exceed six months from the expiration date of the original contract.

Additionally, the credits subject to the special accounting criterion were not considered as restructured in accordance with the provisions of paragraph 35 of Criterion B-6, nor were they reported as overdue credits to the credit information institutions.

The amounts that would have been recorded and presented both in the statement of financial position and in the statement of comprehensive income by type of portfolio, if the special accounting criteria had not been applied, as



well as the details of the concepts and amounts by type of portfolio, for which the accounting impact has been made due to the application of the special accounting criterion as of December 31, 2023, are shown below:

Concept	Balances with special accounting criteria	Effects on portfolio and allowance	Balances without special accounting criteria
LOAN PORTAFOLIO WITH CREDIT RISK STAGE 1			
Commercial loans	Ps. 601,695	(Ps. 3)	Ps. 601,692
Consumer loans	172,328	-	172,328
Mortgage loans	249,877	-	249,877
TOTAL LOAN PORTAFOLIO WITH CREDIT RISK STAGE 1	1,023,900	(3)	1,023,897
LOAN PORTAFOLIO WITH CREDIT RISK STAGE 2			
Commercial loans	1,830	3	1,833
Consumer loans	2,936	-	2,936
Mortgage loans	3,261	-	3,261
TOTAL LOAN PORTAFOLIO WITH CREDIT RISK STAGE 2	8,027	3	8,030
LOAN PORTAFOLIO WITH CREDIT RISK STAGE 3			
Commercial loans	3,893	-	3,893
Consumer loans	4,820	-	4,820
Mortgage loans	2,177	-	2,177
TOTAL LOAN PORTAFOLIO WITH CREDIT RISK STAGE 3	10,890	-	10,890
LOAN PORTFOLIO	1,042,817	-	1,042,817
(+/-) DEFERRED ITEMS	2,386	-	2,386
(Minus) ALLOWANCE FOR LOAN LOSSES	(19,603)	(347)	(19,950)
LOAN PORTFOLIO OF INSURANCE AND BOND	3,503	-	3,503
(Minus) ALLOWANCE FOR LOAN LOSSES	254	-	254
LOAN PORTFOLIO OF INSURANCE AND BOND, net	3,249	-	3,249
ACQUIRED COLLECTION RIGHTS	1,094	-	1,094
LOAN PORTFOLIO	1,029,943	(347)	1,029,596
TOTAL ASSETS	2,274,859	(347)	2,274,512
Allowance for loan losses (Net income)	(15,942)	(347)	(16,289)
NET INCOME	53,142	(347)	52,795
TOTAL STOCKHOLDERS' EQUITY	249,204	(347)	248,857
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	Ps. 2,274,859	(Ps. 347)	Ps. 2,274,512

As of December 31, 2023, the balance of credits subject to program support is \$3,309.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset in such a way that the debit or credit balance is presented in the statement of financial position, as appropriate, if and only if there is the contractual right to offset recognized imports, and the intention to settle the net amount, or to realize the asset and cancel the liability, simultaneously.



Recording of operations

Transactions with securities and repurchase agreements, among others, for its own account or for the account of third parties, are recorded on the date they are agreed, regardless of the date of their settlement.

Financial instruments valuation

To determine the fair value of the positions in financial instruments, both its own and those of third parties, the Institution uses the prices, rates and other market information provided by a price provider authorized by the Commission, except for what refers to the operations with futures, which are valued with the market prices determined by the clearing house of the stock exchange in which they are operated.

Cash and cash equivalents

Cash and cash equivalents are stated and valued at nominal value, except for precious metal coins, which are stated at fair value at the end of the period. Cash and cash equivalents available in foreign currency are valued at the closing of the day exchange rate published by Banco de México at the Consolidated statement of financial position.

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 statement of financial position, 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, 2022, the Institution maintained standardized derivative and future operations, so cash collateral (cash margin calls) was recognized to ensure compliance with the obligations corresponding to the operations held in markets recognized for the purpose to mitigate the default risk.



Investments in securities

Business model

Pursuant to MFRS C-2, the Institution determined a business model consistent with the management of its investments in financial instruments, in order to classify them properly. The business model is based on the way in which financial instruments are managed to generate cash flows for the Institution when carrying out its activities and not on a particular intention to hold an instrument.

The Institution's business model is determined at a level that reflects how the groups of financial instruments are managed as a whole to achieve a business objective and not based on management's intentions regarding a particular instrument.

The business model for managing financial instruments is based on facts and not on intention. It is typically observable through the activities carried out to achieve the business objective and judgment is applied to determine the business model, since it is not based on a single factor or activity, therefore all the evidence available at the time is considered to do the evaluation.

Derived from the analysis that the Institution carried out to determine the business model, financial instruments are classified as follows:

a) financial instruments to collect principal and interest (IFCPI), whose objective is to collect the contractual cash flows and the terms of the contract consider cash flows on pre-established dates, which correspond only to payments of principal and interest on the outstanding principal amount payment. Due to the above, the IFCPI has loan characteristics and are managed based on its contractual performance. These instruments are valued after their initial recognition at their amortized cost, as established in MFRS C-20.

b) financial instruments to collect or sell (IFCV), the objective is to obtain a possible profit in their sale when it is convenient or to collect the contractual cash flows to obtain a profit for the contractual interest that they generate. These instruments are valued at their fair value through Other Comprehensive Income (ORI); or

c) trading financial instrument (IFN), which are all those investments in financial instruments that do not have the characteristics mentioned in the two previous paragraphs, and are made up of debt or capital financial instruments, whose objective is to obtain a profit between the purchase price and the sale price and not to collect principal and interest, that is, its administration is based on the market risks of said instruments, which are valued at their fair value through results.

For the application of the business model, the Institution performs SPPI tests (Only payments of principal and interest) to the investments in financial instruments, which consist of testing whether the recovery of the flows is represented only by concept of principal and interest.

Trading financial instruments

Trading financial instruments are securities owned by the Institution, 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 Institution 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 Institution.

The trading financial instruments valuation result is recorded in the results of the period.



Financial instruments to collect or sell

Financial instruments to collect or sell 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 collect principal and interest.

They are valued in the same way as trading financial instruments, but with unrealized gains and losses recognized in other comprehensive income in consolidated stockholders' equity.

Financial instruments to collect principal and interest

Financial instruments to collect principal and interest 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 accrued interest.

The provisions of paragraph 41.1.1 numeral 4 of MFRS C-20 regarding the use of the market rate as the effective interest rate in the valuation of the financial instrument to collect principal and interest when both rates are substantially different are not applicable.

The option to irrevocably designate a financial instrument to collect principal and interest upon initial recognition, to be subsequently valued at fair value with effect on net income referred to in paragraph 41.3.4 of MFRS C-20, is not applicable.

General valuation standards

Upon the sale of trading financial instruments, 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 financial instruments to collect or sell, 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.

In the event of reclassifications under section 44 of MFRS C-2 among the different categories of investments in financial instruments, they may be made due to changes in the business model, which must be reported in writing to the Commission within the 10 business days following the authorization issued for such purposes by the Risk Committee, detailing the change in the business model that justifies them.

If securities to collect principal and interest are reclassified as securities to collect and sell, the corresponding valuation result on the reclassification date is recorded in other comprehensive income within stockholders' equity.

In the case of debt instruments reclassified from securities to collect and sell to securities to collect principal and interest, 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 financial instruments 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 7.

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 Institution periodically assesses whether its financial instruments to be collected or sold and its financial instruments to be collected principal and interest present impairment under the expected credit loss method (PCE), in accordance with MFRS C-16, considering the credit risk of them. The PCEs are estimated based on all possible default events in the entire life of the IFCVs and IFCPI.

The PCE are the losses accrued in the IFCV and IFCPI that can be evidenced later in view of their probability of default and their severity of loss. Therefore, its recognition begins from the time the IFC is generated, since there is already a risk of uncollectibility, even if it is minimal at that time.

The Institution evaluates the PCE on the IFCV and IFCPI considering the following:

- a) The PCE are not the losses verified at the date of the financial statements, but the losses accrued in the IFCV and IFCPI that could be evidenced later in view of their probability of default and their severity of loss. Therefore, its recognition begins when the IFCV and IFCPI are generated, since there is already a risk of uncollectibility, even if it is minimal at that time.
- b) The time value of money; and
- c) Reasonable and supported information that is available without any undue effort or cost at the date of analysis, about past events, current conditions and forecasts of future economic conditions.

In accordance with MFRS C-16, the Institution determines the stage of default of IFCV and IFCPI as follows:

Stage 1: They are all those for which their risk of default has not increased significantly since their initial recognition, up to the date of the financial statements. The Probability of Default (PI) is determined at 12 months

Stage 2: Includes those that have already shown a significant increase in credit risk from their initial recognition to the date of the financial statements. The PI is determined by the total term.

Stage 3: They are those for which one or more events have occurred that have a detrimental impact on future cash flows. The IP considered for these investments is 100%.

Based on the identification of the three stages of default described, the amount of the allowance for PCE is determined. For this, the following steps are applied

- 1) The investments with non-compliance of each of the three previous stages are determined, considering the IP applicable to each stage
- 2) Based on the severity of loss (SP), the recoverable amount (MR) of the defaulted investments is determined, valuing the cash flows that are estimated to be recovered at their present value, with the original effective interest rate; and
- 3) The recoverable amount is compared against the defaulted portfolio determined in step 1 above

The PCE allowance is recognized in the income statement at the time it is determined



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 Institution, 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 Institution, 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 Institution reclassifies the financial asset in the Consolidated Statement of Financial Position as restricted and values it according to the criteria mentioned earlier in this note until the maturity of the repurchase agreement.

The Institution, 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 Institution records it in off Consolidated Statement of Financial position memorandum accounts until the repurchase agreement's maturity, following the guidelines of Circular B-9, "Asset Custody and Management", issued by the Commission.

When the Institution sells the collateral or delivers it as a guarantee, the proceeds from the transaction are recognized, as well as an account payable for the obligation to return the collateral to the reported (initially measured at the agreed price), which is valued, to the case of its sale at fair value or, in the event that it is given as collateral in another repurchase agreement, at its amortized cost (any difference between the price received and the value of the account payable is recognized in the results of the year). For presentation purposes, said account can be offset with the account receivable "Repo debtors" in accordance with the provisions of MFRS B-12.

Derivative financial instruments

The Institution is authorized to perform two types of transactions involving derivative financial instruments:

Transactions to hedge the Institution's open risk position: Such transactions involve purchasing or selling derivative financial instruments to mitigate the risk resulting from one or a group of given transactions.

Transactions for trading purposes: The Institution enters into such transactions as a market participant for reasons other than to hedge its exposed position.

Transactions with derivative 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 Institution'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 Institution in the Consolidated Statement of Financial Position 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 line 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 Statement of financial position are offset when the Institution 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 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 Institution 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 Statement of Financial Position 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 Institution's Consolidated Statement of Financial Positions and to anticipate interest and exchange rate fluctuations, thereby protecting the stockholders' equity.

For hedging derivatives, the Institution 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 Institution documents the hedging transactions As of the date on which the derivative financial instruments are designated as hedging transactions. A file for each transaction is created in order to have documented evidence 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 Institution 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 amount (in absolute terms) from the following items:
 - 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

As the derivative products operated by the Institution are deemed Plain Vanilla, the standard valuation models contained in the Institution's derivatives operation and risk management systems are used.

All of the valuation methods that the Institution 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 performed 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. As of December 31, 2022, 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 valued 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 Institution participates in the derivatives market with trading purposes, and the risk exposures generated are computed within its overall value at risk limit.

The trading strategy is submitted on a weekly basis to the Institution'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 Institution, 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 Institution's future income and expenses are covered, maximizing its profitability.



Hedging derivatives can be restated entirely or partially due to hedging inefficiencies, maturity or sale of primary position.

Contingencies

To enter the derivatives market, the Institution is bound by an 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 Institution; if the statements stipulated in the contract are incorrect; the Institution's failure to fulfill its obligations and/or payments; breach of contract; the Institution'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 are expired or diminished in value; the Institution'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 Institution 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 Institution's ability to comply.

As of December 31, 2023 and 2022, 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 Institution prior to January 2011 are from service and leasing contracts established in US dollars.

Loan portfolio

Business model

In accordance with criterion B-6, the Institution has implemented a business model in accordance with the provisions of MFRS C-2 based on the administration and management of the loan portfolio to generate cash flows, with this business model the Institution determines whether the cash flows will come from obtaining contractual cash flows, from the sale of the credit portfolio, or from both.

The business model to administer and manage the loan portfolio is a matter of facts, not an intention or statement. It is typically observable through the activities carried out to achieve the business objective and judgment is applied to determine the business model, since it is not based on a single factor or activity, therefore all the evidence available at the time is considered to do the evaluation.

The loan portfolio is recognized if the objective of the business model is to hold it to collect the contractual cash flows and the terms of the contract provide for cash flows on pre-established dates, which correspond only to payments of principal and interest on the outstanding principal amount payment, in this case the portfolio is valued at amortized cost in accordance with criterion B-6, if the above is not met, it is valued in accordance with the provisions of MFRS C-2.



Loans or loan portfolios previously evaluated, whose contractual conditions are modified and in the case of new products, are submitted to the SPPI tests and are authorized by the Credit Committee of the Institution, it is also communicated in writing to the Commission within the 10 calendar days prior to its application, stating in detail the justification for its classification within the business model for collection of principal and interest, to negotiate or to collect or sell.

The Institution evaluates periodically the business model, in accordance with its established policies for the classification of the portfolio based on the business model. The aforementioned policies are duly documented.

Loan portfolio represents the balance of the amounts effectively granted to borrowers plus accrued interest not collected, less interest collected in advance. The allowance for loan losses is presented by deducting the balances of the portfolio. Transaction costs and commissions charged at the beginning of the loan are recognized separately as a deferred charge or credit, and are presented net in deferred items, as part of the loan portfolio.

Interest collected in advance is recognized as a deferred credit and is presented net of the loan portfolio that originated it.

The unpaid loan balance is classified as stage 1 as follows:

- Loans with single amortization at maturity of principal and interest that accumulate from 0 to 29 calendar days after payment overdue.
- In the case of loans with a single amortization of principal at maturity, but with periodic interest payments, when they accumulate between 0 and 29 days after payment overdue of principal, or between 0 and 30 days after payment overdue in interest payments.
- Commercial loans whose amortization of principal and interest have been agreed in partial periodic payments, when the first amortization is 0 to 30 calendar days after payment overdue, in the case of consumer credits when they accumulate zero arrears or the equivalent of 1 arrears or less.

The unpaid loan balance is classified as stage 2 as follows:

- In the case of commercial loans with a single amortization of principal at maturity, but with periodic interest payments, when interest accumulates from 31 to 89 calendar days after payment overdue.
- Loans whose amortization of principal and interest have been agreed in partial periodic payments, when they are 31 to 89 calendar days after payment overdue in their amortizations, in the case of consumer loans when they accumulate more than 1 arrears or the equivalent of 3 arrears or less.

The unpaid loan balance is classified as stage 3 as follows:

- Loans with single amortization at maturity of principal and interest, 30 calendar days after maturity occurs
- In the case of loans with a single amortization of principal at maturity, but with periodic interest payments, the total principal and interest at 30 and 90 calendar days after payment overdue, respectively.
- Loans whose amortization of principal and interest have been agreed in partial periodic payments, 90 calendar days after payment overdue in their amortizations, in the case of consumer loans when they accumulate more than 3 arrears or 90 or more days after payment overdue in their payments, whichever comes first.
- In the case of revolving loans, when payment has not been made for two periods or they are 90 or more days after payment overdue, in the case of consumer loans when they accumulate more than 3 arrears or 90 or more days in arrears in their payments.
- In the case of overdrafts in customer checking accounts, they are considered as a stage 3 portfolio at the time the overdraft occurs.

Interest is recognized and accrued as income when earned. The accrual of interest income is suspended when loans are transferred to stage 3.



The Fees charged for the initial granting, restructuring and renewal of loans, interest collected in advance, as well as the loss from renegotiation, are recorded as a deferred credit, which is amortized against the results of the year as interest income, under the effective interest method, through the application of the effective interest rate, during the life of the credit, except those originating from credit cards that are recognized directly in results.

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, as well as the profit from renegotiation, are stated as a deferred charge, which is amortized against the results of the year as interest income, under the effective interest method, through the application of the effective interest rate, during the life of the credit, except those originating from credit cards that are recognized directly in results.

When a loan is considered to have stage 3 credit risk, the balance pending amortization of transaction costs, as well as commissions charged for the initial granting, restructuring and renewal of credits, and interest collected in advance are recognized in results and, if applicable, the effect of the profit or loss in renegotiation pending amortization against the results of the year.

The restructured or renewed loans that have been transferred to the next immediate risk stage, until the moment in which there is evidence of sustained payment, which is considered when the Institution receives the collection without delay and in its entirety of three consecutive amortizations, in the case of loans with amortizations that cover between 61 and 90 days, the payment of two amortizations, or, the collection of an exhibition in the cases in which the amortization covers periods greater than 90 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 and this period has passed.

When a loan is restructured in stage 1 or 2 and remains in one of those stages, the effect of renegotiation is determined as follows:

- a) The book value of the loan is determined, which corresponds to the amortized cost at the date of the renegotiation,
- b) The new future cash flows are determined on the partially restructured or renewed amount, discounted at the original effective interest rate,
- c) The difference between the book value and the cash flows determined in subparagraph b) above is determined and recognized as a deferred charge or credit against the profit or loss from loan portfolio renegotiation in the statement of comprehensive income.

The determination of profit or loss from renegotiation is not applicable to credit cards, or to credits with stage 3 credit risk.

If the Institution renews a loan, it is considered that there is a new loan, therefore the previous loan is canceled in the event of a total renewal.

Accrued interest during the period in which the loan was included in stage 3 is recognized as income when collected.



The recognition of interest income is renewed when the portfolio is no longer considered stage 3, 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 Institution regularly evaluates whether a stage 3 loan should remain in the Statement of Financial Position or be written off. Such write-offs are done by canceling the outstanding loan balance against the allowance for loan losses. The Institution may opt to eliminate from its assets those stage 3 loans that are 100% provisioned according to the following parameters:

- Commercial loans – Must be classified in stage 3 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.

Write-offs and discounts, that is, the amount forgiven for the payment of the loan partially or totally, is recorded with a charge to allowance for credit risks. In the event that the amount of these exceeds the balance of the estimate associated with the loan, estimates are made up to the amount of the difference.

When the balance of the allowance for credit risks exceeds the amount required under the Provisions, the differential is canceled in the period in which said excesses occur, against the results of the year, affecting the allowance for loan losses.

Allowance for loan losses

As of January 1, 2022, regulatory modifications of the Commission entered into force, regarding the classification and registration of the loan portfolio (Accounting Criterion B-6) for the implementation of the MFRS C-16 (IFRS 9), modifications to the standard methodologies for rating and calculating allowance for loan losses, recalibration of the standard methodologies for calculating the probability of default of the commercial portfolio and changes in the requirements to certify internal models and methodologies for calculating capital requirements for credit risk and estimate of preventive reserves.

Within these modifications, loans are classified into three "Stages" based on their risk: those cataloged within Stage 1 are considered to have no 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. With the above description, for loans classified in Stage 1 and 3, the expected loss was calculated over a 12-month time horizon, while for those loans classified in Stage 2, expected losses were recognized throughout the life of the loan.

Among the most relevant regulatory changes in standard portfolio rating methodologies and in the requirements to certify internal models and methodologies, the following stand out:

Standar methodology

- All portfolios
 - In loans classified as Stage 2, allowances are estimated considering the higher of the expected loss with a 12-month horizon or the expected loss considering the remaining term of the loan.
- Comercial loans
 - The methodologies for determining the Probabilities of Default of all types of borrowers (Governments loans, Financial Holding Companies and Business with Sales of less than 14 million UDIS) are replaced.



- The methodology for determining the percentage of reserves in loans 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 additionally, the evolution of said Severity of the Loss of credits classified in Stage 3 is modified, which will gradually increase to reach 100% in a period of 36 months after its classification in Stage 3
- The formulas for estimating the Exposure at Default in committed lines of credit are adjusted
- In certain exposures, Rebuttal of Stage 2 is allowed when the borrower's delay event 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 impairment in the credit quality of the borrower, in certain exposures the deterioration to a Stage of higher risk is allowed after a quantitative and qualitative analysis, and that is also approved by a collegiate body.

Internal models

In October 2016, the Board of Directors approved the implementation plan for the internal models for calculating reserves and capital requirements for all modelable portfolios, which was sent to the Commission that same year. Pursuant to this implementation plan, the models for the Credit Card, Business and Personal Automotive portfolios were certified.

At the end of 2018, the Commission released the project to migrate standard and internal methodologies under the IFRS 9 approach, but it was not until March 2020 that the definitive rules for Internal Methodologies on the Official Gazette of the Federation (DOF). reserves based on MFRS C-16 (IFRS 9), effective as of January 2021, however, derived from the Covid-19 pandemic, the Commission issued a statement in April 2020, indicating that the rule would be effective as of January 2022.

Due to the foregoing, the Institution adhered to the new regulation and adopted the Internal Reserve Methodologies based on MFRS C-16, requesting in April 2021 the CPR and the Board of Directors, the approval of the new Implementation Plan (Capital and Reserves), which was authorized by the Commission in January 2022 through Official Letter No. 111-2/852/2022.

Therefore, as of January 2022, when the MFRS C16 (IFRS 9) standard came into force, it is being used to calculate preventive reserves for credit risks, both in the Standard Approach and in the Internal Models. Consequently, for the Internal Models there will be estimates for the risk parameters under two approaches: IRB for calculating the capital requirement and MFRS9 for calculating reserves:

- The approach for equity will maintain long-term estimates under Annex 15 of the CUB.
- The approach for reserves captures current behaviors and with a prospective approach (future macroeconomic environment), under Annex 15 Bis of the CUB. In addition, the new methodology indicates that the portfolio must be classified into 3 risk stages, being necessary for stage 2 a reserve calculation for the remaining term.

Given the new guidelines of the CUB on Internal Models, the Commission will only issue an official letter of approval for the use of the methodology for the Calculation of Equity, for a maximum period of 18 months. The use of the internal reserve methodology is authorized by the Board of Directors with the support of the Technical Evaluation made by the Independent Evaluator that guarantees compliance with the model under the standards established in Annex 15 Bis. It should be noted that the Technical Evaluation Report is sent to the Commission for its review, the validity of this model is also for a maximum period of 18 months.



Advanced Internal Model for Credit Card

On November 15, 2017, the Institution obtained approval from the Commission for the use of Internal Models (IM) for Credit Card (TDC) qualification for the constitution of regulatory reserves and capital for credit risk with an advanced approach (Official 111-3/706/2017). Every year, the Internal Models are recalibrated, and the certification is obtained again, and given that, on December 17, 2021, the Commission granted authorization for the use of the MI only for the calculation of capital requirements for a maximum period of 18 months. (Official Letter 111-2/272/2021) and the Board of Directors authorized the use of the reserve methodology based on MFRS C-16 at its meeting held on October 21, 2021. The maximum period of use of the reserve model is also for 18 months.

These internal models improve comprehensive credit risk management, estimating risk parameters through the Institution's experience, and have been applied as of February 2018 (with January figures). The aforementioned parameters are:

- Probability of Default (PD). Indicates the probability that a borrower defaults on his contractual obligations in the following twelve months with respect to the month of qualification. A score is obtained for each credit, which is mapped to a Master rating scale.
- Loss severity (SP). Measures the intensity of the loss at default expressed as a percentage of the Exposure at Default (EI)
- Exposure at Default (EI). It is the amount of the debt at the time of default on a loan, considering a horizon of the following 12 months with respect to the month of qualification.

Advanced Internal Model for Individual Auto Loan

On November 25, 2019, the Institution obtained approval from the Commission for the use of Internal Models (IM) for the qualification of Individuals Auto Loans (Auto PF) for the constitution of regulatory reserves and capital for credit risk with a focus advanced (Official 111/678/2019). Every year, the Internal Models are recalibrated, and the certification is obtained again, and given that, on September 29, 2022, the Commission (Official 111-2/272/2021) granted authorization for the use of the MI only for the calculation of capital requirements for a maximum period of 18 months, and the Board of Directors authorized the use of the reserve methodology based on MFRS-C16 at its meeting on July 21, 2022. The maximum period of use of the reserve model also is for 18 months.

These internal models improve comprehensive credit risk management, estimating risk parameters through the Institution's experience. The aforementioned parameters are:

- Probability of the Default (PI). Indicates the probability that a borrower defaults on his contractual obligations in the following twelve months with respect to the month of qualification. A score is obtained for each credit, which is mapped to a Master rating scale.
- Loss severity (SP). Measures the intensity of the loss at default expressed as a percentage of the Exposure at Default (EI)
- Exposure at Default (EI). It is the amount of the debt at the time of default on a loan, considering a horizon of the following 12 months with respect to the month of qualification.



Basic Internal Model for Business

The Institution obtained on November 30, 2018 from the Commission the approval for the use of the Internal Model for business for the constitution of reserves and regulatory capital requirement for credit risk with a basic approach (Official Letter 111-3/1472/ 2018) in Banorte, and on March 1, 2019 for AyF (Oficios 111-1/160/2019 and 111-1/161/2019). Every year, the Internal Models are recalibrated, and the certification is obtained again, and given that, on December 17, 2021, the Commission granted authorization for the use of the MI only for the calculation of capital requirements for a maximum period of 18 months. for Banorte (Official 111-2/269/2021) and AyF (Official 111-2/267/2021). Likewise, the Board of Directors authorized the use of the reserve methodology based on MFRS C16 at its meeting held on October 21, 2021 for Banorte and on October 20, 2021 for AyF. The maximum period of use of the reservation model is also for 18 months.

The positions subject to those qualification are Business Entities (other than federal entities, municipalities and financial entities) and individuals with business activity, both with annual sales greater than or equal to 14 million UDIs.

The Internal Model improves comprehensive credit risk management, estimating risk parameters through the Institution's experience, and has been applied as of February 2019 (with figures as of January) at Banorte; and as of March 2019 (with figures as of February) in AyF. The authorized parameter under the Basic Internal Model of Companies is:

- Probability of the Default (PI). Indicates the probability that a borrower defaults on his contractual obligations in the following twelve months with respect to the month of qualification. A score is obtained for each credit, which is mapped to a Master rating scale.

Acquired collection rights

This balance is represented by the acquisition cost of the various packages of credit assets acquired by the Institution and are valued at amortized cost through the effective interest method with the effective interest rate.

For purposes of recognition of effective interest, the effective interest rate of the collection rights may be adjusted periodically in order to recognize variations in the estimated cash flows to be received.

The Institution periodically evaluates the estimate of the cash flows expected from the collection rights.

The collection rights acquired by the Institution are considered as financial instruments receivable with high credit risk (stage 3), and cannot be transferred to another stage for any subsequent effect.

Impairment of credit assets.- The Institution performs an evaluation of the expected cash flows periodically during the term of the collection rights, discounts them based on the effective interest rate of each portfolio in accordance with the provisions of the MFRS C-16, in the event that, based on events and information, it is determined that said discounted cash flows will decrease, it constitutes an estimate for irrecoverability or difficult collection against the results of the year, for the amount by which said discounted cash flows are less to the book value of the account receivable.

Other accounts receivable and payable

The Institution 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, which are recorded when entered into and are settled within 48 hours.



Impairment of the value of long-lived assets and their disposal

The Institution 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 gross 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 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 financial instruments 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 financial instruments must be valued in accordance with the provisions of the MFRS C-2 or MFRS C-20, 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 Institution records additional reserves based on management's best estimates. On December 31, 2022, there were no reserves other than those created by the percentage applied based on the accounting criteria that could indicate signs of impairment or 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.

Lease right-of-use assets (net) / Lease liability

Asset for rights of use.

It represents the initial valuation amount of the lease liability, plus the lease payments made in advance, plus the initial direct costs incurred. Subsequently, the right-of-use asset is depreciated monthly in accordance with MFRS C-6 during the life of the lease.

Lease liability.

It represents the present value of future lease payments. Future payments are discounted using a risk-free rate, which is maintained until the end of the lease. The subsequent valuation of the lease liability is at amortized cost.

Permanent stock investments

The Institution 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 Statement of Financial Position under the "Deferred Income taxes, net" line.

Intangible assets

Intangible assets are recognized in the Consolidated Statement of Financial Position provided they are identifiable and generate future economic benefits that are controlled by the Institution. 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 regulatory provisions regarding annual impairment tests.

Goodwill

The Institution 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 MFRS 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 MFRS 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, 2022.

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 Institution 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.

Provisions

Provisions are recognized when the Institution 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 benefits labor obligations

According to Mexican Federal Labor Law, the Institution has obligations derived from severance payments and seniority premiums payable to employee that cease to render their services under certain circumstances.



Defined benefit plan

The Institution 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 Institution's overall employee, as well as the obligation related to retired personnel.

At the end of 2022, 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 Institution applies the provision of MFRS 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 employee 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".

Employee 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 Institution 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 MFRS D-3, because the cost of this plan is equivalent to the Institution'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 Institution 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 Institution can act as the assignor or assignee, as applicable, in this type of transactions. Moreover the Institution 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 Institution grants stock options to key officers through different payment schemes based on stocks. The Institution 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 Institution records its stock option plans according to the guidelines of MFRS D-8, "Share-based payments." The compensation expense is recorded at fair value as of the date the stock options are granted. Pursuant to MFRS D-8 and given that the Institution grants its own stock options, the Institution 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 Institution's general Consolidated Statement of Financial Position, 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 Institution 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 Institution 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 Institution.



- Collateral received:

The balance represents all the collateral received in securities repurchase agreement operations when the Institution 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 Institution is acting as the buyer, and which in turn are sold by the Institution acting as the seller.

6 - CASH AND CASH EQUIVALENTS

As of December 31, 2023 and 2022, cash and cash equivalents are as follows:

	2023	2022
Cash	Ps. 29,566	Ps. 25,928
Banks	70,539	81,626
Other cash equivalents	23	27
	Ps. 100,128	Ps. 107,581

"Banks" is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de México of Ps. 16.9666 and Ps. 19.5089 as of December 31, 2023 and 2022, respectively, and is made up as follows:

	Mexican pesos		USD		Total	
	2023	2022	2023	2022	2023	2022
Call money	Ps. 26,474	Ps. 13,404	Ps. -	Ps. -	Ps. 26,474	Ps. 13,404
Deposits with foreign credit institutions	-	-	12,662	25,375	12,662	25,375
Domestic banks	2,217	96	-	-	2,217	96
Banco de México	29,186	42,751	-	-	29,186	42,751
	Ps. 57,877	Ps. 56,251	Ps. 12,662	Ps. 25,375	Ps. 70,539	Ps. 81,626

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, 2023 and 2022, the Institution had made monetary regulation deposits of Ps. 25,980 and Ps. 25,967, respectively.

As of December 31, 2023 and 2022, the total sum of restricted cash and cash equivalents is de Ps. 52,454 and Ps. 39,371, 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.

The exchange rates used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 864.879 and Ps. 453.26, per unit, respectively, in 2023; and Ps. 868.61 and Ps. 524.66, per unit, respectively, in 2022.

As of December 31, 2023 and 2022, "Other cash equivalents" includes:

	2023	2022
Minted metals in gold and silver	Ps. 10	Ps. 10
Cashable checks received, pending payment at a 3-day term	3	15
Remittances	10	2
	Ps. 23	Ps. 27



7 - INVESTMENTS IN SECURITIES

a. Trading financial instruments

As of December 31, 2023 and 2022, trading securities are as follows:

	2023			
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value
Government securities	Ps. 100,988	Ps. 1,129	Ps. 351	Ps. 102,468
Not restricted	5,575	35	189	5,799
F Bonds	63	-	-	63
M Bonds	5,564	35	189	5,788
Udibonos	(52)	-	-	(52)
Restricted	95,413	1,094	162	96,669
D Bonds	9,716	11	3	9,730
F Bonds	19,953	122	11	20,086
M Bonds	3,140	29	59	3,228
BPA	60,914	932	86	61,932
Cetes	1,523	-	(3)	1,520
Udibonos	167	-	6	173
Bank securities	5,546	17	1	5,564
Restricted	5,546	17	1	5,564
CEBUR – development bank	3,117	9	1	3,127
CEDES	2,000	7	-	2,007
Other bank securities	429	1	-	430
Private securities	396	-	693	1,089
Not restricted	14	-	(9)	5
CEBUR – corporate	14	-	(9)	5
Restricted	382	-	702	1,084
Shares	382	-	702	1,084
	Ps. 106,930	Ps. 1,146	Ps. 1,045	Ps. 109,121

	2022			
	Acquisition cost	Accrued interest	Increase (decrease) by valuation	Book value
Government securities	Ps. 126,183	Ps. 1,393	Ps. 5	Ps. 127,581
Not restricted	(1,444)	-	1	(1,443)
Bondes F	(1,297)	-	1	(1,296)
M Bonds	(89)	-	-	(89)
BPA	(58)	-	-	(58)
Restricted	127,627	1,393	4	129,024
D Bonds	15,324	26	(4)	15,346
F Bonds	14,344	41	(2)	14,383
M Bonds	1,219	14	(2)	1,231
BPA	96,188	1,312	18	97,518
Cetes	439	-	-	439
Udibonos	113	-	(6)	107
Bank securities	5,290	11	2	5,303
Restricted	5,290	11	2	5,303
CEBUR – development bank	2,117	5	1	2,123
CEBUR – bank	31	-	-	31
CEDES	2,650	6	1	2,657
Other bank securities	492	-	-	492
Private securities	1,218	13	570	1,801
Not restricted	1,218	13	570	1,801
Shares	467	-	601	1,068
CEBUR – corporate	14	-	(8)	6
Eurobonds	737	13	(23)	727
	Ps. 132,691	Ps. 1,417	Ps. 577	Ps. 134,685

During 2023 and 2022, the Institution recognized under “Brokerage revenues” a loss of Ps. 1,065 and (Ps. 177), respectively, for the fair value valuation of these instruments.

As of December 31, 2023 and 2022, there are Ps. 102,232 and Ps. 134,326, respectively, in restricted trading securities associated mainly with repurchase operations.



b. Financial Instruments to Collect or Sell

As of December 31, 2023 and 2022, Financial Instruments to Collect or Sell are as follows:

	2023			
	Acquisition cost	Accrued interest	Increase (decrease) by valuation	Book value
Government securities	Ps. 117,278	Ps. 2,085	(Ps. 720)	Ps. 118,643
Not restricted	37,240	573	(169)	37,644
M Bonds	6,072	165	188	6,425
BREMs	7,778	24	-	7,802
CEBUR – Government	787	2	(69)	720
Cetes	2,000	-	-	2,000
Eurobonds - Government	7,974	185	(348)	7,811
Treasury Bills	1,670	-	(5)	1,665
Treasury Notes	10,959	197	65	11,221
Restricted	80,038	1,512	(551)	80,999
D Bonds	3,042	3	3	3,048
M Bonds	7,854	64	213	8,131
BPA	41,689	1,093	26	42,808
CEBUR – Government	524	3	(1)	526
Eurobonds - Government	24,311	343	(786)	23,868
Udibonos	2,618	6	(6)	2,618
Bank securities	26,202	193	(245)	26,150
Not restricted	24,169	177	(243)	24,103
CEBUR – development bank	2,834	29	(212)	2,651
CEBUR – bank	2,679	17	(85)	2,611
CEDES	15,000	119	-	15,119
Other bank securities	2,072	12	54	2,138
Promissory Notes	1,584	-	-	1,584
Restricted	2,033	16	(2)	2,047
CEBUR – development bank	2,033	16	(2)	2,047
Private securities	16,854	320	(918)	16,256
Not restricted	14,958	279	(805)	14,432
CEBUR – corporate	6,159	45	(613)	5,591
CEBUR – Municipality	838	11	44	893
Eurobonos	7,961	223	(236)	7,948
Restricted	1,896	41	(113)	1,824
CEBUR – corporate	470	1	-	471
CEBUR – Municipality	100	5	-	105
Eurobonos	1,326	35	(113)	1,248
	Ps. 160,334	Ps. 2,598	(Ps. 1,883)	Ps. 161,049



	2022			
	Acquisition cost	Accrued interest	Increase (decrease) by valuation	Book value
Government securities	Ps. 88,611	Ps. 1,086	(Ps. 2,456)	Ps. 87,241
Not restricted	18,562	203	(817)	17,948
BREMs	768	2	-	770
CEBUR – Government	763	1	(62)	702
CEBUR – Municipality	860	11	41	912
Cetes	7,475	-	(38)	7,437
Eurobonds	8,696	189	(758)	8,127
Restricted	70,049	883	(1,639)	69,293
D Bonds	3,036	2	2	3,040
BREMs	7,011	18	-	7,029
Bonos M	865	8	(80)	793
BPA	24,947	417	-	25,364
CEBUR – Government	524	3	(1)	526
CEBUR – Municipality	105	5	-	110
Eurobonds	28,255	407	(1,420)	27,242
Udibonos	5,306	23	(140)	5,189
Bank securities	11,136	56	(328)	10,864
Not restricted	7,623	35	(327)	7,331
CEBUR – development bank	2,219	27	(199)	2,047
CEBUR – bank	2,244	7	(113)	2,138
CEDES	250	1	-	251
Structured notes	618	-	(6)	612
Other bank securities	397	-	-	397
Promissory Notes	1,895	-	(9)	1,886
Restricted	3,513	21	(1)	3,533
CEBUR – development bank	2,033	14	(1)	2,046
CEBUR – bank	1,480	7	-	1,487
Private securities	17,383	325	(1,042)	16,666
Not restricted	15,435	285	(863)	14,857
CEBUR – corporate	6,834	35	(452)	6,417
Eurobonds	8,601	250	(411)	8,440
Restricted	1,948	40	(179)	1,809
CEBUR – corporate	470	1	-	471
Eurobonds	1,478	39	(179)	1,338
	Ps. 117,130	Ps. 1,467	(Ps. 3,826)	Ps. 114,771

As of December 31, 2023 and 2022, there are Ps. 84,869 and Ps. 74,663, respectively, in restricted securities to collect and sell, mainly associated with securities repurchasing transactions.

As of December 31, 2023 and 2022, the balance of BREMSR amounted 77,783,110 securities acquired in May 2016, these BREMs were initially classified in the category of Financial Instruments to collect or sell their business model corresponds to collecting contractual cash flows for principal and interest collections, or to sell them in case of changes in the Institution's liquidity strategy. A portion of these securities serves as a hedged item in a cash flow hedge relationship, which is detailed in note number 9.



c. Financial instruments to collect principal and interest

As of December 31, 2023 and 2022, financial instruments to collect principal and interest are as follows:

Medium and long-term debt securities:

2023			
	Acquisition cost	Accrued interest	Book value
Government securities	Ps. 82,593	Ps. 1,124	Ps. 83,717
Not restricted	52,946	901	53,847
F Bonds	2,000	15	2,015
M Bonds	927	6	933
CEBUR – Government	210	-	210
Cetes	3,987	-	3,987
CETES - Specials	36	426	462
Eurobonds - Government	35,838	372	36,210
Treasury Notes	9,948	82	10,030
Restricted	29,647	223	29,870
M Bonds	15,498	115	15,613
CEBUR - Municipality	2	-	2
Eurobonds - Government	14,147	108	14,255
Bank securities	25	-	25
Not restricted	25	-	25
CEBUR – Bank	25	-	25
Private securities	10,824	58	10,882
Not restricted	8,229	49	8,278
CEBUR – BORHIS	2	-	2
CEBUR – corporate	2,400	16	2,416
EUROBONOS	4,700	33	4,733
Other private securities	1,127	-	1,127
Restricted	2,595	9	2,604
CEBUR – Municipality	2,595	9	2,604
	Ps. 93,442	Ps. 1,182	Ps. 94,624

2022			
	Acquisition cost	Accrued interest	Book value
Government securities	Ps. 77,497	Ps. 631	Ps. 78,128
Not restricted	57,800	495	58,295
F Bonds	1,997	13	2,010
M Bonds	928	6	934
CEBUR – Government	200	-	200
Cetes	5,454	-	5,454
CETES – Specials	449	-	449
Eurobonds – Government	48,772	476	49,248
Restricted	19,697	136	19,833
M Bonds	15,515	112	15,627
CEBUR – Municipality	2,876	14	2,890
Eurobonds – Government	1,306	10	1,316
Bank securities	111	-	111
Not restricted	111	-	111
CEBUR – Bank	27	-	27
Structured notes	84	-	84
Private securities	9,763	48	9,811
Not restricted	9,763	48	9,811
CEBUR – BORHIS	2	-	2
EUROBONOS	8,700	48	8,748
Other private securities	1,061	-	1,061
	Ps. 87,371	Ps. 679	Ps. 88,050



As of December 31, 2023 and 2022, there are Ps. 32,473 and Ps. 19,832, respectively, in restricted financial instruments to collect principal and interest associated mainly with repurchasing operations.

As of December 31, 2023, 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
Government securities	Ps. 46,001	Ps. 30,093	Ps. 7,622	Ps. 83,716
Not restricted	36,213	12,663	4,970	53,846
F Bonds	2,015	-	-	2,015
M Bonds	202	731	-	933
CEBUR – Government	-	-	210	210
Cetes	3,987	-	-	3,987
CETES – Specials	462	-	-	462
Eurobonds - Government	19,518	11,932	4,760	36,210
Treasury Notes	10,029	-	-	10,029
Restricted	9,788	17,430	2,652	29,870
M Bonds	9,786	5,828	-	15,614
CEBUR - Municipality	2	-	-	2
Eurobonds - Government	-	11,602	2,652	14,254
Bank securities	25	-	-	25
Not restricted	25	-	-	25
CEBUR – Bank	25	-	-	25
Private securities	6,432	717	3,734	10,883
Not restricted	6,432	717	1,130	8,279
CEBUR – BORHIS	-	-	2	2
CEBUR – corporate	2,416	-	-	2,416
EUROBONOS	4,016	717	-	4,733
Other private securities	-	-	1,128	1,128
Restricted	-	-	2,604	2,604
CEBUR – Municipality	-	-	2,604	2,604
	Ps. 52,458	Ps. 30,810	Ps. 11,356	Ps. 94,624

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 year ended December 31, 2023 and 2022, the Financial Group did not carry out sales of financial instruments to collect principal and interest.

Financial instruments impairment

For impairment testing purposes, government and corporate bonds are considered to have low credit risk as the counterparties to these investments have a minimum credit rating of BBB. Consequently, for the purposes of evaluating these financial assets for impairment, the expected loss is measured by an amount equal to 12-month PCE.

When determining the PCE for these assets, the Institution's management has taken into account the historical default experience, the financial position of the counterparties, as well as the future prospects of the industries in which the issuers of the bonds and debentures obtained economic reports, reports from financial analysts and considering various external sources of real and forecast economic information, as appropriate, when estimating the probability of default of each of these financial assets within their respective loss assessment time horizon, as well as the loss in case of default in each case.



The following table shows the movement in expected credit losses that has been recognized for financial assets:

	<u>12 months expected credit losses</u>		<u>Permanent expected credit losses and impairment credit</u>		
	<u>Financial Instruments to Collect or Sell</u>	<u>Financial instruments to collect principal and interest</u>	<u>Financial Instruments to Collect or Sell</u>	<u>Financial instruments to collect principal and interest</u>	<u>Total</u>
Adoption as of January 1, 2022	Ps. 1	Ps. -	Ps. 452	Ps. 203	Ps. 656
Increase in the estimate of loss caused by new financial assets recorded in the period	42	-	3	2	47
Decrease in the estimate caused by the derecognition of financial assets recorded in the period	-	-	(153)	-	(153)
Balances as of December 31, 2022	43	-	302	205	550
Increase in the estimate of loss caused by new financial assets recorded in the period	-	-	2	-	2
Decrease in the estimate caused by the derecognition of financial assets recorded in the period	(2)	-	(15)	(122)	(139)
Balances as of December 31, 2023	Ps. 41	Ps. -	Ps. 289	Ps. 83	Ps. 413

d. Collateral

The fair value of the collateral given in derivative transactions as of December 31, 2023 and 2022, is as follows:

2023			
Fair value in millions			
Type of collateral:	Pesos	USD	EUR
Cash	Ps. 1,145	Ps. 771	Ps. 38
	Ps. 1,145	Ps. 771	Ps. 38

2022			
Fair value in millions			
Type of collateral:	Pesos	USD	EUR
Cash	Ps. 1,252	Ps. 811	Ps. 38
	Ps. 1,252	Ps. 811	Ps. 38

The fair value of the collaterals received in derivative operations as of December 31, 2023 and 2022, is made up as follows:

2023			
Fair value in millions			
Type of collateral:	Pesos	USD	EUR
Cash	Ps. 10,890	Ps. 522	Ps. -
	Ps. 10,890	Ps. 522	Ps. -



2022			
Fair value in millions			
Type of collateral:	Pesos	USD	EUR
Cash	Ps. 12,671	Ps. 409	Ps. -
	Ps. 12,671	Ps. 409	Ps. -

As of December 2023 and 2022, interest income is as follows:

Concept	2023	2022
Trading Financial Instrument	Ps. 13,335	Ps. 5,489
Financial Instruments to Collect or Sell	10,694	8,198
Financial instruments to collect principal and interest	4,877	3,608
	Ps. 28,906	Ps. 17,295

8 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

As of December 31, 2023 and 2022, creditor and debtor balances under repurchase agreements are as follows:

Acting as seller of securities

Instrument	Repurchase agreement from debtors	Received, sold collateral in repurchase	Repurchase agreement from debtors	Received, sold collateral in repurchase
CETES	Ps. 100	Ps. 100	Ps. 1,000	Ps. 1,000
CEBUR – Government	5,026	5,020	7,405	7,379
CEBUR – Development Bank	6,120	6,120	502	502
UMS (Fix) Bonds - Government	-	-	1,916	-
IPAB Bonds 28	2,885	2,886	-	-
IPAB Bonds 91	20,074	20,074	11,172	11,172
IPAB Bonds 182	5,385	5,385	26,494	26,494
F Bonds	27,970	27,996	7,102	7,102
M Bonds	-	-	975	975
D Bonds	1,031	1,005	9,418	9,418
Government Bonds (Fix)	2,088	2,088	-	-
Government securities	70,679	70,674	65,984	64,042
CEBUR – Bank	3,311	3,311	2,936	2,936
CEDES (Fix)	6,843	6,843	3,512	3,512
Others	341	341	-	-
Bank securities	10,495	10,495	6,448	6,448
CEBUR Municipality	141	141	28	28
CEBUR Udis	287	287	1,500	1,500
CEBUR corporate	-	-	411	411
CEBUR Udis	1,501	1,501	-	-
Private securities	1,929	1,929	1,939	1,939
	Ps. 83,103	Ps. 83,098	Ps. 74,371	Ps. 72,429

With the Institution acting as the vendor, accrued interest were charged to the results of operations as of December 31, 2023 and 2022 for Ps. 14,526 and Ps. 14,849, respectively, which is presented in the “Interest Expenses heading.”

During 2023, the period of repurchase transactions carried out by the Institution in its capacity as vendor ranged in



term from 1 day to 7 years.

As of December 31, 2023, the amount of the delivered and received securities as collateral in repurchase transactions that represent a transfer of ownership, amount to Ps. 215,655 and Ps. 83,105, respectively, and as of December 31, 2022, the collaterals delivered was Ps. 182,756 and the collaterals received was Ps. 72,400.

Acting as securities purchaser

Instrument	2023	2022
CETES	Ps. -	Ps. 367
CEBUR	526	526
Cetes tax	1,522	-
CEBUR – Development Bank	5,174	4,168
UMS (Fix) Bonds - Government	29,324	20,301
UMS (Fix) Bonds - Government	15,895	16,913
IPAB Bonds 28	47,160	92,016
IPAB Bonds 91	41,812	14,090
Bonds	32,990	32,794
Government Bonds	23,312	17,392
Udibonds	2,729	5,288
Monetary Regulation Bonds	-	7,002
Government securities	200,444	210,857
CEBUR – Bank	-	1,518
Multilateral Financial Organizations	433	491
CEDES	2,007	2,667
Bank securities	2,440	4,676
CEBUR Municipality	2,659	2,919
CEBUR corporate	475	476
Private securities	3,134	3,395
	Ps. 206,018	Ps. 218,928

With the Institution acting as the purchaser, accrued interest charged to the results of operations as of December 31, 2023 and 2022 were Ps. 35,475 and Ps. 24,163, respectively, which are presented in the “Interest Income” Heading.

During 2023, repurchase transactions carried out by the Institution in its capacity as purchaser ranged in term from 1 day to 10 years.

9 - DERIVATIVE FINANCIAL INSTRUMENTS

Transactions carried out by the Institution involving derivatives correspond mainly to futures, swaps and options contracts. These transactions are done to hedge various risks and for trading purposes.

The Institution has evaluated the effectiveness of derivatives' transactions for hedging purposes and has concluded that they are highly effective.



As of December 31, 2023 and 2022, positions in derivative financial instruments are as follows:

Asset position	2022	
Forwards		
Foreign currency forwards	Ps. 939	Ps. 125
Options		
Interest rate options	910	1,154
Shares options	81	142
Foreign currency options	14	50
Swaps		
Interest rate swaps	18,464	30,255
Foreign currency swaps	8,547	3,709
Credit swaps	2	141
Total trading	Ps. 28,957	35,576
Swaps		
Foreign currency swaps	3,701	1,854
Interest rate swaps	741	-
Total hedging	4,442	1,854
Total position	Ps. 33,399	Ps. 37,430

Liability position	2023	2022
Forwards		
Foreign currency forwards	Ps. 731	Ps. 162
Options		
Interest rate options	943	1,211
Foreign currency options	87	143
Share options	-	35
Swaps		
Interest rate swaps	11,995	23,237
Foreign currency swaps	7,765	4,318
Credit swaps	13	10
Total trading	21,534	29,116
Swaps		
Interest rate swaps	1,151	1,177
Foreign currency swaps	1,108	2,769
Total hedging	2,259	3,956
Total position	Ps. 23,793	Ps. 33,072

Trading instruments:

As of December 31, 2022, the trading derivative financial instruments are classified by fair value and the result of the period.

Trading	Book value	Valuation
Forward	Ps. 208	Ps. 245
Options	(25)	(47)
Foreign Currency Swaps	6,469	1,354
Interest Rate Swaps	782	(744)
Credit Swaps	(11)	(145)



An analysis of undiscounted trading cash flows as of December 31, 2023 is broken down below.

Instrument	Currency	1 year	1 to 5 years	5 to 10 years	More than 10 years
Interest Rate Swap	MXN	(9,288)	(18,554)	(6,016)	(631)
Interest Rate Swap	USD	(9)	(117)	(25)	(1)
Foreign Currency Swap	MXN	2,517	(289)	355	28
Foreign Currency Swap	USD	(50)	(28)	3	1
Foreign Currency Swap	EUR	(3)	(29)	(5)	-

As of December 31, 2023, the items hedged by type of coverage and risk are detailed.

Instrument	Book value		Item
	Asset	Liability	
Interest Rate Swaps (Forecast Fund)	Ps. \$28	Ps. -	Liability
Interest Rate Swaps (DRM)	317	1,496	Asset
Interest Rate Swaps (Loans)	741	-	Asset
Foreign Currency Swap (UDI Liability)	147	-	Liability
Foreign Currency Swap (Debentures)	150	-	Liability
Foreign Currency Swap (EUR Assets)	1,462	533	Asset
Foreign Currency Swap (GBP Assets)	91	70	Asset
Foreign Currency Swap (USD Assets)	1,851	505	Asset

As of December 31, 2023 and 2022, ORI movements to results from cash flow hedges are detailed.

Instrument	2023	2022
Interest Rate Swaps (Forecast Fund)	Ps. 1,205	Ps. 656
Interest Rate Swaps (DRM)	9	(1,490)
Foreign Currency Swap (Debentures)	-	283
Foreign Currency Swap (ME Asset)	(986)	(992)

The instruments operated and their main underlying instruments are as follows

Forwards	Options	Interest Rate 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 SOFR	Euribor

The risk management policies and internal control procedures To manage the risks inherent to derivatives are described in Note 38.

Transactions carried out for hedging purposes have maturities from 2024 to 2029 and are intended to mitigate the financial risk derived from long-term loans offered by the Institution at fixed nominal rates, as well as the exchange rate risk generated by market instruments in the Institution's portfolio.

As of December 31, 2023 and 2022, the collateral was comprised mainly of cash. Their fair value is shown in Note 7 d).

During 2023 and 2022, the net earnings from the valuation and realization of derivative financial instruments were Ps. 593 and Ps. 697, respectively.



The net amount of estimated gains or losses originated by transactions or events recorded within Comprehensive Income as of December 31, 2023 and 2022 and that are expected to be reclassified to earnings within the next 12 months amounts to \$15 and (\$247), respectively.

As of December 31, 2023, the main positions hedged by the Institution and the derivatives designated to hedge such positions are:

Cash flow hedging:

- Forecast funding using TIIE rate Caps and Interest Rate Swaps.
- Cash flow hedge of Banxico's monetary regulation deposits (DRM) using TIIE interest rate swaps.
- Recorded assets and liabilities in foreign currency using Cross Currency Swaps.

As of December 31, 2023, there are 166 coverage files. All hedging relationships are effective as they meet the effectiveness requirements of MFRS C-10.

The following are the Institution's hedged cash flows as of December 31, 2023, 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. 385	Ps. 308	Ps. 99	Ps. -
Monetary regulation deposits	552	1,461	5,925	1,470
UDI	12	11	82	37
Assets denominated in EUR	199	561	1,693	818
Assets denominated in GBP	39	43	48	-
Assets denominated in USD	413	1,193	1,791	310
	Ps. 1,600	Ps. 3,578	Ps. 9,638	Ps. 2,635

The fair value of the instruments designated as cash flows hedging, which is recognized in comprehensive income within stockholders' equity as of December 31, 2023 and 2022, amounts to Ps. 61 and (Ps. 931), respectively. Likewise, the amount that was reclassified from stockholders' equity to results amounts to Ps. 133 and (Ps. 300), respectively. 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, 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)
Balance, December 31, 2022	(Ps. 869)	Ps. 1,388	(Ps. 300)
Balance, December 31, 2023	Ps. 61	Ps. 930	Ps. 133

The economic relationship between the hedged item and the hedging instrument is described below.



For hedge of liabilities, subordinated debentures, assets denominated in foreign currency:

Hedge	Use of hedge instrument	Economic relationship	Coverage ratio
Liabilities denominated in foreign currency and UDI	Agreement of a currency swap (Cross-Currency Swap) to fix the interest and principal in pesos in a fixed rate liability denominated in foreign currency or UDI	<p>It is considered that there is a clear economic relationship between the hedged item and the hedging instrument since:</p> <ol style="list-style-type: none"> 1. Any increase in the exchange rate does not affect the Entity since when contracting the currency swap a fixed amount is received in foreign currency, and a fixed amount of interest is paid in pesos, which synthetically converts the hedged item in a Eurobond at a fixed rate in pesos. 2. Since the critical terms of the hedged item and the hedging instrument are aligned, economic ineffectiveness is not expected. 	1:1
Liabilities denominated in foreign currency	Agreement of a currency swap (Cross-Currency Swap) to fix the interest and principal in pesos in an eurobond at fixed rate denominated in foreign currency	<p>It is considered that there is a clear economic relationship between the hedged item and the hedging instrument since:</p> <ol style="list-style-type: none"> 1. Any increase in the exchange rate does not affect the Entity since when contracting the currency swap a fixed amount is paid in foreign currency, and a fixed amount of interest is received in pesos, which synthetically converts the hedged item into a eurobond at a fixed rate in pesos. 2. Since the critical terms of the hedged item and the hedging instrument are aligned, economic ineffectiveness is not expected. <p>An economic relationship is considered to cease to exist if the Issuer invokes the Issuer's optional redemption clause during the term of the hedging relationship, since this would lead to the disappearance of the hedged item. For this purpose, a monthly monitoring will be carried out regarding the existence of the official notification by the Issuer to execute the optional redemption clause.</p>	1:1
Monetary regulation deposits	Agreement of a portfolio of interest rate swaps (Interest-Rate Swap) to fix the interest of an DRM and/or BREM a variable rate denominated in pesos.	<p>It is considered that there is a clear economic relationship between the hedged item and the hedging instrument since:</p> <ol style="list-style-type: none"> 1. Any increase in the interest rate does not affect the Entity since when contracting the interest rate swap a variable interest amount is paid and a fixed interest amount is received, which synthetically converts the hedged item into a DRM or BREM at a fixed rate. 2. Since the critical terms of the hedged item and the hedging instrument are aligned, economic ineffectiveness is not expected. 	70-99%



Promissory notes with yield payable at maturity	Agreement of a portfolio of interest rate swaps (Interest-Rate Swap) to fix the interest on future issues of promissory notes with yield payable at maturity (PRLV) issued by the Treasury at a variable rate denominated in pesos.	It is considered that there is a clear economic relationship between the hedged item and the hedging instruments since: 1. Any increase in the interest rate does not affect the Entity since when contracting interest rate swaps a fixed amount of interest is paid, and a variable amount of interest is received, which synthetically converts the hedged item into a fixed rate liabilities. 2. Given that the Entity's strategy is to cover less than 100% of all promissory notes to be issued, economic ineffectiveness is not expected.	70%-95%
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10 – EXPECTED CREDIT LOSS

The Institution has a methodology to determine the expected credit loss based on the issuer's rating, the characteristics of the instrument, as well as the sector to which it belongs. Once these characteristics are determined, the exposure is estimated at the instrument level as amortized cost and a probability of default and severity of loss are assigned.

Default is defined as the event where the issuer does not perform the obligations to which it subscribed when issuing the instrument in a timely manner. The same definition of default is considered for each instrument.

For financial instruments that have come to maturity and the principal and interest have not been fully collected, the internal policy is periodic monitoring by the business area that acquired said instrument with respect to its possible recovery given the resolutions legal within the commercial bankruptcy or the liquidation process of the issuer.

The expected credit loss of the IFCPI is calculated by the product of the probability of default, the severity of the loss and the exposure, depending on the stage in which it is located:

Stage 1: Financial Instruments with low credit risk. They are those for which their credit risk has not increased significantly from their initial recognition to the date of the financial statements. The Financial Instruments in this Stage must have a long-term rating greater than or equal to BBB+, or mxA-2 in the case of being a short-term instrument, both ratings on a local scale. The PCE estimate at this stage will be carried out over a period of one year.

Stage 2 – Financial Instrument with a significant increase in credit risk. They are those that have shown a significant increase in credit risk from their initial recognition to the date of the financial statements. The Financial Instruments in this Stage must have a rating greater than or equal to B- and up to BBB in long-term instruments, greater than or equal to mxB and up to mxA-3 in short-term instruments. The PCE estimate at this stage will be made for the entire life of the Financial Instrument.

Stage 3 – Financial Instruments with high credit risk. They are those with credit deterioration because one or more events have occurred that have a detrimental impact on the future cash flows of the Financial Instruments. The Financial Instruments in this Stage must have a rating less than or equal to CCC+ in long-term instruments or mxC in short-term instruments. The PCE estimate at this stage will be made for the entire life of the Financial Instrument.



The probability of default is obtained through a transition matrix published by Standard and Poor's (S&P), which considers various scenarios according to past events, current conditions and economic forecasts, considering different and numerous institutions in the study.

The severity of the loss is established based on article 2 bis 73 of the Provisions, where a level of 45% is handled for instruments in stage 1 and stage 2, while for instruments in stage 3 the maximum between 45% and the difference between the unit and the quotient of the market value between the purchase price of the instrument.

The exposure is the amortized cost of the instrument at the calculation date.

During the current period there was no change in the techniques and assumptions used to determine the expected credit loss.

As of December 31, 2023 and 2022, there is the following exposure by instrument:

Classification	2023			2022		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Government	Ps. 83,716	Ps.	Ps.	Ps. 78,127	Ps. -	Ps. -
Bank	25			111	-	-
Private	9,752	1,129	1	8,748	1,062	2
Total	Ps. 93,494	Ps. 1,129	Ps. 1	Ps. 86,986	Ps. 1,062	Ps. 2

The expected credit loss classified by stages as of December 31, 2023 and 2022 is as follows:

Stage 1

Classification	As of December 31, 2023	As of December 31, 2022
Government	Ps. -	Ps. -
Bank	-	-
Private	-	-
Total	Ps. -	Ps. -

Stage 2

Classification	As of December 31, 2023	As of December 31, 2022
Government	Ps. -	Ps. -
Bank	-	-
Private	84	204
Total	Ps. 84	Ps. 204

Stage 3

Classification	As of December 31, 2023	As of December 31, 2022
Government	Ps. -	Ps. -
Bank	-	-
Private	1	1
Total	Ps. 1	Ps. 1



Of the expected credit loss of stage 3 instruments, the amount is broken down into:

	PCE
Instruments that migrated to stage 3	Ps. -
Instruments that already existed in stage 3	1
Total	Ps. 1

As of December 31, 2023 and 2022, there were no renegotiations or modifications in the financial instruments to collect principal and interest.

11 - LOAN PORTFOLIO

Loan portfolio management

The objectives of Credit Risk Management in the Institution 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.

The Credit Risk Management policies in the Institution are applicable to:

- 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 the objectives and policies, a series of strategies and procedures have been defined including origination, analysis, approval, management, monitoring, recovery and collections.



Credit portfolio analysis

As of December 31, 2023 and 2022, the loan portfolio by loan type is as follows:

	Stage 1	Stage 2	Stage 3	Total
Commercial loans				
Denominated in domestic currency				
Commercial	Ps. 274,929	Ps. 1,096	Ps. 2,458	Ps. 278,482
Rediscounted portfolio	5,535	122	-	5,658
Denominated in USD				
Commercial	88,319	15	425	88,759
Rediscounted portfolio	1,195	-	-	1,195
Loans to financial institutions	43,454	-	119	43,573
Consumer loans				
Credit card	57,166	973	1,968	60,107
Other consumer loans	115,159	1,962	2,852	119,973
Mortgage loans				
Denominated in domestic currency	249,841	3,250	2,175	255,266
Denominated in UDIS	36	12	2	50
Government loans	164,035	-	7	164,042
Total loan portfolio	Ps. 999,669	Ps. 7,430	Ps. 10,006	Ps. 1,017,105

	Stage 1	Stage 2	Stage 3	Total
Commercial loans				
Denominated in domestic currency				
Commercial	Ps. 245,793	Ps. 879	Ps. 3,001	Ps. 249,673
Rediscounted portfolio	7,211	-	-	7,211
Denominated in USD				
Commercial	74,588	86	\$748	75,422
Rediscounted portfolio	1,303	1	1	1,305
Loans to financial institutions	29,690	-	-	29,690
Consumer loans				
Credit card	44,608	520	1,108	46,236
Other consumer loans	97,463	1,757	2,420	101,640
Mortgage loans				
Denominated in domestic currency	223,652	3,223	1,862	228,737
Denominated in UDIS	53	4	3	60
Government loans	165,940	-	-	165,940
Total loan portfolio	Ps. 890,301	Ps. 6,470	Ps. 9,143	Ps. 905,914

Restructured loans

The restructured loans on December 31, 2023 and 2022 that modified their terms and rates are shown below:

	2023		
	Stage 1	Stage 2	Stage 3
Commercial loans			
Business loans	Ps. 28,239	Ps. 206	Ps. 359
Consumer loans	20	5	958
Mortgage loans	129	17	110
	Ps. 28,388	Ps. 228	Ps. 1,427



2022			
	Stage 1	Stage 2	Stage 3
Commercial loans			
Business loans	Ps. 35,088	Ps. 287	Ps. 237
Consumer loans	656	65	78
Mortgage loans	118	16	83
	Ps. 35,862	Ps. 368	Ps. 398

As of December 31, 2023 and 2022, 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. 1,006	Ps. 450	Ps. 707	Ps. 819	Ps. 2,982
Consumer loans	2,791	371	-	1	3,163
Mortgage loans	2,939	909	13	-	3,861
	Ps. 6,736	Ps. 1,730	Ps. 720	Ps. 820	Ps. 10,006

	From 1 to 180 days	From 181 to 365 days	From 366 days to 2 years	More than 2 years	Total
Commercial loans	Ps. 1,189	Ps. 743	Ps. 1,138	Ps. 680	Ps. 3,750
Consumer loans	2,213	1,315	-	-	3,528
Mortgage loans	1,363	502	-	-	1,865
	Ps. 4,765	Ps. 2,560	Ps. 1,138	Ps. 680	Ps. 9,143

Past-due loan movements for the years ended on December 31, 2023 and 2022 are shown below:

	2023	2022
Balance at the beginning of the year	Ps. 9,143	Ps. 7,836
Liquidations	(7,905)	(4,936)
Write-offs*	(15,896)	(12,216)
Renewals	(15)	(311)
Discounts	1,295	(353)
Foreclosures	(30)	-
Transfers to portfolio stage 1 and 2	(4,005)	(5,000)
Transfers from portfolio stage 1 and 2	26,893	24,042
Fluctuation from foreign exchange rate	215	81
Sales loans	311	-
Year-end balance	Ps. 10,006	Ps. 9,143

* Corresponds to 100% hedged loans.

As of December 31, 2023, the balance of deferred loan origination fees was Ps. 2,546 and the amount recorded in results was Ps. 1,688. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 5,371, and the amount recorded in results was Ps. 2,472.

As of December 31, 2022, the balance of deferred loan origination fees was Ps. 2,777 and the amount recorded in results was Ps. 1,470. 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.

The average term in which the deferred balance of commissions and costs and expenses will be recognized is equivalent to the average term of the portfolio balances.



The collected fees and costs are presented net in the line item of “Deferred credits and advance collections” within the Consolidated Statement of financial positions as well as in Interest Income and Interest Expenses, respectively, in the Consolidated income statements.

During the year ended December 31, 2023 and 2022, the balance of written off loans that had been fully reserved as past due was Ps. 16,275 and Ps. 12,854, respectively.

During the years ended December 31, 2023 and 2022, revenues from recoveries of previously written-off loan portfolios were Ps. 3,360 y Ps. 3,309, respectively.

The loans granted per economic sectors as of December 31, 2023 and 2022 is shown below:

	2023		2022	
	Amount	Concentration percentage	Amount	Concentration percentage
Private (companies and individuals)	Ps. 374,094	36.78%	Ps. 333,611	36.83%
Financial institutions	43,573	4.28%	29,690	3.28%
Credit card and consumer	180,082	17.71%	147,876	16.32%
Mortgage	255,314	25.10%	228,797	25.26%
Government loans	164,042	16.13%	165,940	18.31%
	Ps. 1,017,105	100.00%	Ps. 905,914	100.00%

Policies and procedures for granting loans

The granting, control and recovery of loans are regulated by the Institution'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 Institution 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 stage 3 loans are timely transferred and recorded in the accounting, and those loans with recovery problems are properly and promptly identified.



12 - LOANS RESTRUCTURED IN UDIS

As of December 31, 2023 and 2022, the Institution 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 Institution 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, 2022, the remaining balance of SPECIAL CETES not repurchased by the Federal Government is Ps. 463 with maturities between 2023 and 2027.

13 - ALLOWANCE FOR LOAN LOSSES

The Institution's portfolio classification, which serves as the basis for recording the allowance for loan losses, is detailed below:

2023							
Required allowances for losses							
	Loan portfolio	Companies	Government	Financial institutions' loans	Consumer portfolio	Mortgage portfolio	Total
Risk category							
Risk A1	Ps. 903,846	Ps. 1,197	Ps. 795	Ps. 67	Ps. 805	Ps. 201	Ps. 3,065
Risk A2	31,979	134	13	-	399	46	592
Risk B1	37,723	69	4	-	1,065	23	1,161
Risk B2	22,214	25	-	-	955	37	1,017
Risk B3	13,144	61	1	-	651	6	719
Risk C1	16,081	63	-	-	764	212	1,039
Risk C2	12,833	87	-	-	1,225	235	1,547
Risk D	9,678	489	-	5	2,229	416	3,139
Risk E	8,264	1,296	4	32	4,493	76	5,901
Unclassified	(1,135)						
Deferred items	2,436						
	Ps. 1,057,062	Ps. 3,421	Ps. 817	Ps. 104	Ps. 12,586	Ps. 1,252	Ps. 18,180
Recorded allowance	-	-	-	-	-		Ps. 18,749
Supplement	-	-	-	-	-		Ps. 569



2022							
Risk category	Required allowances for losses						Total
	Loan portfolio	Companies	Government	Financial institutions' loans	Consumer portfolio	Mortgage portfolio	
Risk A1	811,149	1,241	758	66	819	281	3,165
Risk A2	29,270	173	21	5	317	20	536
Risk B1	33,888	40	9	-	1,056	13	1,118
Risk B2	12,228	7	11	-	502	21	541
Risk B3	14,670	134	1	2	689	11	837
Risk C1	9,808	79	4	-	793	32	908
Risk C2	10,053	67	-	-	1,086	211	1,364
Risk D	7,659	672	-	-	1,440	355	2,467
Risk E	7,643	1,499	-	-	3,735	91	5,325
Unclassified	(1,049)	-	-	-	-	-	-
Deferred items	2,058	-	-	-	-	-	-
	Ps. 937,377	Ps. 3,912	Ps. 804	Ps. 73	Ps. 10,437	Ps. 1,035	Ps. 16,261
Recorded allowance	-	-	-	-	-	-	16,961
Supplement	-	-	-	-	-	-	Ps. 700

The reserve complement is in accordance with the provisions of the general provisions applicable to credit institutions.

As of December 31, 2023 and 2022, the provisions to cover 100% of the rating base for loan portfolios includes Ps. 29,113 and Ps. 29,407, respectively, for Guarantees Granted and Credit Commitments, which are recorded in memorandum accounts. Ps. 18,749 y Ps. 16,961 were also added for loans to related parties consolidated by the Parent Company.

As of December 31, 2023 and 2022, the estimated allowance for loan losses is determined based on portfolio balances at those dates.

As of December 31, 2023 and 2022, the allowance for loan losses represents 187% and 186%, 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, 2023 and 2022.

According to the current regulation, as of December 31, 2023 and 2022, 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 (except auto credits to individuals).

The Institution uses internal methodologies authorized by the Commission according to the following: for the Revolving Consumer portfolio since January 2018, for the commercial portfolio of borrowers with sales or income greater than or equal to 14 million udis, since January 2019, and for the Auto (Individuals) portfolio since January 2020.

Below are shown for each type of portfolio, the exposure to default, probability of breach of contract, and severity of the loss.

Type of portfolio	Exposure to Default	Weighted Probability of Non-compliance	Weighted Severity of Loss
Commercial*	Ps. 455,613	2.1%	36.5%
Mortgage	Ps. 255,315	2.5%	19.6%
Non-revolving consumer	Ps. 119,984	7.9%	69.8%
Revolving Consumer loan	Ps. 71,577	8.8%	82.7%



* 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:

	2023	2022
Balance at the beginning of the year	Ps. 16,961	Ps. 15,744
Increase charged to results	19,590	14,655
Increase registered in Results of previous years	-	662
Discounts and write-offs	(17,662)	(14,043)
Rebates granted to housing debtors	(31)	(15)
Others	(109)	(42)
Year-end balance	Ps. 18,749	Ps. 16,961

14 - ACQUIRED COLLECTION RIGHTS, NET

The balance of acquired collection rights (net) as of December 31, 2023 and 2022 was Ps. 1,094 and Ps. 654, they are valued at amortized cost based on the effective interest method in accordance with MFRS C-20.

As of December 31, 2022, recognized income amounted to Ps. 519 and Ps. 674 and amortization to Ps. 110 and Ps. 357, respectively.

The Institution 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 historical or current events information, the analysis demonstrates that the future cash flows discounted at the original rate of return (effective interest rate) 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 discounted cash flows are lower than the book value of the accounts receivable.

Assets other than cash that the Institution 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.

15 - OTHER ACCOUNTS RECEIVABLE, NET

This item is made up as follows:

	2023	2022
Loans to officers and employee	Ps. 1,579	Ps. 3,167
Debtors from liquidation settlements	18,552	15,721
Debtors from cash collateral	10,015	12,396
Real estate property portfolios	100	102
Sundry debtors in Mexican pesos	7,868	4,356
Sundry debtors in foreign currency	525	986
Others	65	11
	38,704	36,739
Allowance for doubtful accounts	(352)	(396)
	Ps. 38,352	Ps. 36,343

Loans to officers and employee 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, 2023 and 2022, the foreclosed assets balance is as follows:

	2023	2022
Moveable property	Ps. 2,278	Ps. 354
Real estate property	4,046	4,153
Goods pledged for sale	143	13
	6,467	4,520
Allowance for losses on foreclosed assets	(83)	(267)
Allowance for losses on foreclosed real estate assets	(1,562)	(1,362)
Allowance for losses on assets pledged for sale	(30)	(47)
	(1,675)	(1,676)
	Ps. 4,792	Ps. 2,844

17 - PROPERTY, FURNITURE AND EQUIPMENT, NET

As of December 31, 2023 and 2022, the property, furniture and equipment balance is as follows:

	2023	2022
Furniture and equipment	Ps. 18,293	Ps. 15,568
Property intended for offices	17,063	17,141
Installation costs	10,407	10,217
	45,763	42,926
Less - Accumulated depreciation and amortization	(20,140)	(18,388)
	Ps. 25,623	Ps. 24,538

Depreciation recorded in the results of 2023 and 2022 was Ps. 3,474 and Ps. 3,556, respectively.

The average estimated useful lives of the Institution'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 - ASSETS FOR RIGHT OF USE OF PROPERTY, FURNITURE AND EQUIPMENT, NET

The Institution leases computer equipment, furniture and equipment and real estate, agreed upon in previous years.

The asset balance of the right-of-use as of December 31, 2023 and 2022 is as follows

	2023	2022
Computer equipment	Ps. 27	Ps. 287
Real estate	3,768	6,664
	Ps. 3,795	Ps. 6,951

As of December 31, 2023 and 2022, the lease liability is made up as follows:

Analysis of Maturity - Undiscounted Contractual Cash Flows

	2023	2022
From zero to five years	Ps. 17	Ps. 1,169
From more than five to ten	2,057	1,831
ten years and more	1,761	3,605
	Ps. 3,835	Ps. 6,605



The depreciation expense of asset right-of-use recognized in results as of December 31, 2023 and 2022, was Ps. 862 and Ps. 985, respectively.

The interest expense of the lease liability recognized in results as of December 31, 2023 and 2022, was Ps. 397 and Ps. 371, respectively.

Lease payments made in 2023 and 2022 were Ps. 1,453 and Ps. 1,227, respectively.

19 - PERMANENT STOCK INVESTMENTS

Investments in non-consolidated companies and associated companies are valued according to the equity method, as detailed below:

	Share %	2023	2022
McN Investments Ltd.	4.95%	Ps. 1,008	Ps. 914
Controladora PROSA, S. A. de C. V.	19.73%	431	410
Fondo Chiapas, S.A. de C.V.	12.09%	18	21
Otras	Divers	113	116
		Ps. 1,570	Ps. 1,461

The Institution 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.

20 - DEFERRED TAXES, NET

The tax reported by the Institution 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 statement of financial position accounts, As of December 31, 2023 and 2022, the Institution has recognized a net deferred tax for (Ps. 882) and Ps. \$565, respectively, and it is made up as follows:

	2023		2022	
	Temporary Differences	Deferred Effect ISR	Temporary Differences	Deferred Effect ISR
<u>Temporary Differences - Assets</u>				
Allowance for loan losses	Ps. 17,440	Ps. 5,232	Ps. 16,961	Ps. 5,088
Excess of tax over book value of foreclosed and fixed assets	2,687	825	1,805	560
PTU	1,268	380	1,415	425
Fees collected in advance	3,775	1,133	3,666	1,100
Accounting provisions	3,529	1,059	3,240	972
Other assets	28	8	38	10
Total assets	28,727	8,637	27,125	8,155
<u>Temporary Differences - Liabilities</u>				
Advance contributions to the pension fund	\$5	\$2	Ps. 24	Ps. 7
Adquisition of Portafolios	1,094	328	654	196
Capitalizable projects' expenses	23,618	7,085	23,827	7,148
Financial instruments valuation	6,963	2,104	781	234
Other liabilities			17	5
Total Liabilities	31,680	9,519	25,303	7,590
Deferred tax, net		(Ps. 882)		Ps. 565



As explained in Note 29, the applicable income tax rate is 30% for 2023 and later years.

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, 2023 and 2022, a net amount of Ps. 43 was added to deferred taxes determined at a rate of 21% as per the tax law of the USA.

21 - ADVANCE PAYMENTS AND OTHER ASSETS, NET

The balance of advanced payments and other assets as of December 31, 2023 and 2022 is as follows:

	2023	2022
Payments to amortize	Ps. 635	Ps. 512
Various taxes	936	1,140
advances to suppliers	2,291	5,981
Other assets	1,097	981
	Ps. 4,959	Ps. 8,614

22 – GOODWILL

As of December 31, 2023 and 2022 goodwill is as follows:

	2023	2022
Originated by the merger with Banorte-lxe Tarjetas, S.A. de C.V., SOFOM, ER	Ps. 1,005	Ps. 1,005
Originated by the merger with Uniteller Financial Services	345	408
Originated by the merger with Tarjetas del Futuro, S.A.P.I. de C.V. (TDF)	147	-
	Ps. 1,497	Ps. 1,413

* Includes \$727 of the goodwill generated by the acquisition of Banorte-lxe Tarjetas and Ps. 278 that this entity had registered at the time of the acquisition.

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, 2023 and 2022.

23 - 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 the aforementioned regime, during 2023 and 2022 the Institution generated an average monthly liquidity requirement of 705,119 and 843,156 thousand USD, respectively, and maintained an average investment in liquid assets of 5,448,614 and 4,359,178 thousand USD, having on average an excess of 4,743,495 and 3,517,694 thousand USD, respectively.



Deposits

The liabilities derived from core deposits are made up as follows:

	2023	2022
Demand deposits		
Non-interest bearing checking accounts:		
Cash deposits	Ps. 408,257	Ps. 394,775
Checking accounts in US dollars for individual residents on the Mexican border	4,417	4,740
Demand deposits accounts	12,238	12,604
Interest bearing checking accounts:		
Other bank checking deposit	237,593	181,919
Checking accounts in US dollars for individual residents on the Mexican border	2,297	2,505
Demand deposits accounts	20,759	23,016
	685,561	619,559
Time deposits		
General public:		
Fixed-term deposits	25,588	26,666
Retail time deposits	304,429	246,089
Promissory note with interest payable at maturity PRLV primary market for individuals	87	118
Promissory note with interest payable at maturity PRLV primary market for institutions	148	195
Provision for interest	1,846	1,133
	332,098	274,201
Money market:		
Over the counter promissory notes	8,098	4,954
	8,098	4,954
	340,196	279,155
Senior debt	43,718	17,002
Global account of deposits without movement	3,656	3,253
	Ps. 1,073,131	Ps. 918,969

The funding rates which the Institution 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:

	2023				2022			
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Mexican pesos and UDIS	2.07%	2.58%	3.11%	3.06%	1.08%	1.47%	1.85%	1.90%
Foreign currency	0.74%	1.29%	1.75%	1.68%	0.04%	0.09%	0.19%	0.43%

Time deposits:

	2023				2022			
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<u>General public</u>								
Mexican pesos and UDIS	7.65%	8.38%	8.54%	8.72%	4.10%	4.71%	5.58%	6.59%
Foreign currency	0.51%	0.53%	1.72%	2.96%	0.26%	0.28%	0.26%	0.28%
Money market	10.12%	10.76%	10.65%	10.57%	0.00%	9.02%	9.66%	8.49%



As of December 31, 2023 and 2022, the terms set for these deposits are as follows:

	2023			
	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total
General public				
Fixed-term deposits	Ps. 20,154	Ps. 915	Ps. 4,519	Ps. 25,588
Retail time deposits	292,208	11,957	264	304,429
Promissory note with interest payable at maturity PRLV primary market for individuals	84	1	2	87
Promissory note with interest payable at maturity PRLV primary market for entities	135	10	3	148
Provision for interest	1,525	309	12	1,846
	314,106	13,192	4,800	332,098
Money market:				
Over the counter promissory notes	-	-	8,098	8,098
	-	-	8,098	8,098
Senior debt issued	43,718	-	-	43,718
Global account of deposits without movements	3,656	-	-	3,656
	Ps. 361,480	Ps. 13,192	Ps. 12,898	Ps. 387,570

	2022			
	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total
General public				
Fixed-term deposits	Ps. 22,883	Ps. 152	Ps. 3,631	Ps. 26,666
Retail time deposits	236,262	9,546	281	246,089
Promissory note with interest payable at maturity PRLV primary market for individuals	118	-	-	118
Promissory note with interest payable at maturity PRLV primary market for entities	181	11	3	195
Provision for interest	956	174	3	1,133
	260,400	9,883	3,918	274,201
Money market:				
Over the counter promissory notes	-	-	4,954	4,954
	-	-	4,954	4,954
	Ps. 260,400	Ps. 9,883	Ps. 8,872	Ps. 279,155

24 - INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2023 and 2022 is as follows:

	Mexican pesos		Valued in USD		Total	
	2023	2022	2023	2022	2023	2022
Short-term:						
Commercial banking	Ps. 2,345	Ps. 2,706	Ps. -	Ps. -	Ps. 2,345	Ps. 2,706
Public trusts	2,842	3,885	298	540	3,140	4,425
Provision for interest	40	33		17	40	50
	5,227	6,624	298	557	5,525	7,181
Long-term:						
Commercial banking	-	-	32	2,439	32	2,439
Public trusts	3,796	4,600	756	602	4,552	5,202
	3,796	4,600	788	3,041	4,584	7,641
	Ps. 9,023	Ps. 11,224	Ps. 1,086	Ps. 3,598	Ps. 10,109	Ps. 14,822

These liabilities incur interest depending on the type of instrument and average balance of the loans.



The average interest rates are shown below:

Foreign exchange	2023				2022			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<u>Call money</u>								
Mexican pesos and UDIS	-%	-%	-%	-%	5.77%	7.66%	8.44%	9.75%
<u>Other bank loans</u>								
Mexican pesos and UDIS	10.06%	10.21%	9.69%	9.38%	7.10%	6.92%	8.27%	10.25%
Foreign currency	4.76%	5.22%	5.32%	4.82%	1.48%	1.80%	2.55%	3.86%

25 - SUNDRY CREDITORS AND OTHER PAYABLES

The item of sundry creditors and other payables is made up as follows:

	2023	2022
Cashier and certified checks and other negotiable instruments	Ps. 4,197	Ps. 3,283
Provisions for other obligations	6,113	9,795
Others	21,140	17,607
	Ps. 31,450	Ps. 30,685

26 - EMPLOYEE RETIREMENT OBLIGATIONS

The Institution 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 Statement of Financial Positions and the benefits generated during the year.

The amount of current and projected benefits as of December 31, 2023 and 2022, related to the Defined Benefit Pension Plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

2023				
	Pension plan	Seniority premiums	Medical services	Total
Projected benefit obligation (PBO)	(Ps. 1,551)	(Ps. 3,555)	(Ps. 745)	(Ps. 5,851)
Fund market value	675	1,301	288	2,264
Funded status	(876)	(2,254)	(457)	(3,587)
Unrecognized prior service cost				
Unrecognized actuarial losses				
Net projected asset	(Ps. 876)	(Ps. 2,254)	(Ps. 457)	(Ps. 3,587)

2022				
	Pension plan	Seniority premiums	Medical services	Total
Projected benefit obligation (PBO)	(Ps. 1,537)	(Ps. 3,314)	(Ps. 637)	(Ps. 5,488)
Fund market value	341	2,232	33	2,606
Funded status	(1,196)	(\$1,082)	(604)	(2,882)
Unrecognized prior service cost	-	-	-	-
Unrecognized actuarial losses	-	-	-	-
Net projected asset	(Ps. 1,196)	(Ps. 1,082)	(Ps. 604)	(Ps. 2,882)



As of December 31, 2023 and 2022, a separate fund amounting to Ps. 101 and Ps. 127 has been set aside to meet the above-mentioned obligations, in accordance with MFRS D-3 and is recorded under "Other assets".

The net periodic pension cost is as follows:

	2023	2022
Service cost	Ps. 100	Ps. 22
Interest cost	552	512
Expected return on plan assets	(246)	(264)
Amortizations of unrecognized items:		
Profits (actuarial losses)	113	117
Net periodic pension cost	Ps. 519	Ps. 387

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2023 and 2022, are shown below:

Concept	2023 Nominal	2022 Nominal
Discount rate	10.75%	10.50%
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	2023	2022
Defined and projected benefit obligations	(Ps. 289)	(Ps. 352)
Net projected liability	(Ps. 289)	(Ps. 352)

The net periodic pension cost is as follows:

Concept	2023	2022
Service cost	Ps. 48	Ps. 42
Interest cost	5	8
Net periodic pension cost	Ps. 53	Ps. 50

Pursuant to the law, the Institution 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 Ps. 230 2023 and Ps. 206 2022.

The balance of the employee retirement obligations presented in this Note refers to the Institution's Defined Benefit Pension Plan for those employee who remain enrolled.

The labor obligations derived from the Defined Contribution Pension Plan do not require an actuarial valuation as established in MFRS D-3, because the cost of this plan is equivalent to the Institution's contributions made to the plan's participants. This pension plan is invested in a fund as of December 31, 2023 and 2022, equivalent to Ps. 101 and Ps. 127, respectively, which is recorded under "Other assets" and is equivalent to the recorded plan liability.

As of December 31, 2023 and 2022, the PTU provision was Ps. 1,338 and Ps. 1,209, respectively.



27 - SUBORDINATED DEBENTURES

As of December 31, 2023 and 2022, the subordinated debentures in circulation are as follows:

	2023	2022
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 10 years callable BANOE91 999999 C10 Notes denominated in USD, with an interest rate of 7.625%. **	Ps. 9,332	Ps. 10,730
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.	1,380	1,712
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, interest at a 4.95% annual rate.	-	2,118
Non-preferred subordinated obligations, non-preferent, perpetual, non-cumulative 5 years callable NC5 Notes denominated in USD, with an interest rate of 6.750%**	10,180	11,706
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 10 years callable NC10 Notes denominated in USD, with an interest rate of 7.50%**	8,483	9,754
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 10 years callable NC10 Notes denominated in USD, with an interest rate of 8.375%.	8,483	9,754
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 5 years callable NC10 Notes denominated in USD, with an interest rate of 5.875%.	8,483	9,754
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 10 years callable NC10 Notes denominated in USD, with an interest rate of 6.625%.	9,332	10,730
Accrued interest.	19	61
Issuance and placement expenses.	(271)	(338)
	Ps. 55,421	Ps. 65,981

** Issuance recorded in liabilities and the interest generated by the notes is payable against the results of previous years, given the characteristic established in the obligations to pay the returns at the discretion of the issuer, it is considered a component of equity.

Expenses related to these issuances are amortized based on the effective interest rate during the issuance term. The amount charged to results for amortization amounted to Ps 67 and Ps. 23 in 2023 and 2022, respectively.

28 - TRANSACTIONS AND BALANCES WITH NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Pursuant to Article 73 Bis of the LIC, the loans granted by Banking Institutions to related parties may not exceed 35% of the basic part of its net capital.

The balances and transactions with subsidiaries and associated companies as of December 31, 2023 and 2022 are made up as follows:

Institution	Revenues		Accounts receivable	
	2023	2022	2023	2022
Arrendadora y Factor Banorte, S.A. de C.V.	Ps. 1,359	Ps. 907	Ps. 17,670	Ps. 11,548
Almacenadora Banorte, S.A. de C.V.	88	33	1,165	839
Seguros Banorte, S.A. de C.V.	2,741	1,217	205	98
Pensiones Banorte, S.A. de C.V.	20	20	-	-
Casa de Bolsa Banorte, S.A. de C.V.	5,213	8,897	49,010	55,482
Operadora de Fondos Banorte, S.A. de C.V.	1,168	939	114	94
Arrendadora y Factor Banorte, S.A. de C.V.	-	-	16	-
Total	Ps. 10,589	Ps. 12,013	Ps. 68,180	Ps. 68,061



Institution	Expenses		Accounts payable	
	2023	2022	2023	2022
Grupo Financiero Banorte, S.A.B. de C.V.	Ps. 1,748	Ps. 1,712	Ps. 18,299	Ps. 15,971
Arrendadora y Factor Banorte, S.A. de C.V.	14	11	328	232
Almacenadora Banorte, S.A. de C.V.	-	-	4	1
Seguros Banorte, S.A. de C.V.	515	474	2,213	1,935
Pensiones Banorte, S.A. de C.V.	3	2	2	4
Casa de Bolsa Banorte, S.A. de C.V.	807	370	3,520	3,304
Operadora de Fondos Banorte, S.A. de C.V.	13	25	23	83
Banco Bineo, S.A.	27	21	774	630
Banorte Ahorro y Previsión, S.A. de C.V.	59	4	106	48
Total	Ps. 3,186	Ps. 2,619	Ps. 25,269	Ps. 22,208

Between the balances of the most important operations are the premiums paid and collected in reporting operations to Casa de Bolsa Banorte, as well as the balance of the account receivable from Arrendadora and Factor Banorte for loans granted. All balances and transactions with the subsidiaries indicated in Note 3 have been eliminated in the consolidation process.

For the year ended December 31, 2023 and 2022, the amount of the loans granted to related parties were as follows:

Institution granting the loan	2023	% over the limit	2022	% over the limit
Banco Mercantil del Norte, S.A.	\$22,105	11.2%	\$17,251	9.3%

The loans granted by Banorte are under the 100% limit set forth by the LIC.

29 - INFORMATION BY SEGMENT

The main operations and balances per concept and/or business segment in the General Statement of financial position and the Income Statement are comprised as follows:

a. Interest and fees income is made up as follows:

	2023		
	Interest	Fees	Total
	MXP	MXP	MXP
Cash and cash equivalents	Ps. 7,296	Ps. -	Ps. 7,296
Margin securities	(621)	-	(621)
Investment in securities	164,721	-	164,721
Securities repurchasing and loans	15,019	-	15,019
Hedging transactions	9,231	-	9,231
Commercial loans	69,009	389	69,787
Mortgage loans	39,431	822	41,075
Consumer loans	19,775	445	20,667
Others	2,121	-	2,121
	Ps. 325,982	Ps. 1,656	Ps. 327,638



	2022		
	Interest	Fees	Total
	MXP	MXP	MXP
Cash and cash equivalents	Ps. 4,168	Ps. -	Ps. 4,168
Margin securities	(637)	-	(637)
Investment in securities	17,311	-	17,311
Securities repurchasing and loans	14,849	-	14,849
Hedging transactions	93,321	-	93,321
Commercial loans	44,369	396	44,765
Mortgage loans	19,121	747	19,868
Consumer loans	31,957	333	32,290
Others	707	-	707
	Ps. 225,166	Ps. 1,476	Ps. 226,642

b. The composition of interest expense, segmented by type of deposit, is as follows:

	2023			2022		
	MXP	F.E.	Total	MXP	F.E.	Total
Immediately Due and Payable Deposits:						
Checking accounts	Ps. 16,356	Ps. -	Ps. 16,356	Ps. 7,849	Ps. -	Ps. 7,849
Savings accounts	552	-	552	632	-	632
	16,908	-	16,908	8,481	-	8,481
Time Deposits:						
General public	24,206	-	24,206	13,201	-	13,201
Money market	1,318	-	1,318	23	-	23
	25,524	-	25,524	13,224	-	13,224
Total	Ps. 42,432	Ps. -	Ps. 42,432	Ps. 21,705	Ps. -	Ps. 21,705

c. The composition of interest and commission expense, segmented by type of loan, is as follows:

	2023			2022		
	MXP	MXP	MXP	MXP	F.E.	Total
Call money	Ps. 8	Ps. -	Ps. 8	Ps. 84	Ps. -	Ps. 84
Banco de México	6	-	6	-	-	-
Commercial banks	79	-	79	44	-	44
Development banking	950	-	950	811	-	811
Provision for interest	3	-	3	7	-	7
Total	Ps. 1,046	Ps. -	Ps. 1,046	Ps. 946	Ps. -	Ps. 946

d. The Intermediation income are as follows:

	2023	2022
Intermediation income:		
Spot foreign currency	(Ps. 7,010)	(Ps. 1,598)
Derivative financial instruments	549	1,570
Investments in securities	516	(144)
Valuation	(5,945)	(172)
Purchase-sales result, net		
Spot foreign currency	7,895	4,524
Derivative financial instruments	47	(909)
Investments in securities	279	(512)
Total Intermediation income	8,221	3,103
Total Intermediation income	Ps. 2,276	Ps. 2,931



e. The stage 1 and 2 loan portfolio, grouped by economic sector and geographical location, is as follows

	2023				
	Geographical location				
	North	Center	West	South	Total
Agriculture	Ps. 5,047	Ps. 2,131	Ps. 3,155	Ps. 1,237	Ps. 11,570
Mining	94	1,722	21	6	1,843
Manufacturing	28,098	14,104	3,841	2,506	48,549
Construction	11,462	16,564	2,289	6,944	37,259
Public utilities	4,841	7,323	1	632	12,797
Commerce	39,599	40,065	8,383	17,539	105,597
Transportation	6,752	31,290	882	9,153	48,077
Financial services	54,977	50,603	4,406	3,010	112,996
Communal, social services	12,827	23,054	1,012	7,497	44,390
Public administration and services	41,704	63,276	7,450	14,403	126,833
Government	-	-	-	-	28,789
Credit card	-	-	-	-	58,137
Consumer	-	-	-	-	117,124
Mortgage	-	-	-	-	253,138
Stage 1 and 2 loan portfolio	Ps. 205,401	Ps. 250,143	Ps. 31,440	Ps. 62,927	Ps. 1,077,099

	2022				
	Geographical location				
	North	Center	West	South	Total
Agriculture	Ps. 5,606	Ps. 1,840	Ps. 1,513	Ps. 1,177	Ps. 10,136
Mining	30	2,356	23	6	2,415
Manufacturing	23,397	14,189	3,906	2,443	43,935
Construction	10,424	17,865	2,674	6,937	37,900
Public utilities	388	9,303	92	78	9,861
Commerce	33,301	36,044	7,599	14,561	91,505
Transportation	4,670	28,430	667	8,127	41,894
Financial services	36,496	46,710	3,820	3,114	90,140
Communal, social services	8,647	18,012	796	4,308	31,763
Public administration and services	43,351	89,242	14,846	18,500	165,939
Credit card	-	-	-	-	45,127
Consumer	-	-	-	-	99,224
Mortgage	-	-	-	-	226,932
Stage 1 and 2 loan portfolio	Ps.166,310	Ps. 263,991	Ps. 35,936	Ps. 59,251	Ps. 896,771

f. The past-due loan portfolio, grouped by economic sector and geographical location, is summarized as follows

Economic sector	2023				
	Geographical location				
	North	Center	West	South	Total
Agriculture	Ps. 532	Ps. 96	Ps. 24	Ps. 4	Ps. 656
Mining	30	-	-	-	30
Manufacturing	16	626	5	76	723
Construction	14	234	4	225	477
Public utilities	2	21	-	-	23
Commerce	462	440	36	72	1,010
Transportation	19	17	4	6	46
Financial services	4	10	-	125	139
Communal, social services	144	465	9	27	645
Public administration and services	-	-	-	-	-
Credit card	-	-	-	-	1,108
Consumer	-	-	-	-	2,420
Mortgage	-	-	-	-	1,866
Past-due loan portfolio	Ps. 1,223	Ps. 1,909	Ps. 82	Ps. 535	Ps. 9,143



Economic sector	2022				
	Geographical location				
	North	Center	West	South	Total
Agriculture	Ps. 532	Ps. 96	Ps. 24	Ps. 4	Ps. 656
Mining	30	-	-	-	30
Manufacturing	16	626	5	76	723
Construction	14	234	4	225	477
Public utilities	2	21	-	-	23
Commerce	462	440	36	72	1,010
Transportation	19	17	4	6	46
Financial services	4	10	-	125	139
Communal, social services	144	465	9	27	645
Public administration and services	-	-	-	-	-
Credit card	-	-	-	-	1,108
Consumer	-	-	-	-	2,420
Mortgage	-	-	-	-	1,866
Past-due loan portfolio	Ps. 1,223	Ps. 1,909	Ps. 82	Ps. 535	Ps. 9,143

g. The assigned loan portfolio by responsibilities is made up as follows:

	2023		
	Commercial	Corporate	Total
Commercial	Ps. 391,305	Ps. 165,918	Ps. 557,223
Consumer loans	166,851	-	166,851
Housing mortgage loans	253,139	-	253,139
Government	29,886	-	29,886
Total performing loan portfolio	841,182	165,918	1,007,100
Commercial	2,831	178	3,009
Consumer loans	4,820	-	4,820
Housing mortgage loans	2,177	-	2,177
Total past-due loan portfolio	9,828	178	10,006
Total loan portfolio	2,436	-	2,436
Allowance for loan losses	853,446	166,096	1,019,542
Loan portfolio, net	(18,749)	-	(18,749)
Acquired collection rights	1,094	-	1,094
Total loan portfolio, net	Ps. 835,791	Ps. 166,096	Ps. 1,001,887

	2022		
	Commercial	Corporate	Total
Commercial	Ps. 388,485	Ps. 137,005	Ps. 525,490
Consumer loans	144,349	-	144,349
Housing mortgage loans	226,932	-	226,932
Total performing loan portfolio	759,766	137,005	896,771
Commercial	3,352	398	3,750
Consumer loans	3,528	-	3,528
Housing mortgage loans	1,865	-	1,865
Total past-due loan portfolio	8,745	398	9,143
Total loan portfolio	2,058	-	2,058
Allowance for loan losses	770,569	137,403	907,972
Loan portfolio, net	(16,961)	-	(16,961)
Acquired collection rights	654	-	654
Total loan portfolio, net	Ps. 754,262	Ps. 137,403	Ps. 891,665



h. Deposit accounts grouped by product and geographical location are as follows:

Product	2023							
	Geographical location							
	Monterrey	Mexico City	West	Northwest	South-east	Treasury and other	Foreign	Total
Non-interest bearing checking accounts	Ps. 89,825	Ps. 150,477	Ps. 37,562	Ps. 53,807	Ps. 58,730	Ps. 2,304	Ps. -	Ps. 392,705
Interest-bearing checking accounts	23,849	128,764	12,545	14,677	40,867	1,663	-	222,365
Current account Ps. and pre-established	754	1,533	359	486	498	25	-	3,655
Non-interest bearing demand deposits, USD	7,771	7,569	2,188	12,056	2,625	(3)	-	32,206
Interest bearing demand deposits, USD	12,205	15,545	1,382	6,497	2,658	(1)	-	38,286
Retail time deposits	66,953	106,563	26,694	29,892	38,423	186	-	268,711
Time deposits, USD	154	3,858	22	425	31	6	-	4,496
Customers money market	30,010	16,829	5,305	3,507	3,069	170	-	58,890
Financial intermediaries	-	-	-	-	-	49,172	2,645	51,817
Total Deposits	Ps. 231,521	Ps. 431,138	Ps. 86,057	Ps. 121,347	Ps. 146,901	Ps. 53,522	Ps. 2,645	Ps. 1,073,131

Product	2022							
	Geographical location							
	Monterrey	Mexico City	West	Northwest	South-east	Treasury and other	Foreign	Total
Non-interest bearing checking accounts	Ps. 86,720	Ps. 141,319	Ps. 36,997	Ps. 52,344	Ps. 53,539	Ps. 1,955	Ps. -	Ps. 372,874
Interest-bearing checking accounts	32,161	79,385	10,357	12,398	25,383	2,017	-	161,701
Current account Ps. and pre-established	3,974	6,380	1,767	1,928	2,010	9	-	16,068
Non-interest bearing demand deposits, USD	9,738	10,593	2,421	14,365	2,126	2	-	39,245
Interest bearing demand deposits, USD	8,039	14,612	1,444	5,865	2,968	-	-	32,928
Retail time deposits	51,564	86,785	21,332	22,700	30,175	1,094	-	213,650
Time deposits, USD	943	2,003	11	89	90	-	-	3,136
Customers money market	28,890	17,871	4,060	2,722	3,752	119	-	57,414
Financial intermediaries	-	-	-	-	-	18,964	2,989	21,953
Total Deposits	Ps. 222,029	Ps. 358,948	Ps. 78,389	Ps. 112,411	Ps. 120,043	Ps. 24,160	Ps. 2,989	Ps. 918,969

30 - INCOME TAXES

The Institution is subject to Income Tax (ISR).

ISR

Pursuant to the ISR Law the rate for 2023 and 2022 was 30% and will continue at the same rate for subsequent years.

Reconciliation of the accounting and tax result

The main items that affected the determination of the current tax expense of the Institution were the annual adjustment for inflation, the deduction in the exercise of the write-offs of the loan portfolio and the valuation of financial instruments.



Reconciliation of the ISR legal rate and the effective rate expressed as a percentage of the income before ISR and PTU is:

	2023	2022
Legal rate	30%	30%
Tax inflation	(3%)	(4%)
Non-tax accounting write-offs	2%	2%
Interest on subordinated	(4%)	(4%)
Other items	1%	3%
Effective rate	26%	27%

31 - DISCLOSURE OF FAIR VALUE

The level of the fair value hierarchy is determined based on the input data and the valuation methodologies used, and is divided into:

- Level 1: are those instruments whose input data are quoted prices, stock market closing prices, facts or position in active markets. These data represent reliable evidence for the determination of fair value without the need to be adjusted.
- Level 2: when the price or input data used to calculate the fair value is that of an instrument similar to the valued one. Also included are those instruments that, despite the existence of quoted prices in the market, do not have transactions on the valuation date or that such transactions are not of a considerable volume.
- Level 3: these are financial instruments whose fair value was calculated using input data that are not available in the market or that are not observable.

As of December 31, 2023 and 2022, the Institution determined the fair values of its assets and liabilities, as well as the amount corresponding to each fair value hierarchy level classification as shown in the following table:

Asset	As of December 31, 2023	Level 1	Level 2	Level 3	As of December 31, 2022	Level 1	Level 2	Level 3
Derivatives – Trading								
Forwards	\$ 939	\$ -	\$ 939	\$ -	\$ 125	\$ -	\$ 125	\$ -
Options	998	-	998	-	1,320	-	1,320	-
Swaps	26,854	-	26,854	-	34,132	-	34,131	-
Derivatives – Hedge								
Swaps	\$ 4,442	\$ -	\$ 4,442	\$ -	\$ 1,854	\$ -	\$ 1,854	\$ -
Investment in securities								
Trading financial instrument	\$ 109,121	\$ 24,327	\$ 84,250	\$ 544	\$ 134,685	\$ 33,532	\$ 100,520	\$ 633
Financial Instruments to Collect or Sell	161,048	74310	86,678	60	114,771	59,752	54,791	228
Total	\$ 303,402	\$ 98,637	\$ 204,161	\$ 604	\$ 286,841	\$ 93,284	\$ 192,742	\$ 861
Liability	As of December 31, 2023	Level 1	Level 2	Level 3	As of December 31, 2022	Level 1	Level 2	Level 3
Derivatives – Trading								
Forwards	\$ 731	\$ -	\$ 731	\$ -	\$ 165	\$ -	\$ 165	\$ -
Options	1,024	-	1,024	-	1,363	-	1,363	-
Swaps	19,733	-	19,734	-	27,588	-	27,588	-
Derivatives – Hedge								
Swaps	\$ 2,259	\$ -	\$ 2,260	\$ -	\$ 3,956	\$ -	\$ 3,956	\$ -
Total	\$ 23,749	\$ -	\$ 23,749	\$ -	\$ 33,072	\$ -	\$ 33,072	\$ -



- **Input data and valuation techniques for assets and liabilities classified as level 2 and level 3**

The following table shows the valuation techniques and the observable and unobservable input data used to determine the fair value of those assets and liabilities classified as level 2 and level 3, as well as the figures corresponding to December 31, 2023 and 2022:

Asset

Concept	As of December 31, 2023		As of December 31, 2022		Valuation methodology	Observable input data	Non-observable input data
	Level 2	Level 3	Level 2	Level 3			
Derivatives – Trading	Ps. 28,926	Ps. -	Ps. 35,715	Ps. -			
Forwards	939	-	125	-	- Net present value	<u>Net present value:</u> - Spot exchange rate - Forward points - Market interest rates	
Currency	939	-	125	-			
Options	1,003	-	1,331	-	Black Model	<u>Black Normal/Lognormal model:</u> - Market interest rates - Embedded volatility	
Interest rate	908	-	1,139	-	Normal/Lognormal		
					Black-Scholes Model	<u>Black-Scholes model:</u> - Spot exchange rate - Market interest rates - Embedded volatility - Dividends	
Index	14	-	50	-			
					Black-Scholes Model	<u>Black-Scholes model:</u> - Spot exchange rate - Market interest rates - Forward points - Embedded volatility FX	
Currency	81	-	142	-			
Swaps	26,984	-	34,259	-			
Interest rate	18,426	-	30,393	-	Net Present Value	<u>Net present value:</u> - Market interest rates	
					Net Present Value	<u>Net present value:</u> - Market interest rates - Spot exchange rate - Forward points	
Currency	8,556	-	3,722	-			
					Default Intensity Model	<u>Default intensity model:</u> - Market interest rates - Market credit spread - Recovery rate	
Credit	2	-	144	-			
Derivatives – Hedge	Ps. 4,444	Ps. -	Ps. 1,858	Ps. -			
Swaps	4,444	-	1,858	-			
Interest rate	742	-	-	-	Net Present Value	<u>Valor Presente Neto:</u> - Market interest rates	
					Net Present Value	<u>Valor Presente Neto:</u> - Market interest rates - Spot exchange rate - Forward points	
Currency	3,702	-	1,858	-			



Concept	As of December 31, 2023				As of December 31, 2022				Valuation methodology	Observable input data	Non-observable input data
	Level 2	Level 3	Level 2	Level 3	Level 2	Level 3	Level 2	Level 3			
XVA	Ps.	(137)	Ps.	-	Ps.	(144)	Ps.	-			
Forwards		-		-		-		-	Probability of Default; - <i>Default</i> Intensity Model	- Market credit spread - Market loss severity - Interest rate volatility	- Synthetic credit spread - Historical values - Correlations between market variables
Options		(5)		-		(12)		-	Synthetic credit spread; - Global CDS data regression model	- Market interest rates - Spot exchange rate - Forward points - Embedded volatility	
Swaps – Trading		(130)		-		(128)		-	Exposiciones; - Hull-White Model - Black-Scholes Model - CIR Model		
Swaps – Hedge		(2)		-		(4)		-			
Investment in securities	Ps.	170,928	Ps.	604	Ps.	155,311	Ps.	861			
Trading financial instrument		84,250		544		100,520		633			
Bank		5,564		-		4,783		-	Net present value	<u>Net Present Value:</u> - Market rate on the valuation day - Weighted bank funding rate - Exchange rate	
Government		78,686		-		95,737		-	Net present value	<u>Net Present Value:</u> - Market rate on the valuation day - Exchange rate	
Private		-		544		-		633	Net Present Value Indicative Net Asset Value Basket price of financial assets and liabilities Last observable price Value in books Comparable Multiples Method Value relative to similar issues	<u>Indicative Net Asset Value:</u> - Theoretical price of the TRAC on the day before the valuation - Closing of the TRAC the day before the valuation - Closing of the TRAC on the valuation day <u>Last Observed Price:</u> - Last share price <u>Value in books:</u> - Valuation to the millionth <u>Comparable multiples method:</u> - Exchange rate - Market value <u>Value with respect to similar emissions:</u> - Price of the similar instrument	<u>Basket price of financial assets and liabilities:</u> - Acquired financial assets - Administrative and placement expenses - Adjustment for rights decreed that affect the shareholding structure <u>Value in books:</u> - Book value at valuation date - Last observed price of the share - Book value at the date of the last observed price <u>Comparable multiples method:</u> - Control premium - Liquidity discount - Company value
Concept	As of December 31, 2023		As of December 31, 2022						Valuation methodology	Observable input data	Non-observable input data
	Level 2	Level 3	Level 2	Level 3	Level 2	Level 3	Level 2	Level 3			
Financial Instruments to Collect or Sell	86,678	60	54,791	228							
Bank	26,152	-	9,146	-					Net present value	<u>Net Present Value:</u> - Market rate on the valuation day - Weighted bank funding rate - Exchange rate	
Government	51,180	-	38,117	-					Net present value	<u>Net Present Value:</u> - Market rate on the valuation day - Exchange rate	
Private	9,346	60	7,528	228					Net present value Reiner-Rubinstein Cash or Nothing Prepayment method	<u>Net Present Value:</u> - Market rate on the valuation day - Exchange rate <u>Reiner-Rubinstein Cash or Nothing:</u> - Market bank interest rate - Implied volatility <u>Prepayment Method:</u> - Auction price - Market rate on the valuation day - History of amortizations - Exchange rate	
Total	\$ 204,161	\$ 604	\$ 192,740	\$ 861							



Liabilities

As of December 31, 2023					As of December 31, 2022					Valuation methodology	Observable input data	Non-observable input data
Concepto	Level 2		Level 3		Level 2		Level 3					
Derivatives – Trading	Ps.	21,687	Ps.	-	Ps.	29,612	Ps.	-				
Forwards		730		-		165		-				
Currency		730		-		165		-	Net present value	<u>Net Present Value:</u> - Spot exchange rate - forward points - Market interest rates		
Options		1,045		-		1,401		-				
Interest rate		958		-		1,223		-	Normal Black Model /NormalLog	<u>Black Normal/Lognormal model:</u> - Market interest rates - Implied volatility		
Index		-		-		35		-	Black-Scholes Model	<u>Black-Scholes model:</u> - Spot price of the index - Market interest rates - Implied volatility - Dividends		
Currency		87		-		143		-	Black-Scholes Model	<u>Black-Scholes model:</u> - Spot exchange rate - Market interest rates - Forward Points - Implied FX Volatility		

As of December 31, 2023				As of December 31, 2022							
Concepto	Level 2		Level 3		Level 2		Level 3		Valuation methodology	Observable input data	Non-observable input data
Swaps		19,912		-		28,046		-			
Interest rate		12,128		-		23,698		-	Net Present Value	<u>Net Present Value:</u> - Market interest rates	
Currency		7,771		-		4,338		-	Net Present Value	<u>Net Present Value:</u> - Market interest rates - Spot exchange rate - Forward Points	
Credit		13		-		10		-	Default intensity model	<u>Default intensity model:</u> - Market interest rates - Market Credit Spread - Recovery rate	
Derivatives – Hedge	Ps.	2,277	Ps.	-	Ps.	3,910	Ps.	-			
Swaps		2,277		-		3,910		-			
Interest rate		1,152		-		1,177		-	Net Present Value	<u>Net Present Value:</u> - Market interest rates	
Currency		1,125		-		2,733		-	Net Present Value	<u>Net Present Value:</u> - Market interest rates - Spot exchange rate - Forward Points	
XVA	Ps.	(215)	Ps.	-	Ps.	(449)	Ps.	-			
Forwards		1		-		-		-	<u>Probability of default:</u> - Default intensity model		
Optiones		(21)		-		(38)		-	<u>Synthetic credit spread:</u> - Global CDS data regression model	- Market credit spread - Severity of market loss - Volatility of interest rates - Market interest rates - Spot exchange rate - forward points - Implied volatility	- Synthetic credit spread - Historical values - Correlations between market variables
Swaps – Trading		(178)		-		(457)		-	<u>Exhibitions:</u> - Hull-White model - Black-Scholes model		
Swaps – Hedge		(17)		-		46		-	IRC model		
Total	Ps.	23,749	Ps.	-	Ps.	33,073	Ps.	-			



- Transfers of amounts between classifications of level 1 and level 2 of the determination of fair value

The conditions to recognize the transfer from level 1 to level 2 will be considered in accordance with the instrument:

Investments in securities

When there are no facts or positions for the operations, and the price is determined through the movement of the price of similar instruments, the price of the previous period is considered, there is no market information on the instrument, no fact is presented for the amount minimum required, some theoretical adjustment is made to the surcharge or the instrument changes range, it is considered that there is a transfer to level 2 of the hierarchy.

Derivative financial instruments

In the case of derivatives, the prices of derivatives quoted on derivatives exchanges through clearing houses are considered as level 1 of the hierarchy. Therefore, if there is no information in the market and the price is estimated or the last observable price is taken, the transfer to level 2 of the fair value hierarchy will be recognized.

During the fiscal year to December 31, 2023, no transfers were made between Level 1 and Level 2 of the fair value hierarchy within the assets and liabilities held by the Institution.

- Description of valuation techniques for assets and liabilities classified as level 3

As of December 31, 2023, the Institution maintains investments in financial instruments classified as collect and sell, negotiable financial instruments and derivative financial instruments classified as level 3, whose valuation techniques are described below:

Investments in securities

The recorded fair value of investments in financial instruments and their fair value hierarchy is obtained from the vector of prices of the Integral Price Provider (PiP). The valuation techniques used for those instruments classified as level 3 of the fair value hierarchy are as follows:

- Net present value: the flows are projected based on the characteristics of the instrument, discounting them with a market discount rate.
- Last observable price: if there is no price on the valuation date, the last price issued will be maintained until there is a publication by an independent appraiser, a corporate event or a change in the information reported by the Entity.
- Price of basket of financial assets and liabilities: the net value between the Entity's financial assets and liabilities is considered, dividing the result by the number of titles issued.
- Book value: when a share has not operated or been suspended for more than 20 days, will be considered its book value. Depending on the case, the corresponding method will be applied:
 - *Without operation*: the last price determined will be taken between the book value on the date the last price was determined, multiplied by the book value on the valuation date.
 - *Suspended*: if the Entity delivered its financial information in the last 4 quarters, a percentage of the book value will be taken based on the time that the shares have been suspended. Time will be considered in quarters, taking 75% of the value if the shares have been suspended for a quarter, 50% of the value if they have been suspended for two quarters, 25% if they have been suspended for three quarters and 10% if they have been suspended for 4 quarters. If you did not provide your financial information, there are two options: (1) if you updated your financial information, 10% of the book value will be considered as fair value of the share; (2) if you did not update your financial information, the share will be valued at one millionth (0.000001).



- Comparable multiples method: based on market information, the last transaction carried out is obtained. Said value is adjusted by means of a discount for lack of control and a discount for illiquidity, which are obtained as follows:
 - *Discount for lack of control*: first, the control premium is determined based on comparable companies, to later infer the discount for lack of control.
 - *Illiquidity discount*: comparable companies are considered, from which the ratio of the company's market value and sales in the last 12 months of each one is obtained. An average of these ratios is obtained and multiplied by the Institution's estimated income for the last 12 months to obtain the enterprise value. With said enterprise value, income and cash figures, said discount is obtained using the Damodaran formula.

Likewise, the movements for the determination of fair value classified in level 3 as of December 31, 2023 and 2022 are disclosed:

Concepts	2023	2022
Initial balance	861	-
Change in profit and loss recognized in the income statement	(Ps. 89)	Ps. 633
Change in profit and loss recognized in OCI	(168)	228
Transfers to/from Level 3	-	-
Final balance	Ps. 604	Ps. 861

32 - STOCKHOLDERS' EQUITY

The Institution's shareholders' common stock is comprised as follows:

Paid-in Capital	Number of shares with a nominal value of Ps. 0.10	
	2023	2022
"O" Series	144,197,415,428	144,197,415,428

Paid-in Capital	Historical Amounts	
	2023	2022
"O" Series	Ps. 14,420	Ps. 14,420
Restatement in Mexican pesos through December 2007	4,375	4,375
	Ps. 18,795	Ps. 18,795

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 Institution 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 are subject to additional 10% ISR which will be withheld by the Institution.

The Institution's net profit is subject to Art. 99 A of the LIC that requires that net income of each year be transferred to the legal reserve until the reserve equals 10% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Institution, except in the form of a stock dividend. As of December 31, 2023 and 2022, the legal reserve is Ps. 18,796, and represents 100% and 91% of paid-in capital, respectively.



Share-based payments

During 2023 and 2022, the Institution recorded Ps. 1,011 and Ps. 799, respectively, in Non-interest expense compensation for share-based payments against the paid-in capital.

As of December 31, 2023 and 2022, the shares that the Institution has assigned to its executives through various share based plans with shares that it has structured and that are pending exercise are 17,040,356 and 25,382,036, respectively. The weighted share's average price for all the plans during the 2023 and 2022 was Ps. \$81.1441 and Ps. \$81.1441 pesos per share, respectively.

During 2023 and 2022, 9,741,680 and 8,661,965 shares were operated, respectively.

Anex I-O
Disclosure of information related to capitalization
(Not audited)

Capitalization ratio (information corresponding to Banco Banorte, figures in millions of pesos)

The principal purpose of these disclosures is to meet the directives by the Central Bank of Mexico (Banxico) directives on public disclosures under the Basel III framework.

This document comprises of the bank's capital and risk management disclosures as of December 31st, 2023. During 2021, Banorte was designated as a Locally Systemic Important Bank of II Degree, for which it must comply with a capital buffer of 0.90 pp. With the latter, the total capital ratio has a minimum required level of 11.40%.

The bank's total capital ratio as of December 31st, 2023 was 20.69% when considering its total risk (market, credit and operational) and 29.12% when considering only credit risk, with both exceeding the minimum regulatory requirements. As such, the institution has a Level I classification level regarding the total capital ratio required by CNBV.

I. Composition of Capital

Table I.1

Ref	Common Equity Tier 1 capital: instruments and reserves	Million MXN
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	23,294
2	Retained earnings	73,054
3	Accumulated other comprehensive income (and other reserves)	58,486
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	N/A
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	N/A
6	Common Equity Tier 1 capital before regulatory adjustments	154,835
	Common Equity Tier 1 capital: regulatory adjustments	
7	Prudential valuation adjustments	N/A
8	Goodwill (net of related tax liability)	1,005
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	9,658
10 (conservative)	Deferred tax assets excluding those arising from temporary differences (net of related tax liability)	-
11	Cash flow hedge reserve	(1,993)
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	N/A
15	Defined benefit pension fund net assets (net of related tax liability)	-



16 (conservative)	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17 (conservative)	Reciprocal cross holdings in common equity	-
18 (conservative)	Non-significant investments in the capital of banking, financial and insurance entities, net of eligible short positions (amount above 10% threshold)	-
19 (conservative)	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	2,438
20 (conservative)	Mortgage servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	N/A
23	of which: significant investments in the common stock of financials	N/A
24	of which: mortgage servicing rights	N/A
25	of which: deferred tax assets arising from temporary differences	N/A
26	Derogated	
A	of which: Accumulated other comprehensive income (and other reserves)	(191)
B	of which: Investments in subordinated debt	-
C	of which: Securitisation gain on sale	-
D	of which: Investments in multilateral organizations	-
E	of which: Investments in related parties	-
F	of which: Investments in capital risk	-
G	of which: Investments in fund investments	-
H	of which: Own shares acquisition funding	-
I	of which: Contravening depositions operations	-
J	of which: Deferred liabilities and advances	4,361
K	of which: First loss positions	-
L	of which: Deferred profit sharing	-
M	of which: Relevant related parties	-
N	of which: Defined benefit pension fund net assets	-
O	Derogated	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-
28	Total regulatory adjustments to Common Equity Tier 1	15,538
29	Common Equity Tier 1 capital (CET1)	139,297
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	54,293
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	N/A
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	N/A
35	of which: instruments issued by subsidiaries subject to phase out	N/A
36	Additional Tier 1 capital before regulatory adjustments	54,293



	Additional Tier 1 capital: regulatory adjustments	
37 (conservative)	Investments in own Additional Tier 1 instruments	N/A
38 (conservative)	Reciprocal cross holdings in Additional Tier 1 instruments	N/A
39 (conservative)	Non-significant investments in the capital of banking, financial and insurance entities, net of eligible short positions (amount above 10% threshold)	N/A
40 (conservative)	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	N/A
41	Other deductions from Tier 1 capital	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	N/A
43	Total regulatory adjustments to Additional Tier 1 capital	-
44	Additional Tier 1 capital (AT1)	54,293
45	Tier 1 capital (T1 = CET1 + AT1)	193,590
	Tier 2 capital: instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	1,380
47	Directly issued capital instruments subject to phase out from Tier 2	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	N/A
49	of which: instruments issued by subsidiaries subject to phase out	N/A
50	Provisions	849
51	Tier 2 capital before regulatory adjustments	2,229
	Tier 2 capital: regulatory adjustments	
52 (conservative)	Investments in own Tier 2 instruments	N/A
53 (conservative)	Reciprocal cross holdings in Tier 2 instruments	N/A
54 (conservative)	Non-significant investments in the capital of banking, financial and insurance entities, net of eligible short positions (amount above 10% threshold)	N/A
55 (conservative)	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	N/A
56	Other deductions from Tier 2 capital	-
57	Total regulatory adjustments to Tier 2 capital	-
58	Tier 2 capital (T2)	2,229
59	Total capital (TC = T1 + T2)	195,819
60	Total risk-weighted assets	946,593
	Capital ratios	
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	14.71%
62	Tier 1 (as percentage of risk-weighted assets)	20.45%
63	Total capital (as percentage of risk-weighted assets)	20.69%



64	Buffer requirement (minimum CET1 requirement plus capital conservation buffer plus G-SIB buffer requirement plus DSIB buffer requirement expressed as a percentage of risk-weighted assets)	7%
65	of which: capital conservation buffer requirement	2.50%
66	of which: bank specific countercyclical buffer requirement	0.0001%
67	of which: G-SIB buffer requirement	0.90%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	6.81%
	National minima (where different from Basel III)	
69	Common Equity Tier 1 minimum ratio	N/A
70	Tier 1 minimum ratio	N/A
71	Total capital minimum ratio	N/A
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financials	N/A
73	Significant investments in the common stock of financials	N/A
74	Mortgage servicing rights (net of related tax liability)	N/A
75	Deferred tax assets arising from temporary differences (net of related tax liability)	2,751
	Applicable caps on the inclusion of provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	779
77	Cap on inclusion of provisions in Tier 2 under standardised approach	5,117
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings- based approach (prior to application of cap)	70
79	Cap on inclusion of provisions in Tier 2 under internal ratings-based approach	1,802
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
80	Current cap on CET1 instruments subject to phase out arrangements	N/A
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-



II. Reconciliation of Regulatory Capital

Table II.1
Balance Sheet

Reference	Balance Sheet	Million MXN
	Assets	1,686,667
BG1	Cash and due from banks	97,911
BG2	Margin accounts	4,918
BG3	Investment in securities	391,899
BG4	Debtor balance in repo trans, net	83,103
BG5	Securities lending	-
BG6	Transactions with derivatives	33,233
BG7	Valuation adjustments for asset coverage	-
BG8	Net loan portfolio	977,304
BG9	Benef. receivab. securization transactions	4,388
BG10	Sundry debtors & other accs rec, net	37,467
BG11	Foreclosed assets, net	4,792
BG12	Real estate, furniture & equipment, net	25,374
BG13	Investment in subsidiaries	3,411
BG14	Long-term assets held for sale	-
BG15	Deferred taxes, net	-
BG16	Other assets	22,867
	Liabilities	1,532,023
BG17	Deposits	1,072,144
BG18	Due to banks & correspondents	10,109
BG19	Creditor balance in repo trans, net	208,662
BG20	Securities' loans	-
BG21	Total collateral sold	83,098
BG22	Transactions with Derivatives	23,748
BG23	Valuation adjustments for financial liability coverage	-
BG24	Obligations in securitization transactions	-
BG25	Other Payable Accounts	64,396
BG26	Subordinated non convertible debt	55,421
BG27	Deferred taxes, net	13,308
BG28	Deferred credits	1,137
	Equity	154,644
BG29	Paid-in capital	23,294
BG30	Earned capital	131,349
	Memorandum Accounts	2,269,140
BG31	Endorsement guarantees granted	-
BG32	Contingent assets & liabilities	29
BG33	Loan obligations	399,063
BG34	Properties in trusts and warrant	312,660
BG35	Government secs of the corp under custody	-
BG36	Properties in custody or management	658,836
BG37	Collateral received	215,655
BG38	Collateral received or sold	83,105
BG39	Investment banking transactions for third parties, net	-
BG40	Uncollected accrued interest from past due loans	391
BG41	Miscellaneous accounts	599,401



Table II.2
Net Capital Components

Id	Net Capital Components	Section I Reference	Amount	Reference and amount in balance sheet
	Activo			
1	Goodwill	8	1,005	BG16: 1,005 (Goodwill)
2	Other Intangibles	9	9,568	BG16: 9,568 (Other Intangibles)
3	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	10	-	
4	Securitisation gain on sale	13	-	BG9: 0 (Securitisation gain on sale)
5	Defined benefit pension fund net assets (net of related tax liability)	15	-	
6	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	16	-	
7	Reciprocal cross holdings in common equity	17	-	
8	Non-significant investments in the capital of banking, financial and insurance entities, net of eligible short positions (amount above 10% threshold)	18	-	
9	Non-significant investments in the capital of banking, financial and insurance entities, net of eligible short positions (amount above 10% threshold)	18	-	
10	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	19	-	
11	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	19	2,438	BG13: 2,438 (Investment in subsidiaries)
12	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	21	N/A	
13	Provisions	50	849	BG16: 849 (Provisions)
14	Investments in subordinated debt	26 - B	-	
15	Investments in multilateral organizations	26 - D	-	
16	Investments in related parties	26 - E	-	
17	Investments in capital risk	26 - F	-	
18	Investments in fund investments	26 - G	-	
19	Own shares acquisition funding	26 - H	-	
20	Deferred liabilities and advances	26 - J	-	
21	Deferred profit sharing	26 - L	-	
22	Defined benefit pension fund net assets	26 - N	-	



23	Investments in clearing houses	26 - P	-	
	Liability			
24	Goodwill (net of related tax liability)	8	1,005	BG16: 1,005 (Goodwill)
25	Other intangibles other than mortgage-servicing rights (net of related tax liability)	9	9,658	BG16: 9,658 (Other Intangibles)
26	Defined benefit pension fund net assets (net of related tax liability)	15	-	
27	Defined benefit pension fund net assets (net of related tax liability)	15	-	
28	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	21	-	
29	of which: classified as equity under applicable accounting standards	31	-	
30	Directly issued capital instruments subject to phase out from Additional Tier 1	33	-	
31	Directly issued qualifying Tier 2 instruments plus related stock surplus	46	-	
32	Directly issued capital instruments subject to phase out from Tier 2	47	-	BG26: - (Subordinated non convertible debt)
33	of which: Deferred liabilities and advances	26 - J	-	
	Equity			
34	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	1	23,294	BG29; 23,294 (Paid- in capital)
35	Retained earnings	2	73,054	BG30; 73,054 (Earned Capital)
36	Accumulated other comprehensive income (and other reserves)	3	183	BG30; 183 (Earned Capital)
37	Other earned capital elements	3	58,303	BG30; 58,303 (Earned capital)
38	Classified as equity under applicable accounting standards	31	-	
39	Classified as equity under applicable accounting standards	46	-	
40	Cash flow hedge reserve	3, 11	183	BG30; 183 (Earned capital)
41	Prudential valuation adjustments	3, 26 - A	-	BG30; 0 (Earned Capital)
42	Accumulated other comprehensive income (and other reserves)	3, 26 - A	-	
	Memorandum Accounts			
43	First loss positions	26 - K	-	
	Regulatory concepts not considered in balance sheet			
44	Shortfall of provisions to expected losses	12	-	
45	Securitisation gain on sale	26 - C	-	
46	Contravening depositions operations	26 - I	-	
47	Relevant related parties	26 - M	-	
48	Derogated	26 - O, 41, 56	-	



III. Total Risk Weighted Assets

Table III.1
Market Risk Exposures

Concept	Exposures	Capital Requirement
Domestic currency with nominal interest rate operations	113,076	9,046
Domestic currency with variable interest rate operations	7,831	626
Domestic currency with UDI's based rate operations	1,311	105
Domestic currency with SMG based rate operations	-	-
UDI's exposures	13	1
SMG exposures	-	-
Foreign currency nominal interest rate operations	16,871	1,350
FX exposures	6,669	534
Equity exposures	4,094	328
Merchandise exposures	-	-

Table III.2
Credit Risk Weighted Assets by Group

Concept	RWA	Capital Requirement
Group IOA (0%)	-	-
Group IOA (10%)	-	-
Group IOA (20%)	-	-
Group IOB (20%)	760	61
Group II (100%)	-	-
Group III (20%)	21,985	1,759
Group III (23%)	-	-
Group III (50%)	449	36
Group III (57.5%)	16,640	1,331
Group III (100%)	-	-
Group III (115%)	-	-
Group III (120%)	-	-
Group III (138%)	98	8
Group III (150%)	-	-
Group III (172.5%)	-	-
Group IV (0%)	9,218	737
Group IV (20%)	-	-
Group V (10%)	14,832	1,187
Group V (20%)	4,355	348
Group V (50%)	366	29
Group V (115%)	18,776	1,502
Group V (150%)	29,685	2,375
Group VI (20%)	38,419	3,074
Group VI (50%)	95,572	7,646
Group VI (75%)	154,089	12,327



Group VI (100%)	-	-
Group VI (120%)	-	-
Group VI (150%)	-	-
Group VI (172.5%)	-	-
Group VII_A (10%)	-	-
Group VII_A (11.5%)	5,353	428
Group VII_A (20%)	-	-
Group VII_A (23%)	22	2
Group VII_A (50%)	-	-
Group VII_A (57.5%)	85,977	6,878
Group VII_A (100%)	-	-
Group VII_A (115%)	-	-
Group VII_A (120%)	-	-
Group VII_A (138%)	1	0
Group VII_A (150%)	-	-
Group VII_A (172.5%)	-	-
Group VII_B (0%)	7,700	616
Group VII_B (20%)	-	-
Group VII_B (23%)	918	73
Group VII_B (50%)	-	-
Group VII_B (57.5%)	84,757	6,781
Group VII_B (100%)	-	-
Group VII_B (115%)	-	-
Group VII_B (120%)	-	-
Group VII_B (138%)	-	-
Group VII_B (150%)	-	-
Group VII_B (172.5%)	3,110	249
Group VIII (115%)	1,884	151
Group VIII (150%)	62,353	4,988
Group IX (10%)	-	-
Group IX (50%)	-	-
Group IX (100%)	14,142	1,131
Group IX (115%)	46	4
Group X (1250%)	638	51
Securitisations (20%)	-	-
Securitisations (50%)	105	8
Securitisations (100%)	-	-
Securitisations (350%)	-	-
Securitisations (1250%)	-	-
Securitisations (40%)	-	-
Securitisations (100%)	-	-
Securitisations (225%)	-	-
Securitisations (650%)	-	-
Securitisations (1250%)	-	-

Table III.3



Operational Risk Weighted Assets

Approach	RWA	Capital Requirement
Business Indicator Method	123,734	9,899

Market and credit risk requirements average from past 36 months	Annual positive earnings average from past 36 months
62,425	84,154

IV. Main features of regulatory capital instruments

Ref	Feature	D2 BANO99 999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Group Financiero Banorte.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	USP1401KAA99
3	Governing law(s) of the instrument	NewYork
Regulatory treatment		
4	Transitional Basel III rules	Additional Tier 1 Capital
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/group/group&solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	U.S.\$500,000,000 (five hundred million USD)
9	Par value of instrument	U.S. \$1,000.00 (One thousand USD)
9A	Currency of instrument	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Original date of issuance	24/11/2021
12	Perpetual or dated	Dated
13	Original maturity date	Perpetual
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Any time before maturity date
15A	Regulatory or fiscal events	Yes
15B	Liquidation price in advance	Nominal value plus coupons to the advance date
16	Subsequent call dates, if applicable	Any time before maturity date
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	IRUSD0Libor
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible



24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	Non-convertible
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Yes
32	If write-down, full or partial	7%
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Non preferred subordinated debt
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	30 day default coupon, default on maturity date, bankruptcy

Ref	Feature	D2 BANOE91 999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Group Financiero Banorte.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	USP14008AE91
3	Governing law(s) of the instrument	New York
Regulatory treatment		
4	Transitional Basel III rules	Additional Tier 1
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/group/group&solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	U.S.\$550,000,000 (Five hundred fifty tmillion USD)
9	Par value of instrument	U.S. \$1,000.00 (One thousand USD)
9A	Currency of instrument	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Original date of issuance	04/10/2017
12	Perpetual or dated	Dated
13	Original maturity date	Perpetual
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Any time before maturity date



15A	Regulatory or fiscal events	Yes
15B	Liquidation price in advance	Nominal value plus coupons to the advance date
16	Subsequent call dates, if applicable	Any time before maturity date
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	IRUSD0Libor
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	Non-convertible
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Non preferred subordinated debt
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	30 day default coupon, default on maturity date, bankruptcy



Ref	Feature	D2 BANOC36 311004
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Group Financiero Banorte.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	USP14008AC36
3	Governing law(s) of the instrument	New York
Regulatory treatment		
4	Transitional Basel III rules	Tier 2 Capital
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/group/group&solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	U.S.\$500,000,000 (Five hundred million USD)
9	Par value of instrument	U.S. \$1,000.00 (One thousand USD)
9A	Currency of instrument	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Original date of issuance	04/10/2016
12	Perpetual or dated	Dated
13	Original maturity date	04/10/2031
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Any time before maturity date
15A	Regulatory or fiscal events	Yes
15B	Liquidation price in advance	Nominal value plus coupons to the advance date
16	Subsequent call dates, if applicable	Any time before maturity date
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	IRUSD0Libor
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	Non-convertible
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	Yes



31	If write-down, write-down trigger(s)	Yes
32	If write-down, full or partial	7%.
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Non preferred subordinated debt
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	30 day default coupon, default on maturity date, bankruptcy

Ref	Feature	D2 BANO64 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Group Financiero Banorte.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	USP1400MAA64
3	Governing law(s) of the instrument	New York
Regulatory treatment		
4	Transitional Basel III rules	Additional Tier 1
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/group/group&solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	U.S.\$600,000,000 (Six hundred million USD)
9	Par value of instrument	U.S. \$1,000.00 (One thousand USD)
9A	Currency of instrument	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Original date of issuance	27/06/2019
12	Perpetual or dated	Dated
13	Original maturity date	Perpetual
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	27/09/2024
15A	Regulatory or fiscal events	Yes
15B	Liquidation price in advance	Nominal value plus coupons to the advance date
16	Subsequent call dates, if applicable	Any time before maturity date
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	IRUSD0Libor
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Discretionary
21	Existence of step up or other incentive to redeem	No



22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	Non-convertible
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Yes
32	If write-down, full or partial	7%.
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Non preferred subordinated debt
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	30 day default coupon, default on maturity date, bankruptcy

Ref	Feature	D2 BANO48 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Group Financiero Banorte.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	USP1400MAB48
3	Governing law(s) of the instrument	New York
Regulatory treatment		
4	Transitional Basel III rules	Additional Tier 1
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/group/group&solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	U.S.\$500,000,000 (Five hundred million USD)
9	Par value of instrument	U.S. \$1,000.00 (One thousand USD)
9A	Currency of instrument	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Original date of issuance	27/06/2019
12	Perpetual or dated	Dated
13	Original maturity date	Perpetual
14	Issuer call subject to prior supervisory approval	Yes



15	Optional call date, contingent call dates and redemption amount	27/06/2029
15A	Regulatory or fiscal events	Yes
15B	Liquidation price in advance	Nominal value plus coupons to the advance date
16	Subsequent call dates, if applicable	Any time before maturity date
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	IRUSD0Libor
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	Non-convertible
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Yes
32	If write-down, full or partial	7%.
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Non preferred subordinated debt
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	30 day default coupon, default on maturity date, bankruptcy

Ref	Feature	D2 BANOC21 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Group Financiero Banorte.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	USP1400MAC21
3	Governing law(s) of the instrument	New York
Regulatory treatment		
4	Transitional Basel III rules	Additional Tier 1
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/group/group&solo	Solo



7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	U.S.\$500,000,000 (Five hundred million USD)
9	Par value of instrument	U.S. \$1,000.00 (One thousand USD)
9A	Currency of instrument	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Original date of issuance	14/07/2020
12	Perpetual or dated	Dated
13	Original maturity date	Perpetual
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	01/07/2030
15A	Regulatory or fiscal events	Yes
15B	Liquidation price in advance	Nominal value plus coupons to the advance date
16	Subsequent call dates, if applicable	Any time before maturity date
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	IRUSD0Libor
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	Non-convertible
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	Si
31	If write-down, write-down trigger(s)	Si
32	If write-down, full or partial	7%.
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Non preferred subordinated debt
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	30 day default coupon, default on maturity date, bankruptcy



Ref	Feature	D2 BANOB72 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Group Financiero Banorte.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	USP1401KAB72
3	Governing law(s) of the instrument	New York
Regulatory treatment		
4	Transitional Basel III rules	Additional Tier 1
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/group/group&solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	U.S.\$550,000,000 (Five hundred and fifty million USD)
9	Par value of instrument	U.S. \$1,000.00 (One thousand USD)
9A	Currency of instrument	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Original date of issuance	24/11/2021
12	Perpetual or dated	Dated
13	Original maturity date	Perpetual
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	24/01/2027
15A	Regulatory or fiscal events	Yes
15B	Liquidation price in advance	Nominal value plus coupons to the advance date
16	Subsequent call dates, if applicable	Any time before maturity date
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	IRUSD0Libor
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	Non-convertible
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Yes
32	If write-down, full or partial	7%.
33	If write-down, permanent or temporary	N/A



34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Non preferred subordinated debt
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	30 day default coupon, default on maturity date, bankruptcy

V. Capital Management

According to current regulations and the CNBV requirements, Banorte is currently developing its Sufficient Capital Evaluation process, which will consider inherent risks the bank is exposed to. As well as its main vulnerabilities in order to test the bank solvency through financial projections with negative macroeconomic scenarios.

Additionally, a weekly analysis of all risk exposures is conducted in order to manage capital requirements and plan specific strategies to minimize it.

VI. Weighting factors involved in countercyclical buffer

Bank's countercyclical buffer requirement	
64.79 millions	
Country	Factor
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	0.00%
India	1.25%
Indonesia	0.00%
Italy	0.00%
Japan	0.00%
South Korea	0.00%
Luxembourg	0.00%
Mexico	0.00%
United Kingdom	0.00%
Russia	0.00%
Singapour	0.00%
South Africa	0.00%
Sweden	0.00%
Switzerland	2.00%
Turkey	0.00%
Others	0.00%



VII. Main indicators related to the Total Loss-Absorbing Capacity for Locally Sistemically Important Bank.

Table VII.1

Reference	Concept	a	b	c	d	e
		T	T-1	T-2	T-3	T-4
1	Total Loss Absorbing Capacity (TLAC) available	15,762	15,761	15,129	14,765	
1a	N/A					
2	Total RWA at the level of the resolution group	946,593	905,334	913,329	908,585	
3	TLAC as a percentage of RWA (row1/row2) (%)	1.67%	1.74%	1.66%	1.63%	
3a	N/A					
4	Leverage exposure measure at the level of the resolution group	1,681,264	1,681,192	1,613,813	1,554,022	
5	TLAC as a percentage of leverage exposure measure (row1/row4) (%)	0.94%	0.94%	0.94%	0.95%	
5a	N/A					
6a	As part of the TLAC, are there any capital instruments that are at the same payment level (i.e., pari passu), in relation to instruments that are excluded to be converted into ordinary shares or on whose amount would the remission or forgiveness of the debt and its accessories operate in favor of the institution, in a resolution process?	NO	NO	NO	NO	
6b	As part of the TLAC, are there any capital instruments that are at the same payment level (i.e., pari passu), in relation to instruments that as of the local regulation are excluded from being converted into ordinary shares or on the amount of which the remission or forgiveness of the debt and its accessories would operate in favor of the institution, in a resolution process?	NO	NO	NO	NO	
6c	If the assumption contained in row 6b is updated, what is the share (%) of the amount of capital instruments considered in the supplement to net capital, in relation to the amount of capital instruments issued that they comply with the priority of payments?	No aplica	No aplica	No aplica	No aplica	



Table VII.2.1

		Amounts
	Elements of the Total Loss-Absorbing Capacity and adjustments	
1	Common Equity Tier 1 capital (CET1)	139,297
2	Additional Tier 1 capital (AT1) before TLAC adjustments	54,293
3	Additional Tier 1 capital (AT1) not eligible for TLAC, issued by the institution held by a third party	-
4	Other adjustments	-
5	Additional Tier 1 instruments eligible for TLAC	54,293
6	Tier 2 capital before TLAC regulatory adjustments	2,229
7	Part of the amortized Tier 2 capital instruments where remaining maturity is above 1 year.	-
8	Tier 2 capital not eligible for TLAC, issued by the institution held by a third party	-
9	Other adjustments	849
10	Tier 2 instruments eligible for TLAC	1,380
11	TLAC	194,970
	Non regulatory Elements of the Total Loss-Absorbing Capacity	
12	External TLAC elements issued by the bank and subordinated to excluded liabilities.	-
13	External TLAC instruments issued by the bank and not subordinated to excluded liabilities, but that comply with all the requirements of the TLAC term sheet.	-
14	Of which: amount eligible for TLAC after the application of supervisory limits	-
15	External TLAC instruments issued by financial vehicles before January 1 st 2022.	-
16	Ex ante commitments to recapitalize a locally systemic important institution in resolution.	-
17	TLAC from non regulatory capital instruments before adjustments	-
	Non regulatory Elements of the Total Loss-Absorbing Capacity: Adjustments	
18	TLAC before deductions	194,970
19	Exposure deductions belonging to accounts eligible for TLAC (not applicable for locally systemic important bank with only one point of entry).	-
20	Deductions of investments in other liabilities eligible for TLAC	-
21	Other adjustments	-
22	TLAC after deductions	194,970
	Risk Weighted Assets and Exposure to Leverage for TLAC effects	
23	Total Risk Weighted Assets (TRWA) as the amount registered in line 60 of Table I.1 of the current appendix, adjusted as allowed under TLAC.	946,593
24	Total exposures related to the Leverage Ratio as line 21 of Table I.1 of Appendix 1-O Bis of the local regulation.	1,681,264
	TLAC and supplements	
25	TLAC (as percentage of TRWA as the amount registered in line 60 of Table I.1 of the current appendix, adjusted as allowed under TLAC.)	20.60%
26	TLAC (as percentage Total exposures related to the Leverage Ratio)	11.60%
27	CET1 (as percentage of TRWA) available after minimum capital and TLAC requirements.	7.78%
28	Specific capital buffer requirements for the bank (capital conservation buffer, countercyclical capital buffer and TLAC as percentage of TRWA)	4.17%
29	Of which: capital conservation buffer.	2.5%
30	Of which: countercyclical capital buffer	0%
31	Of which: TLAC	1.67%



Annex 1-O Bis (millions of pesos)

LEVERAGE RATIO DISCLOSURE REQUIREMENTS

I. Integration of the principal sources of Leverage

TABLE I.1

LEVERAGE RATIO COMMON DISCLOSURE TEMPLATE		
REFERE NCE	CONCEPT	AMOUNT
On-Balance Sheet Exposure		
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	1,570,330
2	(Asset amounts deducted in determining Tier 1 capital)	(15,532)
3	Total on-balance sheet exposures (excluding derivatives and SFTs, sums of lines 1 & 2)	1,554,798
Derivatives Exposures		
4	Replacement cost associated with all derivative transactions (net of admissible cash variation margins)	10,081
5	Add-on amounts for potential future exposure associated with all derivative transactions	15,386
6	Increment for collaterals paid on derivative operations when such operations are written down from the balance according to the operative accounting standards.	Does Not Apply
7	(Deductions to the accounts receivables for cash variation margins on derivatives operations)	(12,34)8
8	(Exempted central counterparty-leg of client cleared trade exposures)	Does Not Apply
9	Adjusted effective notional amount of written credit derivatives	Does Not Apply
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	Does Not Apply
11	Total derivative exposures (sum of lines 4 to 10)	13,119
Securities financing transaction exposures		
12	Gross SFT assets recognized for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	83,103
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(48,755)
14	Counterparty credit risk (CCR) exposure for SFTs	14,561
15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	48,909
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	399,062
18	(Adjustments for conversion to credit equivalent amounts)	(334,620)
19	Off-balance sheet items (sum of lines 17 and 18)	64,442
Capital and Total Exposures		
20	Tier 1 capital	193,589
21	Total Exposures (sum of lines 3, 11, 16 and 19)	1,681,629
Leverage Ratio		
22	Basel III leverage ratio	11.51%



TABLE I.2
NOTES TO LEVERAGE RATIO COMMON DISCLOSURE TEMPLATE

REFERENCE	NOTES
1	On-balance sheet assets (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral).
2	Deductions from Basel III Tier 1 capital determined by paragraphs b) to r) of fraction I from Article 2 BIS 6 of the local regulation. Reported as a negative amount
3	Sum of lines 1 and 2
4	Replacement cost (RC) associated with all derivative transactions, according to annex 1-L of the local regulation, minus the partial cash liquidation (cash variation margin) received
5	Add-on amount for all derivatives exposure according to annex 1-L of the local regulation, on derivatives operations
6	Does not apply. Local accounting standards do not allow for written down assets handed as collateral
7	Cash variation margin handed on derivatives operations that comply with line 4 to deduct from the received cash variation margins. Reported as a negative amount.
8	Does not apply. Exempted trade exposures associated with the central counterparty-leg of derivative transactions resulting from client cleared transactions. Reported as a negative amount.
9	Does not apply. Adjusted effective notional amount (i.e. the effective notional amount reduced by any negative change in fair value) for written credit derivatives with 100 per cent coverage of the collateralized amount of the operation. This amount is included in line 5.
10	Does not apply. Adjusted effective notional offsets of written credit derivatives and deducted add-on amounts relating to written credit derivatives, reported as negative amounts. This amount is included in line 5
11	Sum of lines 4 to 10
12	Gross SFT assets recognized for accounting purposes with no recognition of any netting other than novation with qualifying central counterparties (QCCPs).
13	Cash payables and cash receivables of Gross SFT assets netted, reported as negative amounts.
14	Measure of counterparty credit risk for SFTs
15	Agent transaction exposure amount
16	Sum of lines 12 to 15
17	Total off-balance sheet exposure amounts on a gross notional basis, before any adjustment for credit conversion factors.
18	Reduction in gross amount of off-balance sheet exposures due to the application of credit conversion factors, with a minimum conversion factor of 10% (for those operations with a conversion factor of 0%). Reported as a negative amount.
19	Sum of lines 17 & 18
20	Tier 1 Capital as of local regulations
21	Sum of lines 3, 11, 16 & 19
22	Basel III leverage ratio as line 20 divided by line 21

II. Comparison and total assets and leverage ratio exposure

TABLE II.1

COMPARISON OF ACCOUNTING ASSETS VS. LEVERAGE RATIO EXPOSURE MEASURE

REFERENCE	CONCEPT	AMOUNT
-----------	---------	--------



1	Total Assets	1,686,666
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(15,532)
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	Does not Apply
4	Adjustments for derivative financial instruments	(20,114)
5	Adjustment for securities financing transactions (i.e. repo assets and similar secured lending) [1]	(34,192)
6	Adjustment for off balance-sheet items (i.e., credit equivalent amounts of off-balance sheet exposures)	64,441
7	Other adjustments	-
8	Leverage Ratio Exposure Measure	1,681,269

[1] Of which the value of the operation is the market value of the operation and generally are subject to margin agreements.

TABLA II.2

NOTES TO COMPARISON OF ACCOUNTING ASSETS VS. LEVERAGE RATIO EXPOSURE MEASURE

REFERENCE	DESCRIPTION
1	Total accounting assets without consolidation with subsidiaries
2	Tier 1 capital deductions as of paragraphs b), d), e), f), g), h), i), j) & l) of fraction I from article 2 bis 6 of the local regulations. Reported as a negative amount
3	Does not apply. The corresponding use does not include consolidation with subsidiaries.
4	Should show adjustments related to any fiduciary assets recognised on the balance sheet pursuant to the institution's operative accounting framework but excluded from the leverage ratio exposure measure
5	Amount reported in line 16 of Table I.1 and the amount shown for repo and other such transactions in the balance sheet.
6	Amount reported in line 19 of Table I.1. Reported as a positive value
7	Tier 1 capital deductions as of paragraphs b c), k), m), n), p), q) & r) of fraction I from article 2 bis 6 of the local regulations. Reported as a negative amount
8	Sum of lines 1 to 7. Should match line 21 of Table I.1



III. Conciliation between total assets and on balance sheet exposure

TABLA III.1

CONCILIATION BETWEEN TOTAL ASSETS AND ON BALANCE SHEET EXPOSURE

REFERENCE	CONCEPT	AMOUNT
1	Total assets	1,686,666
2	Derivate operations	(33,233)
3	Adjustment for securities financing transactions (i.e. repo assets and similar secured lending)	(80,102)
4	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	Does not Apply
5	On Balance Sheet Exposures	1,570,331

TABLA III.2

NOTES TO CONCILIATION BETWEEN TOTAL ASSETS AND ON BALANCE SHEET EXPOSURE

REFERENCE	DESCRIPTION
1	Total accounting assets without consolidation with subsidiaries
2	Amount of derivatives operations presented in the last financial statement. Reported as a negative amount.
3	Amount of securities financing transactions presented in the last financial statement. Reported as a negative amount.
4	Does not apply. The corresponding use does not include consolidation with subsidiaries.
5	Sum of lines 1 to 4, which must match line 1 of Table I.1

IV. Main changes in the leverage ratio elements

TABLE IV.1

MAIN CHANGES IN THE LEVERAGE RATIO ELEMENTS.

CONCEPT / QUARTER	SEPTEMBER '23	DECEMBER '23	CHANGE (%)
Tier 1 Capital	197,708	193,590	(2.083%)
Total Exposures	1,681,192	1,681,270	0.005%
Basel III Leverage Ratio	12.76%	11.51%	(2.088%)



GENERAL QUALITATIVE INFORMATION ON A BANK'S OPERATIONAL RISK FRAMEWORK

Report december 2023

TEMPLATE I

MINIMUM REQUIRED OPERATIONAL RISK CAPITAL

Reference	Description	a
1	Business Indicator Component (BIC)	8,705.05
2	Internal Loss Multiplier (ILM)	1.14
3	Operational Risk Capital Requirements	9,898.73
4	Minimum required operational risk capital	123,734.16

TEMPLATE II

BUSINESS INDICATOR AND SUBCOMPONENTS

Reference	BI and subcomponents	a	b	c
		j=3	j=2	j=1
1	Interest, Leases and Dividend Component (ILDC)	28,387.22		
1a	Interest and lease income	191,477.55	137,956.04	103,695.79
1b	Interest and lease expense	91,594.77	52,580.00	36,493.90
1c	Interest earning assets	1,260,938.71		
1d	Dividend income	16.51	17.14	14.63
2	Dividend Income (DI)	30,923.86		
2a	Fee and commission income	33,135.04	29,718.72	24,724.44
2b	Fee and commission expense	16,347.77	13,778.68	11,072.93
2c	Other operating income	1,813.50	1,547.67	1,832.22
2d	Other operating expense	1,309.73	1,458.83	886.40
3	Financial Component (FC)	4,309.69		
3a	Net P&L on the trading book	6,815.83	3,899.37	2,213.89
4	Business Indicator (BI)	63,620.77		
5	Business Indicator Component (BIC)	8,705.05		



TEMPLATE III

HISTORICAL LOSSES

Ref	Description	a	b	c	d	e	f	g	h	i	j	k
		j=10	j=9	j=8	j=7	j=6	j=5	j=4	j=3	j=2	j=1	Ten-year average
A. Pérdidas												
1	Total amount of operational losses net of recoveries (no exclusions)	664,921.71	731,360.11	907,231.23	875,766.27	1,355,984.29	1,781,140.37	984,021.41	596,122.94	389,681.95	547,633.69	883,386.40
2	Total number of operational risk losses	262,763	190,144	204,183	240,949	233,841	233,334	150,737	74,159	45,414	42,207	167,773
3	Total amount of excluded operational risk losses	-	-	-	-	-	-	-	-	-	-	-
4	Total number of exclusions	-	-	-	-	-	-	-	-	-	-	-
5	Total amount of operational losses net of recoveries and net of excluded losses	664,921.71	731,360.11	907,231.23	875,766.27	1,355,984.29	1,781,140.37	984,021.41	596,122.94	389,681.95	547,633.69	883,386.40
B. Details of operational risk capital calculation												
11	Are losses used to calculate the ILM (yes/no)?					Yes						
12	If "no" in row 11, is the exclusion of internal loss data due to non-compliance with the minimum loss data standards (yes/no)?					Not applicable						



33 - FOREIGN CURRENCY POSITION

As of December 31, 2023 and 2022, the Institution holds certain assets and liabilities in foreign currency, mainly US dollars, converted to the exchange rate issued by Banco de México Ps. 16.9666 and Ps. 19.5089, respectively, per USD 1.00, as shown below:

	Thousands of US dollars	
	2023	2022
Assets	21,555,684	18,534,553
Liabilities	21,447,076	18,527,854
Net liability position in US dollars	108,608	6,699
Net liability position in Mexican pesos	Ps. 1,843	Ps. 131

34 - POSITION IN UDIS

As of December 31, 2023 and 2022, the Institution holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps. 7.981602 and Ps 7.646804 per UDI, respectively, as shown below:

	Thousands of UDIS	
	2023	2022
Assets	814,763	1,178,283
Liabilities	762,044	760,217
Net asset position in UDIS	52,719	418,066
Net asset position in Mexican pesos	Ps. 421	Ps. 3,197

35 - EARNINGS PER SHARE

Earnings per share are the result of dividing the net income by the weighted average of the Institution's shares in circulation during the year.

Earnings per share for the years ended December 31, 2023 and 2022 are shown below:

	2023			2022
	Net Income	Weighted share average	Earnings per share	Earnings per share
EPS continuous operations	Ps. 41,946	144,199,022,252	Ps. 0.2909	Ps. 0.2396
EPS discontinued operations				
Net income per share	Ps. 41,946	144,199,022,252	Ps. 0.2909	Ps. 0.2396

36 - 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 Institution 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 Institution 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.

37 - COMPREHENSIVE RISK MANAGEMENT UNIT (UAIR) (unaudited)

Risk management at the Institution 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. COMPREHENSIVE RISK MANAGEMENT FRAMEWORK

A Comprehensive Risk Management Framework, consisting of objectives, guidelines, policies, and procedures, has the following main objectives:

- Provide clear rules to the different business areas, which help minimize risk and ensure compliance with the parameters established and approved by the Board of Directors and the Risk Policies Committee (CPR by its acronym in Spanish).
- Establish mechanisms to monitor risk-taking throughout GFNorte, through the use of robust systems and processes.
- Verify the observance of Risk Appetite.
- Estimate and control GFNorte's capital, under base and stressed scenarios, aiming to provide coverage for unexpected losses from market movements, credit bankruptcies, and operational risks.
- Implement identification, valuation, and management models for different types of risks.
- Establish procedures for portfolio's optimization and credit portfolio management.
- Update and monitor the Contingency Plan to restore capital and liquidity levels in case of adverse events.



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 Risk Policy Committee (CPR by its acronym in Spanish) as accountable for managing the risks to which GFNorte is exposed to, in order to ensure operations compliance with the 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 composed of 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 (CAE). The latter participates with voice but no vote.

Moreover, the Assets and Liabilities Committee (ALCO) and the Capital and Liquidity Group, analyze, monitor, and establish the guidelines 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) supervises the Risk Management and Credit Department (DGARC by its acronym in Spanish), and among its functions, is responsible for identifying, measuring, monitoring, limiting, controlling, reporting, and disclosing 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. Main and emerging risks

The Comprehensive Risk Management Framework includes strategies to identify and regulate the main and emerging risks that pose as a potential threat to the business, clients, collaborators, and to GFNorte's strategy. The definition and classification of potential risks allows them to be better managed and mitigated, according to the nature of each type of risk.

GFNorte owns sound methodologies to manage quantifiable risks such as Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Concentration Risk and Counterparty Risk.

1. Credit Risk: revenue volatility due to constitution of provisions for impaired loans, and potential losses on borrower or counterparty defaults.
2. Market Risk: revenue volatility due to market changes, which affect the valuation of book positions for assets, liabilities, or contingent liabilities operations, such as: interest rates, spread over yields, exchange rates, price index, among others.
3. Balance and 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.
4. 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 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 caused by sanctions for noncompliance with laws as well as unfavorable administrative or judicial decisions related to GFNorte's operations.
5. Concentration Risk: potential loss by high and disproportional exposure to particular risk factors within a single category or among different risk categories.
6. Sustainability Risk: likelihood that dangerous environmental, social or governance events or conditions occur and generate adverse impacts on the institution and/or the environment and the community.



Likewise, regarding non-quantifiable risks, Risk Management's Manual in GFNorte establishes specific objectives for:

1. **Reputational Risk:** potential loss in the Institution's performance activities, due to an inappropriate or unethical perception of the different stakeholders, internal or external, on their solvency and viability. Likewise, the deterioration of the Institution's image due to internal or external events that go against corporate values.
2. **Strategic Risk:** potential loss due to failures or deficiencies in decision-making, in the implementation of procedures and actions to carry out the business model and strategies of the Institution as well as due to ignorance of the risks to which the business activity is exposed to, affecting the expected results of its strategic plan.
3. **Business Risk:** potential loss or impact on profitability attributable to the inherent characteristics of the business and changes in the economic cycle or market conditions in which the Institution operates.

Emerging Risks are new risks that arise from changes in economic, political, social, cultural, environmental, and even technological processes. They are characterized by a recent increase in the probability of occurrence and exposure to them, therefore, their prompt identification is necessary to be able to implement effective and timely measures. Its potential for damage or loss is not yet fully known, derived from a new or evolving hazard, which may result in significant new exposure for the Group.

1. **Epidemiological Risk:** The probability that a disease in a determined population escalates to the degree of epidemic or pandemic, generating adverse impacts on the Institution, financing, health, and the community. It's expressed through various epidemiological indicators whose analysis makes it possible to design preparation and response plans.
2. **Risk of New Technologies:** Risks associated with the implementation of new technologies that could materialize in economic losses for the institution. They arise from new vulnerabilities, technical threats, potential economic frauds, crimes against intellectual property, threats to the privacy of information, and cyberbullying, among others.

At GFNorte, the identification and tracking of new risks is a continuous task, and as a result, it strengthens and consolidates the Comprehensive Risk Management Framework, considering the Sustainability vision and new emerging risks.

1.3. Risk Management Culture at GFNorte

GFNorte's Risk Management Culture, holistically permeates all levels of the organization. The Group's decisions are based on maximizing the risk-return ratio, encouraging informed decision-making to achieve the strategic objectives of asset quality, profitability, liquidity, and solvency.

GFNorte's risk culture is based on the following principles:

- **We Are All Risk Managers:** Promote employees' proactive participation in risk identification, escalation, and management. The operational, technological, psychosocial, credit, market, and fraud risk reporting channels make it easier for all employees to fulfill their role as the first line of defense. For example, through the Governance, Risk, and Compliance (GRC) platform, all employees report their relevant identified risks, monitoring them until their mitigation. This feedback triggers process improvements by implementing control measures based on what is reported.
- **Risk Anticipation:** Monitor the economic and business environment to anticipate future risks and incorporate market trends into models, tools, processes, and policies to prevent and mitigate risks. It also covers the importance of close communication with clients to be able to identify their needs and problems, preventing potential breaches.
- **Prospective Vision:** Always maintaining a farsighted vision in line with the new business trends in the risk management strategy and the evaluation of policies and models. For a continuous improvement of products and processes, updating methodologies and tools following the best practices to estimate the future behavior of assets and create scenarios to make strategic decisions.
- **Multidisciplinary Participation:** Joint decision-making through multidisciplinary committees and teams strengthens GFNorte's perspective to identify and control risks. Risks are continuously monitored, and mitigation strategies or actions are planned and executed consensually with all the areas involved. Operating through a cell-based collaboration scheme, i.e., multidisciplinary teams assigned a specific task, such as improving a process or developing a new product. This collaboration scheme allows to react instantly to changing environments involving risks in operations and strategies or execute an existing credit prevention or mitigation plan.



- **Communication and Continuous Training:** The Board of Directors and Senior management members communicate the importance of robust risk culture. In this regard, the Group has reinforced internal training for risk management, including the content of risk management, prevention, and mitigation for all our staff.
- **Risk - Return-Based Compensation:** Risk management criteria is targeted into the employees' evaluation and compensation to maximize the risk-return ratio. To attain this, the risk indicators' formal measurement is linked with the performance evaluation process, promotion, and compensation of staff. The Remuneration System establishes these incentives, where the evaluation criteria is established mainly for Senior management, consistent with reasonable risk-taking. Additionally, a performance evaluation system has been implemented, where employees and their immediate superiors set operational, safety, and career development goals. Performance is evaluated under specific metrics as well as professional skills and credentials, according to the profile of each position.
- **Innovation:** GFNorte is known for its fast development in risk management and for performing with the latest banking practices. Therefore, it is observed to remain at the forefront of new products, channels, technologies, and risk implications. Technological innovation is crucial to identify, measure, and control risks properly in the face of technological change and new products and segments of the digital market. These innovative products go through a formal project evaluation process, which includes identifying and measuring risks determined by the relevant areas.

1.3.1. Desired Risk Profile

General and specific guidelines are established throughout the Group to monitor the Desired Risk Profile; in addition, a formal escalation process is in place, in case of any deviation from the desired risk profile. Critical quantitative indicators by type of risk were developed, for the Group and its subsidiaries. Such indicators are sensitive to the material risks to which the Institutions are exposed to and can be used as critical financial health indicators. These indicators are reviewed and ratified once a year by the Board of Directors and serve as a guideline for the definition and implementation of strategies and objectives.

2. CREDIT RISK

Credit risk is the risk of clients, issuers or counterparties not fulfilling their payment obligations. Hence, proper management is essential to maintain loan quality of the portfolio.

The objectives of Credit Risk Management at the Company are:

- Comply with the Risk Appetite set 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 global best practices, such as, implementing models, methodologies, procedures, and systems.
- Measure Institution's vulnerability to extreme conditions and consider those results for decisions making.

The policies for managing, covering and mitigating Credit Risk in GFNorte 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.
- Surveil 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.

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, Nature, and Methodology

Risk management is supported by a framework of policies and manuals, which establish the implementation and monitoring process of Credit Risk limits, coverage, mitigation, and compensation strategies, the disclosure of the referred risk metrics, within the established limits. Within these policies are detailed, among others: the characteristics, capacity, legal aspects, instrumentation issues and degree of coverage that must be considered when compensating or mitigating risk. Likewise, the execution of guarantees is contemplated as a risk compensation mechanism whenever there is a breach that has not been corrected by the debtors.

The DGARC relies on various Credit Risk information and measurement systems, which comply with regulatory standards and are aligned with the best international practices in Risk Management. It is worth mentioning that the information contained in the risk systems as well as the reports generated by them are continuously backed up, following institutional procedures of institutional information security procedures.

As part of the strategies and processes to monitor the continuous effectiveness of the hedges or mitigants, there are limits for Credit Risk, which are continuously monitored, and there are procedures established so that excesses and their causes are documented as well as implementing the corresponding corrective actions to return to acceptable risk levels.

The key risk indicators are disclosed through monthly reports to the CPR and through a daily report to the main executives in the institution about credit defaults by customers that could potentiate Credit Risk.

2.1.1. Individual Credit Risk

The Company 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).

The individual risk for wholesale loans is identified, measured, and controlled through Target Markets, Risk Acceptance Criteria, Early Warnings and GFNorte's New Internal Risk Rating (NCIR Banorte), which are tools that integrate 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 Banorte is interested in granting loans.

The Risk Acceptance Criteria are parameters that describe different types of risks by industry, 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 market conditions, 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 NCIR is a borrower's rating methodology which assesses quantitative and qualitative criteria to determine credit quality. NCIR 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 equal to or greater than 14 million UDIs (in case of being enterprises).

2.1.2. Portfolio Credit Risk

The Institution has developed a portfolio Credit Risk methodology, which considers the loan portfolio exposure directly from the balance of each loan, whereas the financial instruments' portfolio considers the present value of the instruments and their future cash flows. Since the exposure is sensible to market changes, it is possible to define sensitivity estimates under different economic scenarios.

This Credit Risk methodology provides current value of the entire loan's portfolio at the Institution, , 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.



Aside from loan exposure, the methodology takes into consideration the probability of default, the 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 the 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/her "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. 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 defaults or variations in debtors' credit quality. 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 for granting loans as well as for the diversification of the portfolio, in line with GFNorte's strategy. The individual risk identification tools and the portfolio Credit Risk methodology are periodically reviewed and updated 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 robust framework of policies for its 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 by using 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, which grants approval if it deems it appropriate. 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. The potential exposure for lines calculation methodology is then analyzed by the Credit Committee, and if approved, is monitored on a daily basis as well as reported monthly in the CPR, where analysis of guarantees behind Derivative transaction is held for both clients and financial counterparties.

The correspondent regional 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 on these transactions.

To determine adversely correlated lines (Wrong Way Risk "WWR") a potential exposure adjustment is taken into account.

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. Defined risk diversification policies exist for portfolios, for economic groups and internal groups. Additionally, the concentration of counterparty type or issuer, the size of the financial institutions, and the region in which it operates, are monitored in order to obtain an appropriate diversification and to avoid undesired concentrations.

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 regard 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, 2023 the total amount of the exposure subject to the Standard Method and the Internal Models (Advanced Approach Internal Model for Credit Cards, Mortgages and Auto Loans, and Foundation Approach Internal Model for Business Enterprises) for the estimation of Capital Ratio is as follows:

Gross Exposures subject to the Standard Method and Internal Models* (Million pesos)	Banorte
Commercial	87,721
YoY Revenues or Sales < 14 MM UDIS	87,721
States or Municipalities	80,217
Decentralized Federal Government Agencies and State Companies	40,814
Projects with own source of payment	109,242
Financial Institutions	43,573
Consumer Non-Revolving	77,143
Total Loans subject to the Standard Method	438,710
Commercial	185,540
YoY Revenues or Sales >= 14 MM UDIS	185,540
Federal, State and Municipal Government Decentralized Agencies, with annual income or Sales >= 14 MM UDIS	13,125
Total Loans subject to the Foundation Approach Internal Model	198,665
Consumer Non-Revolving (Auto)	42,834
Credit Cards	55,516
Mortgage	255,315
Total Loans subject to Advanced Approach Internal Model	353,665
Deferred Items	2,436
BAP Portfolio	3,503
Total Loans with BAP and DI	996,979

* Exposure does not take into account Letters of Credit and includes 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. Exposure to Financial Instruments

As of December 31th, 2023, exposure to Credit Risk for Securities Investments of Banco Mercantil del Norte was Ps 383.68 billion, of which 97.9% 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 28% of the Tier 1 Capital as of September 2023. Additionally, the exposure of investments with the same counterparty besides the Federal Government that represents a higher or equal concentration to 5% of the Net Capital as of September 2023 is rated as AAA(mex) and is comprised of (*weighted average term, amounts in pesos and weighted average return to annualized maturity*): certificates of deposit and market certificates of BANOBRAS for 9 months totaling Ps 19.88 billion at 11.2%; US Treasury Bonds for 1 year and 9 months totaling Ps 22.91 billion at 4.7%; and market certificates of the state government portfolio securitized (BANORCB Trust 4907) for 24 years totaling Ps 27.07 billion at 11.9%..

For Derivatives operations, the exposure of the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 4% of the Tier 1 Capital as of September 2023.

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 and excludes settled transactions through central counterparties).

Position (Million Pesos)	4Q23	4Q23 Average
Forwards	149	204
FX Swaps	58	96
FX	(9)	(2)
Options	(29)	(114)
Swaps with Interest Rates (IRS)	(128)	(2,325)
Cross Currency Swap (CCIRS)	3,331	1,959
Credit Default Swaps (CDS)	(11)	(15)
Total	3,360	(195)
Positive Fair Value (Positive Market Value)	13,515	12,406
Netting Effect*	10,155	12,603
Delivered Guarantees(-) /Received(+)		
Cash	7,197	6,329
Securities	0.0	0.0
Total	7,197	6,329

* Difference between the positive market value (excluding 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 shows the current and potential levels of exposure at the end of the quarter and the average amount for the quarter for Banorte:

(Million Pesos)	Potential Risk		Current Risk	
Financial Counterparties	4Q23	4Q23 Average	4Q23	4Q23 Average
FWD				
FX SWAP	2,889	3,826	65	241
FX				
OPTIONS	3,391	3,517	637	740
INTEREST RATE SWAP	1,288	1,293	2,767	2,673
CCS	2,774	3,337	3,341	1,964
CDS	11	100	(11)	(15)
Total	1,588	1,902	6,799	5,604
Clients (Non-Financial)	4Q23	4Q23 Average	4Q23	4Q23 Average
FWD	137	98	132	57
OPTIONS	175	167	(666)	(854)
INTEREST RATE SWAP	3,001	2,249	(2,895)	(4,998)
CCS	13	18	(10)	(5)
Total	3,325	2,532	(3,439)	(5,799)

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 zero threshold, thus, guarantees to be delivered do not depend on credit rating but to market movements:

Net Cash Outflows (Million pesos)	4Q23	4Q23 Average
Cash Outflow with 1-notch Downgrade	0	0
Cash Outflow with 2-notch Downgrade	0	0
Cash Outflow with 3-notch Downgrade	0	0



In the following table, the derivatives' market value is detailed according to the counterparties' ratings.

Rating (Million pesos)	MtM 4Q23	4Q23 Average
AAA/AA-	107	115
A+/A-	7,158	5,615
BBB+/BBB-	(1,247)	(1,094)
BB+/BB-	594	(168)
B+/B-	(756)	(852)
CCC/C	0	0
SC	(2,496)	(3,810)
Total	3,360	(195)

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 without possession transfers
- Pledge Bond
- Caution Securities
- Securities Pledge
- Management and Payments Trust
- Development Funds

For assets granted in guarantee, the Institution has policies and procedures for monitoring and periodically making inspection visits to ensure the existence, legitimacy, value, and quality of the guarantees accepted as an alternative credit support. Furthermore, when the guarantees are a type securities, there are policies and procedures to monitor their market valuation; furthermore, additional guarantees may be required if needed.

The following table shows the covered loan portfolio by collateral type:

Collateral Type (Million pesos)	Banorte 4Q23
Total Loan Portfolio	1,019,541
Covered Loan Portfolio by type of collateral	
Real Financial Guarantees	38,629
Real Non-Financial Guarantees	579,179
Pari Passu	46,241
First Losses	11,148
Personal Guarantees	50,592
Total Loan Portfolio Covered	725,790



2.4. Expected Loss

As of 4Q23, Banco Mercantil del Norte's total portfolio was Ps 993.48 billion. The expected loss represents 1.7%, while the unexpected loss is 3.7% of the total portfolio. The average expected loss is 1.8%, for the period October - December 2023..

2.5. Internal Models

In October 2016, the Board of Directors approved the implementation plan for the Internal Models for estimating reserves and capital requirements, on all applicable portfolios, which was dispatched to CNBV in the same year. In accordance with this implementation plan, the models for the Credit Card, Commercial Loans and Auto Loans portfolios were certified.

At the end of 2018, the CNBV released the project to migrate Standard and Internal Methodologies under the IFRS 9 approach, but it was until March 2020 that the definitive rule for Internal Methodologies of reserves based on MFRS C-16 (IFRS 9), effective as of January 2021, was published in the Federation Official Journal (DOF by its acronym in Spanish). However, due to the COVID-19 pandemic, the CNBV issued a press release in April 2020 indicating that the rule would be effective as of January 2022.

Therefore, GF Banorte complied the new regulation and adopted the Internal Reserve Methodologies based on MFRS C-16, for which the Risk Policies Committee (CPR by its acronym in Spanish) and the Board of Directors were requested in April 2021 to approve the new Implementation Plan (Capital and Reserves), which was authorized by the CNBV in January 2022 through Document 111-2/852/2022.

Since January 2022, the MFRS C-16 (IFRS 9¹) rule has been effective for the calculation of preventive reserves for credit risks, both in the Standard Approach and Internal Models. Consequently, for Internal Models, estimates for risk parameters will consider two approaches: IRB to compute capital requirements and IFRS 9 to compute reserves:

- The capital approach will maintain long-term estimates ("Through the Cycle", TTC), under Annex 15 of the CUB².
- The reserves approach will consider current behaviors ("Point in Time", PIT) and with a prospective approach (future macroeconomic environment), under Annex 15 Bis of the CUB. In addition, the new methodology indicates that the portfolio must be classified into three risk stages, being necessary for stage 2 a reserve calculation for the remaining term (LifeTime).

Given the new guidelines of the CUB on Internal Models, the regulator (CNBV) will only issue a Document of approval for the use of methodology for Capital Estimation, for a maximum period of 18 months. The use of Internal Model for Reserve methodology is authorized by Banorte's Board of Directors and by the Board of Arrendadora y Factor Banorte, accordingly, with the support of the Technical Evaluation made by the Independent Evaluator which guarantees compliance with the Model under the standards established in Annex 15 Bis. It should be noted that the Technical Evaluation Report is sent to the CNBV for review, the validity of this model is also for a maximum period of 18 months.

2.5.1. Internal Advanced 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 calculation by credit risk with an Advanced Approach (Document 111-3/706/2017). As indicated by the regulation, Internal Models are periodically recalibrated. On December 15, 2022, the CNBV granted authorization for the use of IM for the calculation of Capital Requirements for a period of 18 months (Document 111-2/948/2022); additionally, the Board of Directors authorized the use of the Reserve methodology based on MFRS C-16 in its session on October 20, 2022 for a period of 18 months.

The previously mentioned internal models improve overall credit risk management by estimating risk parameters from the bank's own experience. These risk parameters are described below:

- Probability of Default (PD): Indicates the probability that a credit card customer defaults on its contractual obligations within the next twelve months starting 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 frame of twelve months starting after the month being rated

¹ IFRS 9 = International Financial Reporting Standards 9, IRB = Internal Rate Based Models

² Circular Única de Bancos



The next table shows the Credit Card portfolio subject to the Advanced Approach Internal Model, classified by degrees of Internal Model risk:

Consumer Revolving Credit Card Portfolio under Advanced Approach Internal Model												Million Pesos
Risk Level*	Account Balance	Exposure at Default (EAD)**			Loss Given Default			PD factored by EAD			Unused Credit Lines	EAD factored by Exposure
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3		
1	2,538	3,524	0	0	70.0%			0.3%			16,783	28%
2	6,423	8,508	0	0	71.0%			0.6%			27,235	25%
3	6,237	8,941	0	0	71.8%			1.3%			24,232	30%
4	8,028	10,437	0	0	73.8%			2.0%			15,821	23%
5	5,485	6,980	0.001	0	75.1%	69.2%		2.8%	2.9%		5,907	21%
6	5,985	7,776	0.021	0	75.7%	69.2%		4.3%	4.3%		7,978	23%
7	6,705	8,254	1	0	78.7%	70.0%		6.5%	6.5%		3,358	19%
8	4,846	6,080	2	0	79.2%	70.7%		9.5%	9.5%		1,679	20%
9	4,168	5,261	9	0	81.1%	72.1%		16.1%	16.1%		831	21%
10	3,446	3,474	675	0	83.4%	83.2%		42.9%	42.9%		199	17%
11	1,657		0	1,656			85.3%			100.0%	(5)	0%
Total Portfolio	55,516	69,234	687	1,656	75.5%	82.7%	85.3%	6.3%	42.5%	100.0%	104,017	22%

* Scale of Risk Level for the Advanced Approach Internal Model..

** 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 4Q22.

Backtesting				
Portfolio	Expected Loss Internal Model *	Observed Loss*	Difference Ps (Observed Loss – Expected Loss)	% NCL Coverage
Credit Card	4,574	4,162	(413)	110%
Total Portfolio	4,574	4,162	(413)	110%

* Expected and Observed Loss is equal to the last twelve months average.

2.5.2. Internal Advanced Model for Auto Loans

On November 25, 2019, GFNorte received approval from the banking regulator (Comisión Nacional Bancaria y de Valores) to use Internal Models (IM) for Auto Loans for reserves and regulatory capital calculation by credit risk with an Advanced Approach (Document 111/678/2019). Periodically, as indicated by the regulation, Internal Models are recalibrated. On September 28, 2022, the CNBV (Document 111-2/917/2022) granted authorization for the use of IM exclusively for the calculation of Capital Requirements for a period of 18 months; in addition, the Board of Directors authorized, in its meeting on July 2022, the use of reserve methodology based on NIF-C16 for a period of 18 months.



The previously mentioned internal models improve overall credit risk management by estimating risk parameters from the bank's own experience. These risk parameters are described below:

- Probability of Default (PD). Indicates the probability that an auto customer defaults on its contractual obligations within the next twelve months starting 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 debt at the time of default, considering a time frame of twelve months starting after the month being rated.

The next table shows the Auto portfolio subject to the Advanced Approach Internal Model, classified by degrees of Internal Model risk:

Consumer Revolving Auto Portfolio under Advanced Approach Internal Model										Million Pesos
Risk Level*	Accounting Balance			Exposure at Default (EAD)			Loss Given Default			PD factored by EAD
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
1	3,553	0	0	3,553	0	0	50.05 %			0.12%
2	12,204	0.2	0	12,204	0.2	0	58.39 %	46.49 %		0.29%
3	9,966	0.1	0	9,966	0.1	0	62.04 %	65.52 %		0.56%
4	5,800	0.5	0	5,800	0.5	0	62.76 %	66.88 %		0.89%
5	4,267	0.4	0	4,267	0.4	0	61.26 %	56.01 %		1.33%
6	3,735	0.9	0	3,735	0.9	0	62.25 %	75.04 %		2.32%
7	2,124	39	0	2,124	39	0	57.69 %	64.10 %		6.25%
8	542	337	0	542	337	0	55.65 %	57.43 %		23.76%
9	0	0	263	0	0	263			62.71 %	100.00%
Total Portfolio	42,192	378	263	42,192	378	263	470.11 %	431.48 %	62.71 %	2.10%

The next table shows the difference between expected loss and observed loss resulting from the Advance Approach Internal Model for Auto Loans from 4Q22.

Backtesting				
Portfolio	Expected Loss Internal Model *	Observed Loss*	Difference Ps (Observed Loss – Expected Loss)	% NCL Coverage
Auto Loans	616	508	(108)	121%
Total Portfolio	616	508	(108)	121%

* Data as of December 2022.

2.5.3. Advanced Approach Internal Model for Mortgages

On July 27, 2023, GFNorte received approval from the banking regulator (Comisión Nacional Bancaria y de Valores) to use Internal Models with an Advanced Approach for regulatory capital calculation on the Mortgage portfolio (Document 111-2/1628/2023), for a period of 18 months. In addition, the Board of Directors authorized, in its meeting on April 20, 2023, the use of reserve methodology based on NIF-C16 for a period of 18 months.



The previously mentioned internal models improve overall credit risk management by estimating risk parameters from the bank's own experience. These risk parameters are described below:

- Probability of Default (PD). Indicates the probability that an auto customer defaults on its contractual obligations within the next twelve months starting 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 debt at the time of default, considering a time frame of twelve months starting after the month being rated.

The next table shows the Mortgage portfolio subject to the Advanced Approach Internal Model, classified by degrees of Internal Model risk:

Mortgage Portfolio under Advanced Approach Internal Model										Million Pesos
Risk Level*	Accounting Balance*			Exposure at Default (EAD)			Loss Given Default			PD factored by EAD
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
1	76,051	40	0	76,051	40	0	14.37 %	13.08 %		0.09%
2	71,043	0	0	71,043	0	0	16.34 %			0.28%
3	58,686	0	0	58,686	0	0	17.02 %			0.69%
4	20,288	6	0	20,288	6	0	19.03 %	31.55 %		1.58%
5	12,312	3	0	12,312	3	0	16.89 %	19.03 %		3.39%
6	1,745	48	0	1,745	48	0	12.34 %	12.33 %		7.06%
7	4,197	324	0	4,197	324	0	17.45 %	17.54 %		11.48%
8	3,938	2,773	0	3,938	2,773	0	14.72 %	15.07 %		30.39%
9	0	0	1,831	0	0	1,831			16.25 %	100.00%
Total Portfolio	248,259	3,193	1,831	248,259	3,193	1,831	15.79 %	15.06 %	16.25 %	2.34%

*Accounting Balance excludes Joint Portfolio for Ps 2.1 billion

The next table shows the difference between expected loss and observed loss resulting from the Advance Approach Internal Model for Mortgage from 4Q22.

Backtesting				
Portfolio	Expected Loss Internal Model *	Observed Loss*	Difference Ps (Observed Loss – Expected Loss)	% NCL Coverage
Mortgage	1,031	862	(168)	120%
Total Portfolio	1,031	862	(168)	120%

* * Expected and Observed Loss is estimated as the Average for the last 12 months.



2.5.4. Basic Internal Model for Corporations

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 as per Document (111-1/160/2019). As indicated by the regulation, Internal Models are periodically recalibrated. On December 15, 2022, the CNBV granted authorization for the use of IM only for the calculation of Capital Requirements for a period of 18 months for Banco Mercantil del Norte (Document 111-2/938/2022). Likewise, the Board of Directors authorized the use of the Reserve methodology based on MFRS C-16 in its session on July 21, 2022 for Banco Mercantil del Norte, for a period of 18 months.

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. The parameter authorized under the Foundation Approach Internal Model for Corporations is:

- Probability of Default (PD). Indicates the likelihood that a borrower will default on its contractual obligations within twelve months after the month being rated. Each borrower is assigned a score, which is in turn mapped against a master rating scale.

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
Institution	Accounting Balance	Exposure at Default (EAD)**	Expected Loss
Banco Mercantil del Norte	216,867	219,715	709
Total Loans*	216,867	219,715	709

* The balance includes Letters of Credit of Ps 18.2 billion and excludes accounting adjustments of Ps 1.5 million.

** EAD balances include both potential risk as well as used balance risk.

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"; institutions must also 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 these rules.

In compliance with risk diversification regulation on active and passive operations, **Banco Mercantil del Norte** presents the following information:

Tier 1 Capital as of September 30, 2023 (Million pesos)	197,708
I. Large Exposures (Groups and Clients whose joint exposure represents more than 10% of Tier 1 Capital):	
Number of Groups and Clients	6
Total Exposure of Groups and Clients as a whole	159,695
% in relation to Tier 1	81%
II. Maximum amount of credit with the 4 largest debtors and common risk groups	104,941

3. MARKET RISK

GFNorte's Market Risk objectives are:

- Adhere to the Desired Profile Risk defined by the Group's Board of Directors.
- Ensure proper monitoring of Market Risk. Keep, in a timely manner, the Senior Management properly informed.
- Quantify the exposure to Market Risk through the use of various methodologies.
- Define the maximum risk levels the Institution is willing to maintain.
- Measure the Institution's vulnerability to extreme market conditions and consider such results in decision making.



GFNorte's Market Risk Policies are:

- New products subject to market risk must be evaluated and approved through 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 an independent area, which is separate from the one that develops and manages them.
- Market risk inputs and models will be valid in accordance with a properly approved policy by the CPR.

3.1 Scope, Methodologies and Reports for Market Risk

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*", Backtesting 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 replacing the calculation of VaR. In addition, the valuation of derivatives through OIS curves and curves adjusted for collateral was implemented in accordance with international standards.

Risk management is supported by a framework of policies and manuals, which establish the implementation and monitoring of Market Risk limits, the disclosure of risk metrics and their monitoring with respect to the established limits. These policies detail, among other things, the characteristics, capacity, legal aspects, instrumentation issues and degree of coverage that must be considered when compensating or mitigating the risk.

Market Risk management is supported by various information and risk measurement systems, which comply with regulatory standards and are aligned with the international best practices in Risk Management. It is worth mentioning that the information contained in the risk systems as well as the reports generated by them, are continuously backed up following institutional information security procedures.

Key risk ratios are disclosed in monthly reports to the Risk Policy Committee and through a daily report to the Institution's senior executives, in relation to the Market risk-taking.

3.2. Market Risk Exposure

The Institution's financial portfolios' exposure 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 is based on a one-day horizon base and takes into account a non-parametric historical simulation with a 97.5% confidence level and 500 historical observations on risk factors, as well as an additional stress scenario. It also takes into account all positions (money market, treasury, equities, FX and derivatives) that are classified as trading assets, both on and off the balance sheet.

The average expected shortfall of the Bank's portfolio for 4Q23 was Ps 106.0 million (Ps 36.3 million higher than the average expected shortfall from the previous quarter).

The result shows that the Bank's expected shortfall, using a 97.5% confidence level, is an average of Ps 106.0 million, as shown in the following table.

Expected Shortfall (Million Pesos)	4Q23 Average
Total Expected Shortfall	106.0
Net Capital	195,819
Expected Shortfall/Net Capital	0.054%



Expected shortfall by risk factor behavior during the fourth quarter of the year is as follows:

Risk Factor (Million Pesos)	4Q23	4Q23 Average
Domestic Rates	166.5	106.5
Foreign Rates	40.2	42.2
Surcharges	52.7	54.9
FX	8.1	9.4
Others	27.7	34.6
Diversification Effect	(134.8)	(141.6)
Bank's Expected Shortfall	160.4	106.0

Expected shortfall for 4Q23 is an average of Ps 160.4 million. The contribution to the Bank's Expected shortfall for each risk factor is shown in the following table:

Risk Factor (Million Pesos)	4Q23	4Q23 Average
Domestic Rates	165.6	98.8
Foreign Rates	(9.9)	(3.5)
Surcharges	(0.1)	3.9
FX	3.2	1.0
Others	1.6	5.8
Bank's Expected Shortfall	160.4	106.0

Expected shortfall by risk factor is determined by simulating 500 historical scenarios and an additional stress scenario for each risk factor and assessing instruments by their main risk factor. It is important to note that all positions classified as trading were considered, while those 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	4Q23
Rates	90%
Surcharges	4%
FX	1%
Others	5%

3.3. Sensitivity Analysis and Stress Testing under extreme conditions

With the aim of complementing and reinforcing risk analysis, Banorte carries out tests under extreme conditions known as Stress Testing. The results of these tests are presented to the Risk Policy Committee on a monthly basis with the main objective of assessing the impact of extreme movements in risk factors on the Institution's positions.

3.4. Backtesting

In order to validate the effectiveness and accuracy of the expected shortfall, a monthly Backtesting analysis is presented to the Risk Policy Committee. Through this analysis, it is possible to compare losses and gains observed in relation to the estimated expected shortfall, and if necessary, make the required adjustments to the parameter.



4. BALANCE AND LIQUIDITY RISK

GFNorte's Balance and Liquidity Risk objectives are:

- Adhere to the Risk Appetite defined by the Group's Board of Directors.
- Ensure proper monitoring of Balance and Liquidity Risk.
- Assess, through the use of different methodologies, Balance and Liquidity Risk exposure.
- Measure the Institution's vulnerability to extreme market conditions and consider such results for decision making.
- Keep, in a timely manner, the Senior Management properly informed 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:

- Establish specific global limits of Balance and Liquidity Risk Management.
- Measure and monitor Balance and Liquidity Risk.
- Inform and disclose of Liquidity Risk to risk-taking areas, CPR, Board of Directors, Financial Authorities and public investors.

4.1. Scope, Methodologies and Report of Balance and Liquidity Risk

Balance and Liquidity risk is managed through a series of fundamental pillars, including the use of key indicators such as the Liquidity Coverage Ratio (LCR), re-price gaps and liquidity as well as stress testing. The latter is based on a framework of policies and manuals, including a funding contingency plan, and a contingency plan to preserve solvency and liquidity. It is also supported by monitoring limits and Risk Appetite metrics of Balance and Liquidity Risk. The disclosure of the metrics and indicators and their compliance with established limits and desired established risk profile is done through monthly reports to the CPR, weekly reports to the capital and liquidity management group, and quarterly reports to the Board of Directors.

Balance and Liquidity Risk management is supported by various information and risk measurement systems, which comply with regulatory standards and are aligned with international best practices in Risk Management. It is worth noting that the information contained in the risk systems as well as the reports they generate, are continuously safeguarded in accordance with institutional information security procedures.

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)	3Q23	4Q23	Var vs. 3Q23
Demand Deposits			
Local Currency ⁽¹⁾	609,435	618,555	1.5%
Foreign Currency ⁽¹⁾	76,596	70,711	(7.7%)
Demand Deposits	686,031	689,266	0.5%
Time Deposits – Core			
Local Currency ⁽²⁾	257,568	268,712	4.3%
Foreign Currency ⁽²⁾	3,998	4,495	12.4%
Core Deposits	947,597	962,473	1.6%
Money Market			
Local Currency ⁽³⁾	59,528	68,598	15.2%
Foreign Currency ⁽³⁾	34,069	41,074	20.6%
Banking Sector Deposits	1,041,194	1,072,144	3.0%

1. Includes balance of the Global Deposits without Movement.
2. Includes eliminations among subsidiaries.
3. Money Market and Time Deposits



4.3. Liquidity Coverage Ratio (LCR)

The LCR measures Liquidity Risk through the relationship between Liquid Assets and Net Cash Outflows ratio 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, and under an extreme scenario, to use only high-quality liquid assets as source of funding.

The following tables shows the average evolution of LCR components in 4Q23.

LCR Components		Consolidated Entity	
(Million Pesos)		Unweighted amount (Average)	Weighted amount (Average)
COMPUTABLE LIQUID ASSETS			
1	Total Computable Liquid Assets	NA	183,918
CASH DISBURSEMENTS			
2	Unsecured retail financing	531,947	33,988
3	Stable financing	384,139	19,207
4	Less stable financing	147,808	14,781
5	Unsecured wholesale financing	388,162	115,936
6	Operational Deposits	300,903	68,976
7	Non-Operational Deposits	82,859	42,559
8	Unsecured debt	4,401	4,401
9	Secured wholesale financing	274,984	10,743
10	Additional Requirements:	421,687	33,634
11	Disbursements related to derivatives and other guarantee requirements	16,688	10,531
12	Disbursements related to losses from debt financing	0	0
13	Lines of credit and liquidity	404,998	23,103
14	Other contractual financing obligations	2,940	349
15	Other contingent financing liabilities	0	0
16	TOTAL CASH DISBURSEMENTS	NA	194,649
CASH INFLOWS			
17	Cash Inflows for secured operations	120,073	10,508
18	Cash Inflows for unsecured operations	93,913	64,113
19	Other Cash Inflows	4,897	4,897
20	TOTAL CASH INFLOWS	218,882	79,518
Adjusted amount			
21	TOTAL COMPUTABLE LIQUID ASSETS	NA	183,918
22	TOTAL NET CASH DISBURSEMENTS	NA	115,131
23	LIQUID COVERAGE RATIO	NA	160.54%



LCR Components		Bank Stand Alone	
(Million Pesos)		Unweighted amount (Average)	Weighted amount (Average)
COMPUTABLE LIQUID ASSETS			
1	Total Computable Liquid Assets	NA	183,918
CASH DISBURSEMENTS			
2	Unsecured retail financing	531,947	33,988
3	Stable financing	384,139	19,207
4	Less stable financing	147,808	14,781
5	Unsecured wholesale financing	381,532	112,814
6	Operational Deposits	300,903	68,976
7	Non-Operational Deposits	76,229	39,438
8	Unsecured debt	4,401	4,401
9	Secured wholesale financing	274,984	10,743
10	Additional Requirements:	380,011	31,447
11	Disbursements related to derivatives and other guarantee requirements	16,688	10,531
12	Disbursements related to losses from debt financing	0	0
13	Lines of credit and liquidity	363,323	20,916
14	Other contractual financing obligations	2,940	349
15	Other contingent financing liabilities	0	0
16	TOTAL CASH DISBURSEMENTS	NA	189,341
CASH INFLOWS			
17	Cash Inflows for secured operations	120,073	10,508
18	Cash Inflows for unsecured operations	92,429	66,783
19	Other Cash Inflows	4,897	4,897
20	TOTAL CASH INFLOWS	217,398	82,188
Adjusted amount			
21	TOTAL COMPUTABLE LIQUID ASSETS	NA	183,918
22	TOTAL NET CASH DISBURSEMENTS	NA	107,153
23	LIQUID COVERAGE RATIO	NA	172.82%

During 4Q23, the 92-day average LCR for the Consolidated Entity was 160.54% with a 92-day average for the Bank's Stand-Alone LCR of 172.82%, and at the end of 4Q23, the LCR for the Consolidated Entity was 181.34%, while the bank's Stand-Alone LCR for 4Q23 was 202.53%; 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 scenario³.

³ The Liquidity Coverage Ratio information is preliminary and is subject to Banco de Mexico's affirmation.



4.4. Evolution of LCR Components

The evolution of the LCR components comparing 3Q23 and 4Q23 is presented in the following table:

LCR Component (Million pesos)	3Q23	4Q23	Var vs. 3Q23
Liquid Assets	187,352	176,366	(5.9%)
Cash Inflows	64,227	92,090	43.4%
Cash Outflows	186,387	189,346	1.6%

The Liquid Assets that compute in the LCRs for the Bank and Sofomes between 3Q23 and 4Q23 are distributed as follows:

Type of Asset (Million pesos)	3T23	4T23	Var vs. 3T23
Total	187,352	176,366	(5.9%)
Level I	180,888	169,340	(6.4%)
Level II	6,464	7,026	8.7%
Level II A	3,540	4,005	13.1%
Level II B	2,923	3,020	3.3%

4.5. Main Causes of LCR Results

The changes in the Liquidity Coverage Ratio between 3Q23 and 4Q23 are the result of growth in sticky deposits and the consequent increase in available liquidity.

It is worth noting that Banorte has not used the Ordinary Facilities or the Extraordinary Facilities of Banco de México during 4Q23.

4.6. Exposure to Derivatives and possible Margin calls

Banorte applies the regulatory methodology to determine potential cash outflows for derivatives. At the end of 4Q23, the estimated outflows for derivatives were as follows:

Derivatives Cash Outflows (Million Pesos)	3T23	4T23	Var vs. 3T23
Net cash outflows at market value and for potential future exposure	6,751	6,962	3.1%
Cash outflows for a 3 notch credit rating downgrade	0	0	0.0%

The assessment shows that potential outflows for derivatives may represent a liquidity requirement of up to Ps 6,96 billion, an increase of 3.1% compared to 3Q23.

4.7. Net Stable Funding Ratio (NSFR)

The NSFR is an indicator that should be interpreted as the proportion between the Available Stable Financing, made up of internal and external resources that are considered reliable over a time horizon, and the Required Stable Financing, made up of liquidity, asset maturities and off-balance sheet positions.



The following tables present the average evolution of NSFR components in 4Q23:

NSFR		Consolidated Entity				
(Million Pesos)		Unweighted value by residual maturity				Weighted Value
		No Maturity	< 6 months	6 months to < 1 year	> 1 year	
Available Stable Funding Items						
1	Capital:	203,000	0	0	0	203,000
2	Regulatory Capital	203,000	0	0	0	203,000
3	Other capital instruments	0	0	0	0	0
4	Retail deposits and deposits from small business customers:	0	617,785	1,912	198	579,808
5	Stable deposits.	0	436,656	983	118	415,875
6	Less Stable deposits	0	181,128	930	81	163,933
7	Wholesale funding:	0	673,326	4,867	83,917	393,683
8	Operational deposits	0	65,876	0	0	32,938
9	Other wholesale funding	0	607,450	4,867	83,917	360,745
10	Liabilities with matching interdependent assets	0	741	732	8,015	0
11	Other liabilities	19,755	29,877			12,720
12	NSFR derivative liabilities	NA	0			NA
13	All other liabilities and equity not included in the above categories	19,755	5,875	22,565	1,437	12,720
14	Total Available Stable Funding	NA	NA	NA	NA	1,189,211
Required Stable Funding Items						
15	Total NSFR high-quality liquid assets (HQLA)	NA	NA	NA	NA	77,071
16	Deposits held at other financial institutions for operational purposes	0	1,327	0	0	663
17	Performing loans and securities:	0	269,339	97,984	695,819	698,941
18	Performing loans to financial institutions secured by Level 1 HQLA	0	79,656	0	0	7,966
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	0	22,120	9,005	9,131	16,952
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	0	146,881	81,089	432,479	463,755
21	With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	0	31,299	25,544	89,186	86,393
22	Performing residential mortgages, of which:	0	6,713	4,642	237,977	187,086
23	With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk.	0	2,421	1,561	104,358	69,824
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	0	13,969	3,247	16,232	23,182
25	Assets with matching interdependent liabilities	0	741	732	8,015	0
26	Other assets:	46,774	688,453			102,572
27	Physical traded commodities, including gold	11	NA	NA	NA	9



28	<i>Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs</i>	NA		1		1
29	<i>NSFR derivative assets</i>	NA		35,951		5,378
30	<i>NSFR derivative liabilities before deduction of variation margin posted</i>	NA		438,877		1,861
31	<i>All other assets not included in the above categories</i>	46,763	201,829	154	11,641	95,323
32	Off-balance sheet items	NA		437,186		21,859
33	Total Required Stable Funding	NA	NA	NA	NA	901,106
34	Net Stable Funding Ratio (%)	NA	NA	NA	NA	131.97%

		Stand-Alone				
(Million Pesos)		Unweighted value by residual maturity				Weighted Value
		No Maturity	No Maturity	No Maturity	No Maturity	
Available Stable Funding Items						
1	Capital:	203,000	0	0	0	203,000
2	Regulatory Capital	203,000	0	0	0	203,000
3	Other capital instruments	0	0	0	0	0
4	Retail deposits and deposits from small business customers:	0	617,785	1,912	198	579,808
5	Stable deposits.	0	436,656	983	118	415,875
6	Less Stable deposits	0	181,128	930	81	163,933
7	Wholesale funding:	0	659,120	4,835	80,877	384,889
8	Operational deposits	0	65,876	0	0	32,938
9	Other wholesale funding	0	593,244	4,835	80,877	351,951
10	Liabilities with matching interdependent assets	0	741	732	8,015	0
11	Other liabilities	19,755	29,877			12,720
12	NSFR derivative liabilities	NA	0			NA
13	All other liabilities and equity not included in the above categories	19,755	5,875	22,565	1,437	12,720
14	Total Available Stable Funding	NA	NA	NA	NA	1,180,416
Required Stable Funding Items						
15	Total NSFR high-quality liquid assets (HQLA)	NA	NA	NA	NA	77,071
16	Deposits held at other financial institutions for operational purposes	0	1,327	0	0	663
17	Performing loans and securities:	0	253,323	95,940	689,247	682,374
18	Performing loans to financial institutions secured by Level 1 HQLA	0	79,656	0	0	7,966
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	0	30,888	9,296	16,588	25,869
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	0	122,097	78,754	418,450	438,271



21	With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	0	31,299	25,544	89,186	86,393
22	Performing residential mortgages, of which:	0	6,713	4,642	237,977	187,086
23	With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk.	0	2,421	1,561	104,358	69,824
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	0	13,969	3,247	16,232	23,182
25	Assets with matching interdependent liabilities	0	741	732	8,015	0
26	Other assets:	46,774		735,216		102,572
27	Physical traded commodities, including gold	11	NA	NA	NA	9
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	NA		1		1
29	NSFR derivative assets	NA		35,951		5,378
30	NSFR derivative liabilities before deduction of variation margin posted	NA		438,877		1,861
31	All other assets not included in the above categories	46,763	201,829	154	46,763	201,829
32	Off-balance sheet items	NA		395,694		19,785
33	Total Required Stable Funding	NA	NA	NA	NA	882,464
34	Net Stable Funding Ratio (%)	NA	NA	NA	NA	133.76%

During 4Q23, the NSFR for the Consolidated Entity had a 92-days quarterly average of 131.97%, while the bank's quarterly average stand-alone NSFR was 133.76%, with an end of quarter consolidated entity NSFR of 132.34%; forementioned levels are above the Risk Appetite and the regulatory minimum standards. Such levels show that Banorte has the stable funding required for its assets and off-balance sheet items.

4.8. Evolution of NSFR Components

The evolution of the components of the Net Stable Funding Ratio from 3Q23 to 4Q23 is shown in the following figure.

	3Q23			4Q23			Change		
	Available Stable Funding	Required Stable Funding	NSFR	Available Stable Funding	Required Stable Funding	NSFR	Available Stable Funding	Required Stable Funding	NSFR
< 6 months	1,098,585	222,276		1,109,917	211,986		1.0%	(4.6%)	
From 6 months to < 1 year	15,304	37,333		19,634	42,632		28.3%	14.2%	
>1 year	52,599	617,246	133.0 %	71,661	653,069	132.3 %	36.2%	5.8%	(0.5%)

4.9. Main Causes of NSFR Results

The solid levels of the Net Stable Funding Ratio are supported not only by the strength of Banorte's Tier 1 capital, reinforced by a strong long-term funding structure derived from the issuance of subordinated debt, but also, by the stability of customer deposits, which allow a natural coverage of asset balance, from high-quality liabilities.



4.10. Liquidity Risk in foreign currency

In order to quantify and monitor the liquidity risk, in the specific case of the foreign currency denominated portfolio, Banorte uses the criteria established by the 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.

4.11. Liquidity Gaps

As part of the Bank's liquidity analysis, 30-day liquidity gaps are analyzed for the institution's assets and liabilities (obligations). The results for the Bank at the end of 4Q23 are shown in the following table.

Concept (Million pesos)	3T23	4T23	Var vs. 3T23
Cumulative 30 day Gap	(4,297)	6,690	(255.7%)
Liquid Assets	186,423	176,571	(5.3%)

The mismatch between inflows and outflows (gaps) for the next 30 days is covered by liquid assets. In addition, a more granular breakdown of the liquidity gaps is presented, remaining as follows for 4Q23:

Concept (Million pesos)	1 day	7 days	1 month	3 months	6 months	12 months
Natural Gap	(4,100)	15,543	(4,752)	52,382	43,301	72,192
Accumulated Gap	(4,100)	11,442	6,690	59,072	102,373	174,566

4.12. Stress Testing under liquidity extreme conditions

As part of its Liquidity Risk management, Banorte carries out tests under extreme liquidity circumstances with internal scenarios, in order to assess the Bank's liquidity adequacy under adverse conditions from the environment as well as from the bank's intrinsic conditions. A total of 9 scenarios are used, based on 3 sources of risk (systemic, idiosyncratic and combined) and 3 levels of severity (moderate, medium and severe).

4.13. Contingency Funding Plan

In order to comply with comprehensive liquidity management practices, and to ensure its operation in adverse Liquidity situations, 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.

4.14. 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 the 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 into 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.



4.14.1. Financial Margin Sensitivity

Financial Margin sensitivity is a static metric that considers a twelve-month period. Only the bands with a duration of less than 1 year are affected by stimulated interest rate fluctuations. Relevant considerations behind margin sensitivity calculations are:

- Consideration of repricing outcomes for all financial assets and liabilities on the balance sheet.
- Separate 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 over time. It does not take into account organic growth, interest rate structure, or product mix changes or strategies.

The following table shows Financial Margin Sensitivity for Banorte:

Margin Sensitivity (Million Pesos)	3T23	4T23	Var vs. 3T23
Local Currency Balance	650	582	(10.5%)
Foreign Currency Balance	880	687	(21.9%)

At the end of 4Q23, the local currency balance sensitivity for a 100bps shift in reference rates, changed from Ps 650 million in 3Q23 to Ps 582 million. The foreign currency balance sensitivity for a 100bps shift in reference rates changed from Ps 880 million to Ps 687 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 188.13 billion at the end of 4Q23, with an average balance of Ps 170.73 billion.

5. OPERATIONAL RISK

The Institution has a formal Operational Risk department that reports 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 to:

- a) Enable and support the organization in achieving its institutional objectives through prevention and management of operational risks.
- b) Ensure that the existing operational risks and the required controls are properly identified, assessed, and aligned with the organization's risk strategy.
- c) 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 for its administration, coverage, and mitigation.

The Operational Risk Management Directors maintain close communication and coordination with the Regulatory Comptrollership in order to facilitate effective Internal Control in which proper procedures and controls are established to mitigate Operational Risk between processes and are monitored by the Internal Audit Department.

The Regulatory Comptrollership, as part of the Internal Control System, carries out the following activities to mitigate risk:

- a) Validation of internal controls.
- b) Management and control of Institutional regulations.
- c) Monitoring of the 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.
- f) Analysis and assessment of the operating processes and projects with the participation of the responsible Directors for 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 operational loss events, the Institution owns a system that enables the central information supplier areas to directly record online such events, which are classified by Type of Event in accordance with the following categories:

Type of Events	Description
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; unlawful appropriation of assets; or sidestep of laws, committed by a third party
Labor Relations and Workplace Safety	Losses caused by acts incompatible with the legislation or labor agreements regarding hygiene or safety, payment of personal damage claims, or cases related to diversity/discrimination
Customers, Products & Business Practices	Losses caused by involuntary noncompliance by neglect 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.
Business Incidences and Technological Failures	Losses caused by incidences in the business and systems failures
Process Execution, Delivery and Management	Losses caused by errors in management or processing operations as well as relations with commercial counterparties and suppliers

This historical Database provides the statistics on 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

An internal system called "Legal Risk Issues Monitoring System" (SMARL by its acronym in Spanish) has been developed to record and monitor legal, administrative and tax issues that may arise as a result of adverse ruling. This system enables the central data supplying areas to directly and online record such events, which are then classified by company, sector and legal issue, among others.

As part of the Institution's Legal Risk Management, legal and fiscal contingencies are estimated by the attorneys that process the cases, who determine risk level based on an internal methodology. This allows the necessary reserves to be constituted in a specific term (according to lawsuit's term) to face such Contingencies.

5.3. Risk Management Model

The Institution achieves its defined objectives, through various plans, programs and projects. Compliance with such objectives may be adversely affected due to operational risks, therefore it is imperative to provide a methodology for managing them within the organization. Consequently, Operational Risk Management is now an institutional policy defined and supported by senior management

To perform Operating Risk Management, each of the operational 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.



5.4. Required Capital Calculation

In accordance with the current Capitalization for Operational Risk Regulations, for Banorte, the Institution has adopted the Business Indicator Method, which is estimated and reported periodically to the authorities.

5.5. Information Systems, Measurement and Reporting of Operational Risk

The information generated by the Database and the Management Model is processed 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. The status of the main Operational Risk mitigation initiatives implemented by the various areas of the organization, is also being reported.

Operational Risk management is supported by various information and risk measurement systems, which comply with regulatory standards and are aligned with the best international practices in Risk Management. It is worth mentioning that the information contained in the risk systems as well as the reports generated by them, are continuously backed up following institutional information security procedures.

5.6. Technology Risk

Technology Risk is defined as all potential losses from damage, interruption, alteration or failures derived from the use of, or reliance on, hardware, software, systems, applications, networks and any other information distribution channels in the rendering of banking services to the customers. This risk is an inherent part of Operational Risk, which is why its management is collectively overseen throughout the entire organization.

To address the Operational Risk associated with information integrity, an "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 Institution's capital.

The functions established by the CNBV (Comisión Nacional Bancaria y de Valores) for Technology Risk Management are performed by the Institution under the 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 of any relevant operating contingency.

5.7. Legal Risk

Legal Risk is defined as the potential loss resulting from non-compliance with the applicable legal and administrative provisions, the issuance of indisputable unfavorable court rulings, and the application of penalties related to the operations performed by the Institution

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 subsequently recorded in the database of operational events.

Based on the statistics of the current legal issues and real loss events, the Institution will be able to identify specific legal or operational 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 primary objective of the Group's securitization operations, is to transfer risks and benefits of certain financial assets to third parties. Likewise, it represents an alternative funding source for the Group.

Banorte 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.



- On December 5th, 2023, Banorte held the irrevocable trust for the issuance of market certificates No. 4907, issuer code BANORCB. The issuance took place on December 21st, 2023, these are backed by loans to governments, states and municipalities, all originated and assigned by Banorte

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. However, with respect to the BANORCB 23 securitization, the risks assumed and retained by the trust are relevant given the participation in the market certificates.

The Institution is responsible for ensuring that each of the assigned loans meet the eligibility criteria at the time of their respective allocation. If the fiduciary, the common representative or 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 replaced or make the corresponding payment.

The Institution's Board of Directors does not have 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 associated with securitizations that may affect the trust's 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, as described in the 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. Similarly, in order to monitor the exposure to market risk, the value at risk is calculated for these instruments with a one-day time horizon and a 99% confidence level.

Banorte is the settlor and trustee of trusts for the conducted securitizations. Additionally, the Institution also performs the duties of administrator in each of the trusts.

On the other hand, Banorte also acts as an investor by acquiring securities certificates issued by the trusts established for the securitizations. As of December 31st, 2023, GFNorte has in its own position the following securities and amounts from those securitizations carried out by the Institution

Securitization (Million pesos)	Issued Securities	Banorte
91_BANORCB_23	270,000,000	27,067
97_FCASACB_06U	-	-

The following table shows the proportion of Securities held by the Institution, for each series as of December 31st in its own position:

Securitization (Million pesos)	Issued Securities	Banorte
91_BANORCB_23	270,000,000	100.0%
97_FCASACB_06U	1,351,386	0.0%

The ratings assigned by each rating agency as of 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	Glob al	Local	Glob al	Loc al	Glob al	Local	Glob al	Local	Glob al	Loc al	Glob al	Loc al	Glob al
91_BANORCB_23							HRAA A		AAA/ M					
97_FCASACB_06U	mxB B		CC C (me x)											



As of December 31st, 2023 the amounts of the underlying assets of the securitization were as follows:

Securitization (Million pesos)	Amount		
	Performing	Past-Due	Total
91_BANORCB_23	Ps 29,744	Ps 0	Ps 29,744
97_FCASACB_06U	Ps 51	Ps 96	Ps 146

Securitization exposure broken down by Credit Risk Weight is shown below..

Securitization by Risk Level (Millon Pesos)	Exposure	Capital Requeriments
Securitized with Risk Level 1	27,067	974
Securitized with Risk Level 2	0	0
Securitized with Risk Level 3	0	0
Securitized with Risk Level 4	0	0
Securitized with Risk Level 5.1 to 5.4	0	0
Securitized with Risk Level 5.5 to 5.9	0	0

No securitization position is registered in memorandum accounts and no maintained securitization position is deducted from Tier 1 Capital.

Trust 563 Securitization takes into account early amortization provisions, and Trust 4907 Securitization does not consider 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 conducted by the Institution were recognized in accordance with criterion C-14 *Transfer and Elimination of Financial Assets*. Despite retaining the contractual rights to receive cash flows from financial assets for the BORHIS Securitization, a contractual obligation is assumed to pay such cash flows to a third party. In addition, an analysis of the transfer of these assets indicates 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 43.1.1 of criterion C-14, which states:

- Eliminate transferred financial assets at the last book value.
- Recognition for the consideration received in the operation.
- 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.

Regarding the GEM Securitization, it was concluded that the entity did not effectively sold to a third party, as it does not transfer substantially all the risks and benefits inherent to the transferred assets. For this reason, these assets are not unsubscribed at a consolidated level.

Both Securitizations 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 are 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 and maintenance expenses, minus any increase in principal or interest reserve, 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. Likewise, the certificate related to securitization BANORCB 23 shows a fair market value of 3.86 billion pesos, which is only recognized in the accounting notes of Banco Banorte (individual level). At the consolidated Banco Banorte balance level, this certificate is eliminated as part of the consolidation entries.



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 GEM certificates are the following:

- a) Default: Considers credit reserve of the securitized loans in accordance with the CNBV rating methodology in order to reflect the risk of default of principal and/or interest of the securitized portfolio.
- b) Prepayment: In the event of the existence of prepayments, the notional of the portfolio is adjusted to update the future cash flows to be discounted.
- c) Portfolio term: All contractual payments of principal and interest are considered on each payment date of each of the securitized assets.
- d) Portfolio interest rate: The contractual rates of each of the securitized assets are considered. In the case of variable interest rates, forward rates are estimated based on the TIIE28 curve at the valuation date.
- e) 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, interest and principal reserve account, in case of total payment of the stock certificates, these assets would be distributed to the certificate holders.

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 fiduciary, 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 therefore none of them are obligated to make payments to the certificate holders, except for the fiduciary, whose payments may be charged to the fiduciary's account in accordance with the trust agreement.

Note: The complimentary information regarding Risk Management in order to comply with Article 88 from the CUB, is available in the Risk Management Quarterly Report for the Institution.

38 - MEMORANDUM ACCOUNTS (unaudited)

	2023	2022
Guarantees Granted	Ps. -	Ps. 357
Contingent assets and liabilities	29	32
Credit commitments	403,623	347,355
Assets in trust or mandate	312,660	308,801
Managed assets in custody	658,836	546,061
Collateral received	215,655	182,756
Collateral received and sold or given as a pledge	83,105	72,400
Interest accrued but not charged of past due loans	391	412
Other registration accounts	599,532	542,918
	Ps. 2,273,831	Ps. 2,001,092

39 - COMMITMENTS

As of December 31, 2023 and 2022, the Institution had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 403,652 and Ps. 347,355, which are recorded in memorandum accounts.

40 - CONTINGENCIES

As of December 31, 2023, there are lawsuits filed against the Institution in civil and business court cases; however, the Institution attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Institution consolidated financial position. As of December 31, 2023, the Institution has recorded a reserve for contentious matters of Ps. 1,099 (Ps. 1,027 in 2022).



41 - 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 2023 and 2022, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps. 4,292 and Ps 3,859, respectively.

42 - NEW ACCOUNTING GUIDELINES

Improvements to MFRS 2024 – The following improvements were issued with entry into force as of January 1, 2024, which do not generate accounting changes.

MFRS C-2.- An entity will classify financial assets based on its business model, among others, as financial instruments receivable or sold (IFCV). The term “financial instruments to collect or sell” is replaced by the term “financial instruments to collect and sell” because the main objective of these must be to obtain a profit from their sale, which will be carried out when the conditions are met. optimal market conditions and in the meantime, collect contractual cash flows; That is, they are held to collect and sell.

MFRS C-10.- Converges with the provisions of IFRS 9, Financial Instruments; Therefore, in the case of hedging a foreign currency risk, a non-derivative financial instrument denominated in that currency may be designated as a hedging instrument, provided that it is not an equity instrument for which an entity has elected to be presented at fair value in Other Comprehensive Income in accordance with MFRS C-2.



**Banco Mercantil del Norte, S.A.,
Institución de Banca Múltiple,
Grupo Financiero Banorte and
Subsidiaries**

Consolidated Financial Statements
for the Years Ended December 31,
2021 and 2020, and Independent
Auditors' Report Dated February 28,
2022

**Banco Mercantil del Norte, S. A.,
Institución de Banca Múltiple,
Grupo Financiero Banorte and Subsidiaries**

Independent Auditors' Report and Consolidated Financial Statements as of December 31, 2021 and 2020

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Independent Auditors' Review Report to the Board of Directors and Stockholders of Banco Mercantil del Norte, S.A., Institution of Multiple Banking, Grupo Financiero Banorte and Subsidiary

Opinion

We have audited the consolidated financial statements of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and Subsidiaries (the "Institution"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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 present fairly, in all material respects, the financial position of the Institution as of December 31, 2021 and 2020, and its financial performance and its cash flows, for the years then ended in accordance with the accounting criteria established by the National Banking and Securities Commission (the Commission) through the "General Provisions applicable to financial group controlling companies that regulate matters that correspond jointly to the National Supervisory Committees" (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 the *Auditors' Responsibilities for the Audit of the Consolidated Financial statements* section of our report. We are independent of the Institution 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.

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 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 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 standard CNBV methodology, by testing the reasonableness of assumptions, verifying arithmetic calculations and their accounting record under the economic environment derived from COVID-19.

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 Institution 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 Institution take 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.

Information Other than the Consolidated Financial Statements and the Auditors' Report

The management of the Institution 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 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 read the other information mentioned, when available, and when we do so, consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or financial statements with our knowledge obtained during the audit, or that it appears to contain a material error. We have nothing to report on this matter.

The information displayed in the attached financial statements as unaudited is presented at the requirements of the Accounting Criteria issued by the Commission.

Other Matter

The accompanying consolidated financial statement have been translated into English for the convenience of the reader.

Responsibilities of the Management and Corporate Governance Managers of the Institution 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 Institution ability to continue as an on-going business, disclosing as appropriate, business-related matters underway and using the basic business postulate underway, unless the administration intends to liquidate the Institution or cease operations, or has no realistic alternative but to do so.

The Institution's corporate governance officials are responsible for supervising the Institution's financial reporting process.

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 ISA's 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 ISA's, 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 Institution'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 Institution'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 Institution 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 Institution 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
February 28, 2022

**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2021 and 2020
(In millions of Mexican pesos and in millions of U.S. dollars)**

ASSETS	2021	2020
CASH AND CASH EQUIVALENTS	Ps. 98,302	Ps.108,743
MARGIN SECURITIES	7,999	18,099
INVESTMENT IN SECURITIES		
Trading securities	32,263	41,432
Securities available for sale	136,172	153,063
Securities held to maturity	60,200	33,277
	228,635	227,772
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	3,037	3,036
DERIVATIVE FINANCIAL INSTRUMENTS		
For trading purposes	26,865	48,233
For hedging purposes	1,054	2,043
	27,919	50,276
VALUATION ADJUSTMENTS FOR FINANCIAL ASSETS HEDGING	40	54
PERFORMING LOAN PORTFOLIO		
Commercial loans		
Business loans	304,111	297,305
Financial institutions' loans	28,686	24,898
Government loans	147,734	156,115
Consumer loans	121,870	116,478
Mortgage loans		
Medium and residential	198,057	184,980
Low-income housing	3	4
Loans acquired from INFONAVIT or FOVISSSTE	2,400	2,752
TOTAL PERFORMING LOAN PORTFOLIO	802,861	782,532
PAST-DUE LOAN PORTFOLIO		
Commercial loans		
Business loans	2,588	2,183
Government loans	154	33
Consumer loans	3,017	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	7,836	8,580
LOAN PORTFOLIO	810,697	791,112
(Minus) ALLOWANCE FOR LOAN LOSSES	(15,744)	(19,464)
LOAN PORTFOLIO, net	794,953	771,648
ACQUIRED COLLECTION RIGHTS	1,036	1,617
TOTAL LOAN PORTFOLIO, net	795,989	773,265
RECEIVABLES GENERATED BY SECURITIZATIONS	-	110
OTHER ACCOUNTS RECEIVABLE, net	31,140	40,495
FORECLOSED ASSETS, net	1,717	1,384
PROPERTY, FURNITURE AND EQUIPMENT, net	17,662	28,289
PERMANENT STOCK INVESTMENTS	524	519
OTHER ASSETS, net		
Deferred charges, advance payments and intangibles	23,176	9,930
Other short-term and long-term assets	350	213
TOTAL ASSETS	Ps. 1,236,490	Ps. 1,262,185

MEMORANDUM ACCOUNTS (Note 33)

These consolidated balance sheets were prepared according to accounting principles applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission according to Articles 99, 101 and 102 of the Law of Credit 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 Institution as of the consolidated balance sheet dates above.

As of December 31, 2021, the stockholders' equity amounts to Ps. 14,420.

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 balance sheets.

LIABILITIES AND STOCKHOLDERS' EQUITY	2021	2020
DEPOSITS		
Demand deposits	Ps. 535,201	Ps. 530,747
Time deposits		
General public	240,089	252,331
Money market	100	14,248
Senior debt	27,800	43,342
Global account of deposit without movement	3,023	2,585
	806,213	843,253
INTERBANK AND OTHER LOANS		
Short-term loans	7,809	-
Short-term loans	7,330	8,261
Long-term loans	6,422	6,404
	21,561	14,665
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	108,591	115,962
COLLATERAL SOLD OR PLEDGED		
Repurchase or resale agreements (creditor balance)	31	13
DERIVATIVE FINANCIAL INSTRUMENTS		
For trading purposes	22,487	44,097
For hedging purposes	6,571	4,990
	29,058	49,087
OTHER ACCOUNT PAYABLES		
Income taxes	568	2,388
Employee profit sharing	1,354	538
Creditors from settlements of transactions	2,458	4,251
Creditors from cash collateral received	10,006	6,860
Sundry creditors and other payables	29,181	31,493
	43,567	45,530
SUBORDINATED DEBENTURES	80,574	57,152
DEFERRED TAXES AND PROFIT SHARING, net	1,122	265
DEFERRED CREDITS AND ADVANCED COLLECTIONS	1,138	1,211
TOTAL LIABILITIES	1,091,855	1,127,138
STOCKHOLDERS' EQUITY		
PAID-IN CAPITAL		
Common stock	18,795	18,795
Additional paid-in capital	3,851	2,964
	22,646	21,759
OTHER CAPITAL		
Capital reserves	18,959	18,959
Retained earnings from prior years	79,931	73,302
Result from valuation of securities available for sale	1,720	3,871
Result from valuation of instruments for cash flow hedging	(2,709)	(905)
Cumulative translation adjustment	34	7
Defined remeasurement for employees benefits	(2,036)	(2,333)
Net income	26,086	20,384
	121,985	113,285
NONCONTROLLING INTEREST	4	3
TOTAL STOCKHOLDERS' EQUITY	144,635	135,047
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	Ps. 1,236,490	Ps. 1,262,185

Act. José Marcos Ramírez Miguel
CEO

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Executive Director - Accounting

**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020**
(In millions of Mexican pesos and in millions of U.S. dollars)

	2021	2020
Interest income	Ps. 104,870	Ps. 110,674
Interest expense	36,919	41,292
NET INTEREST INCOME	67,951	69,382
Allowance for loan losses	(11,107)	(21,864)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES	56,844	47,518
Commission and fee income	26,486	22,884
Commission and fee expense	(12,212)	(9,176)
Intermediation income	4,192	4,217
Other operating income	499	1,549
Non interest expense	(41,935)	(39,982)
	(22,970)	(20,508)
OPERATING INCOME	33,874	27,010
Equity in earnings of unconsolidated subsidiaries and associated companies	327	104
INCOME BEFORE INCOME TAX	34,201	27,114
Current income tax	(5,573)	(6,809)
Deferred income taxes	(2,542)	79
	(8,115)	(6,730)
NET INCOME	Ps. 26,086	Ps. 20,384

These consolidated income statements were prepared according to accounting principles applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission according to Articles 99, 101 and 102 of the Law of Credit 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 Institution as of the consolidated income statements 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
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**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020
(In millions of Mexican pesos and in millions of U.S. dollars)**

PAID-IN CAPITAL			EARNED CAPITAL		
	Common Stock	Additional paid-in capital	Capital reserves	Retained earnings from prior years	Result from valuation of securities available for sale
Balances, January 1, 2020	Ps. 18,795	Ps. 2,123	Ps. 17,330	Ps. 50,883	Ps. 1,885
TRANSACTIONS APPROVED BY STOCKHOLDERS:					
Transfer of prior year's result	-	-	-	27,493	-
Creation of reserves as per General Stockholders' meeting on April 24, 2020	-	-	1,629	(1,629)	-
Share-based payments payable in stock options	-	843	-	-	-
Adquisition of shares of Inmobiliaria Interim	-	(2)	-	-	-
Total transactions approved by stockholders	-	841	1,629	25,864	-
COMPREHENSIVE INCOME:					
Net income	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	1,986
Effect of subsidiaries, affiliates and mutual funds	-	-	-	(7)	-
Cumulative foreign currency translation adjustment	-	-	-	-	-
Defined remeasurements for employees benefits	-	-	-	(37)	-
Interest on subordinated obligations	-	-	-	(3,401)	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-
Total comprehensive income	-	-	-	(3,445)	1,986
Non-controlling interest	-	-	-	-	-
Balances, December 31, 2020	18,795	2,964	18,959	73,302	3,871
TRANSACTIONS APPROVED BY STOCKHOLDERS:					
Transfer of prior year's result	-	-	-	20,384	-
Dividends Decreed by the Ordinary General Assembly of Shareholders on July 23, 2021	-	-	-	(10,000)	-
Share-based payments payable in stock options	-	890	-	-	-
Total movimientos aprobados por los accionistas	-	890	-	10,384	-
COMPREHENSIVE INCOME:					
Net income	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	(2,151)
Effect of subsidiaries, affiliates and mutual funds	-	(3)	-	(1)	-
Cumulative foreign currency translation adjustment	-	-	-	-	-
Defined remeasurements for employees benefits	-	-	-	-	-
Interest on subordinated obligations	-	-	-	(3,754)	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-
Total comprehensive income	-	(3)	-	(3,755)	(2,151)
Non-controlling interest	-	-	-	-	-
Balances, December 31, 2021	Ps. 18,795	Ps. 3,851	Ps. 18,959	Ps. 79,931	Ps. 1,720

These consolidated statements of changes in stockholders' equity were prepared according to accounting principles applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission according to Articles 99, 101 and 102 of the Law of Credit 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 Institution 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."

EARNED CAPITAL							
	Result from valuation of cash flow hedging instrument	Cumulative foreign currency translation adjustment	Defined remeasureme nts for employees benefits	Net income	Total majority interest	Non- controlling interest	Total stockholde rs' equity
Balances as of January 1, 2020	(2,287)	(34)	(1,930)	27,493	114,258	3	114,261
TRANSACTIONS APPROVED BY STOCKHOLDERS:							
Transfer of prior year's result	-	-	-	(27,493)	-	-	-
Creation of reserves as per General Stockholders' meeting on April 24, 2020	-	-	-	-	-	-	-
Share-based payments payable in stock options	-	-	-	-	843	-	843
Acquisition of shares of Inmobiliaria Interim	-	-	-	-	(2)	-	(2)
Total movimientos aprobados por los accionistas	-	-	-	(27,493)	841	-	841
COMPREHENSIVE INCOME:							
Net income	-	-	-	20,384	20,384	-	20,384
Result from valuation of securities available for sale	-	-	-	-	1,986	-	1,986
Effect of subsidiaries, affiliates and mutual funds	-	-	(1)	-	(8)	-	(8)
Cumulative foreign currency translation adjustment	-	41	-	-	41	-	41
Defined remeasurements for employees benefits	-	-	(402)	-	(439)	-	(439)
Interest on subordinated obligations	-	-	-	-	(3,401)	-	(3,401)
Result from valuation of instruments for cash flow hedging	1,382	-	-	-	1,382	-	1,382
Total comprehensive income	1,382	41	(403)	20,384	19,945	-	19,945
Non-controlling interest	-	-	-	-	-	-	-
Balances, December 31, 2020	(Ps. 905)	Ps. 7	(Ps. 2,333)	Ps. 20,384	Ps. 135,044	Ps. 3	Ps. 135,047
TRANSACTIONS APPROVED BY STOCKHOLDERS:							
Transfer of prior year's result	-	-	-	(20,384)	-	-	-
Dividends Decreed by the Ordinary General Assembly of Shareholders on July 23, 2021	-	-	-	-	(10,000)	-	(10,000)
Share-based payments payable in stock options	-	-	-	-	890	-	890
Total transactions approved by stockholders	-	-	-	(20,384)	(9,110)	-	(9,110)
COMPREHENSIVE INCOME:							
Net income	-	-	-	26,086	26,086	-	26,086
Result from valuation of securities available for sale	-	-	-	-	(2,151)	-	(2,151)
Effect of subsidiaries, affiliates and mutual funds	-	-	(5)	-	(9)	-	(9)
Cumulative foreign currency translation adjustment	-	27	-	-	27	-	27
Defined remeasurements for employees benefits	-	-	302	-	302	-	302
Interest on subordinated obligations	-	-	-	-	(3,754)	-	(3,754)
Result from valuation of instruments for cash flow hedging	(1,804)	-	-	-	(1,804)	-	(1,804)
Total comprehensive income	(1,804)	27	297	26,086	18,697	-	18,697
Non-controlling interest	-	-	-	-	-	1	1
Balances, December 31, 2021	(Ps. 2,709)	Ps. 34	(Ps. 2,036)	Ps. 26,086	Ps. 144,631	Ps. 4	Ps. 144,635

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BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020
(In millions of Mexican pesos and in millions of U.S. dollars)

	2021	2020
	Ps. 26,086	Ps. 20,384
Net income		
Items not requiring (generating) resources:		
Real estate, furniture and equipment depreciations	2,371	2,110
Provisions	(660)	109
Current and deferred income tax	8,115	6,730
Equity in earnings of unconsolidated subsidiaries and associated companies	(327)	(104)
	35,585	29,229
OPERATING ACTIVITIES:		
Changes in margin accounts	10,100	(12,173)
Changes in investments in securities	(2,797)	21,605
Changes in debtor balances under repurchase and resale agreements	(1)	(1,020)
Changes in asset position of derivatives	21,384	(25,924)
Change in loan portfolio	(23,306)	(32,832)
Changes in acquired collection rights	580	(258)
Changes in receivables generated by securitizations	110	29
Change in foreclosed assets	(333)	(523)
Change in other operating assets	7,599	(10,617)
Change in deposits	(37,040)	98,982
Change in interbank and other loans	6,897	35
Change in creditor balances under repurchase and sale agreements	(7,371)	(46,723)
Collateral sold or pledged	18	(92)
Change in liability position of derivative financial instruments	(21,611)	23,345
Change in subordinated debentures	23,422	9,102
Change in other operating liabilities	1,599	5,619
Change in hedging instruments related to operations	765	270
Income tax	(9,086)	(4,490)
Net cash generated by operating activities	6,514	53,564
INVESTING ACTIVITIES:		
Proceeds on disposal of property, furniture and equipment	498	991
Payments for acquisition of property, furniture and equipment	(3,830)	(4,702)
Proceeds on disposal of Subsidiaries and associated companies	4	-
Subsidiaries and associated companies acquisitions charges	-	(107)
Charges for cash dividends	95	105
Net cash used in investing activities	(3,233)	(3,713)
FINANCING ACTIVITIES:		
Dividends paid	(10,000)	-
Interest on subordinated debentures paid	(3,754)	(3,401)
Net cash used in financing activities	(13,754)	(3,401)
Net increased / decreased in cash and cash equivalents	(10,473)	46,450
Effects from changes in the value of cash and cash equivalents	32	11
Cash and cash equivalents at the beginning of the year	108,743	62,282
Cash and cash equivalents at the end of the year	Ps. 98,302	Ps. 108,743

These consolidated cash flow statements were prepared according to accounting principles applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission according to Articles 99, 101 and 102 of the Law of Credit 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 Institution 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

**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020**
(In millions of Mexican pesos and in millions of U.S. dollars, except exchange rates and Note 30)

1 – ACTIVITY AND REGULATORY ENVIRONMENT

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and Subsidiaries (the Institution or Banorte), is a full-banking institution whose main activities are regulated by the Credit Institutions Law (LIC), the Mexican Central Bank (Banco de México) and the Mexican National Banking and Securities Commission (the “Commission”). Its activities consist of receiving deposits, accepting and granting loans and credits, attracting public funds, making investments in securities, carrying out repurchase agreements, performing transactions with derivative financial instruments (futures, swaps, options and forward contracts), together with other full service banking operations, in accordance with the LIC. The Subsidiaries' activities are supervised by the Commission.

The Subsidiaries' main activity involves financial operations such as managing retirement funds (until October 17, 2016, the date on which the spin-off of the Institution became effective).

The main regulating aspect compel the Institution to maintain a minimum capitalization index for market and credit 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 Institution complies satisfactorily with all of the above as of December 31, 2021.

The Institution is a 98.26% owned subsidiary of Grupo Financiero Banorte, S.A.B. de C.V. (the Financial Group).

The powers of the Commission in its capacity as banking institutions' regulator include reviewing the Institution's financial information and requesting modifications to such information.

The Institution performs its activities throughout Mexico and until March 2017, in the United States of America.

The Institution's consolidated financial statements have been approved by the Board of Directors at their January 20, 2022 meeting in accordance with the responsibility assigned to them.

2 – SIGNIFICANT EVENTS DURING THE YEAR

Prepayment of the government portfolio securitization (GEM)

On February 22, 2021 the Institution 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, the Institution prepaid all BANORTE 20 stock certificates, issued on May 8, 2020, for an amount of Ps. 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 179% in relation to the expense recognized in 2020.

Reclassification of intangibles

On April 29, 2021, the Institution reclassified from "Property, furniture and equipment" to "Intangible Assets" Ps. 12,030 associated with the Core Banking Technology Platform.

Prepayment amortization of Banorte 18-2 stock certificates

On July 8, 2021, the Institution prepaid all BANORTE 18-2 stock certificates, issued on November 29, 2018, for an amount of Ps. 2,663.

Reclassification of shares

On August 31, 2021, the Institution reclassified the shares of PayClip Inc from "Permanent Investments in Stocks" to "Investments in Securities" (Trading Securities) for an amount of Ps. 623. The effect of the valuation of these shares was Ps. 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, the Institution 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.

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 Institution will continue to operate as a going concern due to the uncertainty and duration of the pandemic in accordance with the "General Provisions applicable to Credit Institutions" (the Accounting Criteria) established by the Commission.

Monetary unit of the consolidated financial statements

The consolidated financial statements and notes as of December 31, 2021 and 2020 and for the years then ended include balances and transactions in millions of Mexican pesos of purchasing power of such dates, except where mentioned.

As of December 31, 2021 and 2020, the recording and functional currency of the Institution 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 the Institution and its subsidiaries mentioned below.

All significant consolidated intercompany balances and transactions have been eliminated.

As of December 31, 2021 and 2020, the Institution's consolidated subsidiaries and its equity ownership is as follows:

	December 31, 2021	December 31, 2020
Administradora de Servicios Profesionales Especializados, S.A. de C.V.	99.99%	99.99%
Casa Servicios Administrativos, S.A. de C.V.	99.60%	99.99%
Bonds Finance Company Limited*	100.00%	100.00%
Fideicomiso BONY 469	100.00%	100.00%
Estrategia en Finanzas & Infraestructura, S.A. de C.V.	99.99%	99.99%
Fideicomiso de coinversión FCICK16-1	97.50%	97.50%
Banorte Financial Services, INC.	100.00%	100.00%

* Trust created on January 11, 2017 in accordance with the Cayman Islands Companies Act, its main activity is to act as a special purpose entity for the issuance of promissory notes in the Cayman Islands.

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.

Conversion of Financial Statements of Banorte Financial Services, INC. (indirect 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 (Ps.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 (Ps. 20.2793 for 2021). 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 without affecting 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 ACCOUNT POLICIES

The significant accounting policies of the Institution are in conformity with practices prescribed by the Commission which are included in the "General Provisions applicable to Credit Institutions" (the Provisions), in their circulars, and in specific and general trades issued for such purpose, 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 Circular 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 (CINIF), except when the Commission deems it necessary to apply a specific accounting standard or criterion, considering the fact that banking 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 Institution may not conform to Mexican Financial Reporting Standards ("MFRS") or other accounting principles generally accepted outside of Mexico.

Changes in accounting policies

Early termination of support programs for mortgage loan debtors

On June 30, 2010, the Federal Government, through the SHCP (Tax Authority), and Credit Institutions, signed an agreement to early terminate support programs for mortgage loan debtors; therefore, as of January 1, 2011, the Holding entity absorbed the discount that was early applied to mortgage loan debtors that were enrolled in the program.

The agreement established a set of payment obligations by the Federal Government which were payable in 5 equal annual amortizations ending on June 1, 2015, on which Banorte received Ps. 29 million, including monthly interest from the day after the cutoff date until the ending month before the payment date.

As of December 31, 2021, the remaining balance of CETES ESPECIALES which have not been repurchased by the Federal Government amounts to Ps. 616 million, with maturities between 2022 and 2027.

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 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	Amounts with COVID funding	Effects in the estimation	Amounts without COVID funding
PERFORMING LOAN PORTFOLIO			
Commercial loans	Ps. 480,531	(Ps. 31)	Ps. 480,500
Consumer loans	121,870	(15)	121,855
Mortgage loans	200,460	(146)	200,314
TOTAL PERFORMING LOAN PORTFOLIO	802,861	(192)	802,669
PAST-DUE LOAN PORTFOLIO			
Commercial loans	2,742	31	2,773
Consumer loans	3,017	15	3,032
Mortgage loans	2,077	146	2,223
TOTAL PAST-DUE LOAN PORTFOLIO	7,836	192	8,028
LOAN PORTFOLIO	810,697	-	810,697
(Minus) Allowance for loan losses	(15,744)	(58)	(15,802)
LOAN PORTFOLIO	794,953	(58)	794,895
TOTAL ASSETS	1,236,490	(58)	1,236,432
Allowance for loan losses Results	11,107	58	11,165
NET INCOME	26,086	(58)	26,028
TOTAL STOCKHOLDERS' EQUITY	144,635	(58)	144,577
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	Ps. 1,236,490	(Ps. 58)	Ps. 1,236,432

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 date.

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 Institution 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 Institution, 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 Institution 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 Institution.

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 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 accrued 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 Institution did not transfer titles between categories.

General valuation standards

Upon the sale of trading securities, the valuation results 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.

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 available for sale, 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.

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 from reclassification from available for sale securities to held to maturity securities, the valuation result on the transfer date continues to be reported in the Institution's 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 Institution periodically verifies whether its available for sale securities and those 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 Institution has about the securities (breach of contract covenants, financial, economic or legal problems).
- b) Information that the Institution 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 Institution uses to determine impairment loss incorporates the aforementioned events according to their importance and rates them as per a severity average used to estimate the return on investment. Similarly, it incorporates the existence of guaranties, 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 statements of income 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 Institution, 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 Institution, 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 Institution reclassifies the financial asset in the consolidated balance sheets as restricted and values it according to the criteria mentioned earlier in this Note until the maturity of the repurchase agreement.

The Institution, 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 Institution 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 Institution is authorized to perform two types of transactions involving derivative financial instruments:

Transactions to hedge the Institution's open risk position: Such transactions involve purchasing or selling derivative financial instruments to mitigate the risk resulting from one or a group of given transactions.

Transactions for trading purposes: The Institution enters into such transactions as a market participant for reasons other than to hedge its exposed position.

Transactions with derivative 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 Institution'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 the 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. Futures contracts are recorded initially by the Institution 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 line 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, respectively. Such debtor or creditor balances in the consolidated balance sheets are offset when the Institution 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

By 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 to in the option and may be exercised at the discretion of the buyer. The instrument to which said price is established is the reference or underlying value.

The premium is the price the holder pays 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 Institution 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 "Intermediation income" 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 policy regarding hedging contracts is to protect the Institution's consolidated balance sheets and to anticipate interest and exchange rate fluctuations, thereby protecting the stockholders' equity.

For hedging derivatives, the Institution applies in all cases the cash flow hedging method and the accumulated compensation method to measure effectiveness. Both methods are approved by current accounting standards. If the hedging is found to be ineffective, the case is reported in the year's results.

The Institution documents the hedging transactions as of the date on which the derivative financial instruments are designated for hedging. A file is created for each transaction with the documentary evidence as required in paragraph 72 of standard B-5, "Derivative and Hedging Transactions," (B5) issued by the Commission, which establishes the conditions for hedging accounting usage.

Based on the above, the Institution acknowledges and documents its cash flow hedging transaction as per the following directives:

- a. The effective portion of the hedging instrument's gains or losses are recorded in the "Comprehensive Income" account in stockholders' equity under the valuation result for cash flow hedging instruments using an asset or liability account called "Derivative financial instruments as offsetting account, as applicable within the current assets or liabilities. The portion determined as ineffective is measured by performing retrospective tests. When the result is over-hedging, it is immediately recorded in the period's results under "Intermediation income".
- b. The effective hedging component recorded in stockholders' equity associated with hedging is adjusted to match the lowest amount (in absolute terms) from among the following items:
 - i. The hedging instrument's cumulative gain or loss since its inception.
 - ii. The accumulated change in fair value (current value) of the expected future cash flows of the hedged item since its inception.

Valuation techniques

As the derivative products operated by the Institution are deemed Plain Vanilla, the standard valuation models contained in the Institution's derivatives operation and risk management systems are used.

All the valuation models used by the Institution render the fair value of the transactions as a result and are periodically calibrated and audited by independent third parties.

Valuation of the positions is performed 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 valued 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 Institution participates in the derivatives market with trading purposes, and the risk exposures generated are computed within its overall Value at Risk (VaR) limit.

The trading strategy is submitted on a weekly basis to the Institution's Treasury Committee, which analyzes the current risks and then makes 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 exchange rate forwards and currency swaps, as well as interest rates by means of interest rate swaps. This is done with the purpose of locking the rates paid on the debt issued by the Institution, 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 Institution's future income and expenses are covered, maximizing its profitability.

Hedging derivatives can be restated entirely or partially due to hedging inefficiencies, maturity or sale of primary position.

Contingencies

To enter the derivatives market, the Institution is bound by an 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 Institution; if the statements stipulated in the contract are incorrect; the Institution's failure to fulfill its obligations and/or payments; breach of contract; the Institution'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 are expired or diminished in value; the Institution'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 Institution 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 Institution'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 Institution 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 in the 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, or 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 for 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 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 y 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 interest 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 forgiveness or term extensions.

The Institution regularly evaluates whether a past-due loan should remain 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 Institution 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 Institution 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 2019 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:

$$R_i = P_{li} * SP * E_{li}$$

Where:

R_i = Loan reserves to record for E_{li} credit

P_{li} = Probability of default for E_{li} credit

SP_i = Severity of the loss for E_{li} credit

E_{li} = 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%
Unpaid	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 performed 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: $EI = \text{Factor_Arbol} * \text{Accountant balance}$

When the accountant balance is less or equal than zero and the limit credit is empty: $EI = 0.6549 * \text{Credit limit}$.

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 credit 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.

Internal models ratings for reserves and regulatory capital constitution

Applicable Portfolio

The Institution 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 Institution 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).

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 allowance 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 and 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 allowances 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.

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 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.

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 Institution, 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 Institution'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 Institution 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 Institution 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 Institution performs 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.

Securitization transactions

Through securitization transactions involving the transfer of ownership in mortgage and government loans, transfers those financial assets to a trust so that it publicly issues securities through an intermediary. The securities represent the right to the yield on the securitized portfolio and, as compensation; the Institution 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 Institution provides administration services for the transferred financial assets and records the revenue thereof in the period's earnings when accrued. Those 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 Institution performs a study to quantify the different future events that could affect the amount in accounts receivable over 90 days and thus determine their percentage of non-recoverability 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, which are recorded when entered into and settled within 48 hours.

Impairment of the value of long-lived assets and their disposal

The Institution 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 net asset's 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, obtained in accordance with accounting criteria issued by the Commission.

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 investee.

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 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 Institution 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 signs of impairment or 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 Institution 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 ISR is 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 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.

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 Institution. 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 regulatory provisions regarding annual impairment tests.

Goodwill

The Institution 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 Bulletin C-15, "Impairment in the Value of Long-Lived 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 Institution 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.

Provisions

Provisions are recognized when the Institution has 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.

Employee retirement obligations

According to Mexican Federal Labor Law, the Institution 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 Institution 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 Institution's 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 Institution applies the provision of MFRS 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

The Institution has a "defined contribution" pension plan in place. The participating employees are those hired as of January 2001 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".

The 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 Institution 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 MFRS D-3, because the cost of this plan is equivalent to the Institution's contributions made to the plan's participants.

The provisions for PTU are recorded in the results of the year in which they are incurred as administrative expenses. The Institution 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 Institution can act as the transferor or transferee, as applicable, in this type of transactions. Moreover the Institution 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 transferor 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 transferee recognizes such financial assets and the transfer consideration in its accounting records.

Share-based payments

The Institution 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 Institution 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 Institution grants its own stock options, the Institution 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 Institution 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 Institution'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 Institution that are considered as irrevocable commercial loans not disposed by the borrowers. It includes the lines of credit granted to client, 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 Institution 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 Institution.

- Collateral received:

The balance represents all the collateral received in securities repurchase agreement operations when the Institution 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 Institution is acting as the buyer and which in turn are sold by the Institution acting as the seller.

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	73,347	81,961
Other deposits and available funds	64	72
	Ps. 98,302	Ps. 108,743

"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. 19.9087 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 institutions	-	-	41,157	21,263	41,157	21,263
Domestic banks	5,320	6,675	-	-	5,320	6,675
Banco de México	26,131	44,958	739	941	26,870	45,899
	Ps. 31,451	Ps. 59,757	Ps. 41,896	Ps. 22,204	Ps. 73,347	Ps. 81,961

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, 2021, and 2020, the Institution had made monetary regulation deposits of Ps. 28,599 and Ps. 34,044, respectively.

As of December 31, 2021, and 2020, the total sum of restricted cash and cash equivalents is Ps. 25,930 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, 2021, and 2020, the balance with Banco de México are Ps.25,930 and Ps. 25,920, 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. 34	Ps. 50
Cashable checks received, pending payment at a 3-day term	29	13
Remittances	1	9
	Ps. 64	Ps.72

The exchange rates used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 909.058 and Ps. 533.89, per unit, respectively, in 2021; and Ps. 924.28 and Ps. 587.01, per unit, respectively, in 2020.

6 - INVESTMENT 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. 26,555	Ps. 194	Ps. (2)	Ps. 26,747	Ps. 38,507
Not restricted	126	-	-	126	(62)
M Bonds	-	-	-	-	(42)
BPA	23	-	-	23	-
CETES	103	-	-	103	-
UDIBONOS	-	-	-	-	(20)
Restricted	26,429	194	(2)	26,621	38,569
D Bonds	727	2	-	729	1,674
M Bonds	312	4	(4)	312	381
BPA	23,948	185	33	24,166	34,488
CETES	43	-	-	43	1,342
UDIBONOS	1,399	3	(31)	1,371	684
Bank securities	2,562	3	-	2,565	167
Not restricted	300	1	-	301	1
CEBUR – Development bank	300	1	-	301	-
Promissory Notes	-	-	-	-	1
Restricted	2,262	2	-	2,264	166
CEBUR – Development bank	2,126	2	-	2,128	48
CEBUR – Bank	19	-	-	19	-
Other bank securities	117	-	-	117	118
Private securities	2,251	22	678	2,951	2,758
Not restricted	2,251	22	678	2,951	2,758
Shares	344	-	529	873	294
Investment funds	12	-	-	12	-
CEBUR – corporate	836	2	16	854	1,303
Eurobonds	1,059	20	133	1,212	1,161
	Ps. 31,368	Ps. 219	Ps. 676	Ps. 32,263	Ps. 41,432

During 2021 and 2020, the Institution recognized under “Intermediation income” a net profit of Ps. 339 and a net (loss) Profit of (Ps.73), respectively, for the fair value valuation of these instruments.

As of December 31, 2021, and 2020, there are Ps. 28,886 and Ps. 38,735, 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. 98,282	Ps. 962	Ps. 2,427	Ps. 101,671	Ps. 107,368
Not restricted	27,399	243	445	28,087	32,814
BREMs	7,778	10	-	7,788	7,784
CEBUR – Government	822	2	(7)	817	2,031
CEBUR – Municipality	140	3	10	153	165
CETES	8,188	-	(2)	8,186	635
Eurobonds	10,471	228	444	11,143	22,199
Restricted	70,883	719	1,982	73,584	74,554
D Bonds	3,030	1	3	3,034	3,026
M Bonds	1,992	29	(159)	1,862	3,539
BPA	26,419	234	23	26,676	31,367
CEBUR – Government					
	710	2	-	712	698
CEBUR – Municipality					
	110	3	-	113	119
CETES	1,206	-	(22)	1,184	2,444
Eurobonds	30,022	431	2193	32,646	33,361
Udibonds	7,394	19	(56)	7,357	-
Bank securities	17,201	61	(110)	17,152	27,151
Not restricted	17,151	61	(110)	17,102	27,101
CEBUR – development bank	2,356	24	(78)	2,302	1,945
CEBUR – bank	1,420	3	(35)	1,388	2,276
Deposit Certificates	11,543	31	(1)	11,573	20,739
Structured Notes	572	-	1	573	567
Other bank securities	1,260	3	3	1,266	1,274
Promissory Notes	-	-	-	-	300
Restricted	50	-	-	50	50
CEBUR – Bank	50	-	-	50	50
Private securities	17,171	361	(183)	17,349	18,544
Not restricted	15,510	317	(158)	15,669	16,778
Shares	115	-	97	212	189
Investment funds	-	-	-	-	932
CEBUR – Corporate	5,994	28	(385)	5,637	6,112
Eurobonds - Private	9,401	289	130	9,820	9,545
Restricted	1,661	44	(25)	1,680	1,766
Eurobonds - Private	1,661	44	(25)	1,680	1,766
	Ps. 132,654	Ps. 1,384	Ps. 2,134	Ps. 136,172	Ps. 153,063

As of December 31, 2021, and 2020, there are Ps. 75,314 and Ps. 76,370, respectively, in restricted securities available for sale, mainly associated with securities repurchasing transactions.

As of December 31, 2021, and 2020 there were 77,783,110 of BREMSR securities acquired as of May 2016, these BREMSRs were initially classified in the available-for-sale securities category due to the legal impossibility of being classified as trading securities since they did not have a secondary market, ie they are not subject to trading operations. They could not be classified under the category of securities held to maturity because this category was restricted in accordance with of criterion B-2. In addition, it is contemplated to hedge these securities through cash flow hedging operations for changes in the TIIE28 interest rate, which is feasible only in the category of available-for-sale securities in accordance with of the Criterion B-5, “Derivates and Hedging Transactions”.

As of December 31, 2021, the amount of the valuation recognized in other items of comprehensive income within stockholders' equity amounts to (\$2,151) and the amount reclassified to income was \$444. As of December 31, 2020, the amount of the valuation recognized in other items of comprehensive income within stockholders' equity amounts to (\$1,986) and the amount reclassified to income was \$1,074.

c. Securities held to maturity

As of December 31, 2021 and 2020, securities held to maturity are as follows:

Medium and long-term debt instruments:

	2021			2020
	Acquisitions cost	Accrued interest	Book value	Book value
Government securities	Ps. 57,772	Ps. 437	Ps. 58,209	Ps. 30,460
Not restricted	39,366	318	39,684	14,930
M Bonds	929	5	934	245
CETES specials	616	-	616	592
Eurobonds	37,821	313	38,134	14,093
Restricted	18,406	119	18,525	15,530
M Bonds	15,531	109	15,640	12,646
CEBUR Municipality	2,875	10	2,885	2,884
Private securities	1,974	17	1,991	2,817
Not restricted	1,974	17	1,991	1,271
CEBUR – BORHIS	2	-	2	-
Eurobonds – Private	700	17	717	2
Other private securities	1,272	-	1,272	1,269
Restricted	-	-	-	1,546
CEBUR – Corporate	-	-	-	1,546
	Ps. 59,746	Ps. 454	Ps. 60,200	Ps. 33,277

As of December 31, 2021 and 2020, there are Ps. 18,525 and Ps. 17,076, respectively, in restricted trading securities associated mainly with repurchasing operations.

As of December 31, 2021, the maturities of the securities (expressed at their book value), are as follows:

	More than one and up to 5 years	More and 5 and up to 10 years	More than 10 years	Total
Government securities	Ps. 15,406	Ps. 31,620	Ps. 11,183	Ps. 58,209
Not restricted	12,765	18,621	8,298	39,684
M Bonds	73	861	-	934
CETES specials	183	433	-	616
Eurobonds	12,509	17,327	8,298	38,134
Restricted	2,641	12,999	2,885	18,525
Bonos M	2,641	12,999	-	15,640
CEBUR Municipality	-	-	2,885	2,885
Private securities	-	717	1,274	1,991
Not restricted	-	717	1,274	1,991
CEBUR – BORHIS	-	-	2	2
Eurobonds – Private	-	717	-	717
Other private securities	-	-	1,272	1,272
	Ps. 15,406	Ps. 32,337	Ps. 12,457	Ps. 60,200

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 collaterals granted in derivative transactions as if December 31, 2021 and 2020, is made up as follows:

2021			
Fair value in millions			
Type of collateral:	Pesos	USD	EUR
Cash	Ps.2,369	Ps. 988	Ps.38
	Ps.2,369	Ps. 988	Ps.38

2021			
Fair value in millions			
Type of collateral:	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 Institution had no instruments received as collateral.

During 2021 and 2021, the interest income from negotiable instruments is as follows:

Concept	2021	2020
Trading securities	Ps. 2,076	Ps. 4,698
Securities available for sale	5,988	7,832
Securities held to maturity	1,627	1,346
	Ps. 9,691	Ps. 13,876

e. Impaired instruments

The objective proof 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 equity of the Institution.

During 2021 and 2020, no interest income was recorded related to the impairment of securities.

7 - DEBTOR 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 securities purchaser

Instrument	2021				2020			
	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
CETES	Ps. 190	Ps. 190	Ps. -	Ps. -	Ps.196	Ps.196	Ps.-	Ps.-
CEBUR – Government	8,515	8,509	6	-	3,867	3,867	-	-
CEBUR –								
Development bank	-	-	-	-	1,590	1,590	-	-
Government UMS								
Bonds (Fix)	1,916	-	1,916	-	1,916	0	1,916	-
Bonds IPAB	27,453	27,453	-	-	19,402	19,286	116	-
Quarterly IPAB Bonds	109,272	108,269	1,003	-	60,138	59,613	525	-
Semi-annual IPAB								
Bonds	28,121	28,014	107	-	34,872	34,487	385	-
F Bonds	1,424	1,424	-	-	-	-	-	-
M Bonds	5,810	5,810	-	-	10,120	10,115	5	-
D Bonds	71,566	71,593	4	31	30,913	30,837	89	13
Udibonds	1,000	1,000	-	-	-	-	-	-
Government securities	255,267	252,262	3,036	31	163,014	159,991	3,036	13
Securitized bank								
certificates	2,843	2,843	-	-	9,274	9,274	-	-
CEDES	3,063	3,063	-	-	7,206	7,206	-	-
Títulos de Organismos								
Financieros								
Multilaterales	-	-	-	-	245	245	-	-
Bank securities	5,906	5,906	-	-	16,725	16,725	-	-
CEBUR – Municipality	1,185	1,184	1	-	3,104	3,104	-	-
CEBUR in UDIS	1,500	1,500	-	-	1,500	1,500	-	-
Short-term CEBUR	679	679	-	-	670	670	-	-
Private securities	3,364	3,363	1	-	5,274	5,274	-	-
	Ps. 264,537	Ps. 261,531	Ps. 3,037	Ps. 31	Ps. 185,013	Ps. 181,990	Ps. 3,036	Ps. 13

With the Institution acting as the purchaser, accrued premiums charged to the results of operations as of December 31, 2021 and 2020 were Ps. 12,211 and Ps. 6,574, respectively, which are presented in the “Interest Income” Heading.

During 2021, repurchase transactions carried out by the Institution in its capacity as purchaser ranged in term from 1 to 8 days.

As of December 31, 2021, the amount of securities corresponding to guarantees granted and received in repurchase transactions that involved the transfer of property Ps. 259,597 and Ps. 362,593, respectively, and as of December 31, 2020, the totals were Ps. 183,050 in guarantees granted and Ps. 280,054 in guarantees received.

The debtor and creditor balances in repurchase transactions consist of:

Acting as seller of securities

Instrument	2021	2020
CETES	Ps. 1,182	Ps. 3,300
CEBUR	712	699
Certificados Bursátiles de Banca de Desarrollo	2,128	48
Eurobonds	19,404	19,343
Bonds IPAB	503	2,664
Quarterly IPAB bonds	40,105	53,512
Semi-annual IPAB bonds	10,144	9,266
Development bonds	3,766	4,700
Government bonds	18,759	17,436
UDIBONOS	8,723	662
Governmental value	105,426	111,630
CEBUR – bank	69	-
Financial Institution Negotiable Instruments	118	168
Bank securities	187	168
CEBUR Municipality	2,978	4,164
Private securities	2,978	4,164
	Ps. 108,591	Ps. 115,962

With the Institution in its capacity as purchaser, accrued interest was charged to the results of operations as of December 31, 2021 and 2020 for Ps. 16,923 and Ps. 14,947, respectively, and recorded under “Interest Expenses”.

During 2021, the period of repurchase transactions carried out by the Institution in its capacity as purchaser ranged in term from 1 to 12 years.

8 - DERIVATIVE FINANCIAL INSTRUMENTS

The transactions carried out by the Institution involving derivative financial instruments correspond mainly to futures, swaps and options contracts. These transactions are entered into in order to hedge various financial risks as well as for trading purposes.

As of December 31, 2021, the Institution 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 derivative financial instruments are as follows:

Asset position	2021	2020
Forwards		
Foreign currency forwards	Ps. 470	Ps. 746
Options		
Interest rate options	332	219
Stock options	281	499
Foreign currency options	23	-
Swaps		
Interest rate swaps	19,820	41,601
Foreign currency swaps	5,847	5,015
Credit swaps	92	153
Total trading	26,865	48,233

Asset position	2021	2020
Swaps		
Exchange rate swaps	-	546
Interest rate swaps	1,054	1,497
Total hedging	1,054	2,043
Total position	Ps. 27,919	Ps. 50,276
Liability position	2021	2020
Forwards		
Foreign currency forwards	Ps. 12	Ps. 106
Options		
Interest rate options	397	161
Foreign currency options	220	430
	14	-
Swaps		
Interest rate swaps	14,097	36,410
Foreign currency swaps	7,747	6,990
Total trading	22,487	44,097
Swaps		
Interest rate swaps	1,052	-
Foreign currency swaps	5,519	4,990
Total hedging	6,571	4,990
Total position	Ps. 29,058	Ps. 49,087

The following are notional bonds in different currencies, depending on the type of product, by December 31, 2021:

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)	890,534	15,679	-	-	-
Interest rate swaps (paying leg)	890,534	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

Risk management policies and internal control procedures to manage the risks inherent in contracts related to derivative transactions are described in note 31.

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 Institution at fixed nominal rates, as well as the exchange rate risk generated by market instruments in the Institution portfolio.

As of December 31, 2021 and 2020, the collateral granted is constituted mainly by the delivery of cash. The fair value of the collaterals delivered is shown in Note 6 d).

As of December 31, 2021 and 2020, the Institution has not received any collateral.

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 Institution and the derivatives designated to cover such positions are:

Cash flow hedging:

- Forecast funding using TIE 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 115 hedge files related to hedging transactions. Their effectiveness ranges between 100%, well within the range established by the accounting standards in effect (80% to 125%). Furthermore, there is no overhedging 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 Institution has to record in earnings.

The following are the Institution'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 and 1 and up to 5 years	More than 5 years
Forecast funding	Ps. 77	Ps. 321	Ps. 1,344	Ps. 98
Monetary regulation deposits	428	1,255	4,902	2,208
UDI issuance	11	11	79	70
Swiss franc Issuance	-	5	2	-
Assets denominated in Euros	54	155	400	-
Assets denominated in GBP	56	157	301	-
Assets denominated in USD	178	563	1,813	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 on 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 credit 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, 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)
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 Institution 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 Institution 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. 229,480	Ps. 234,286	Ps. 2,255	Ps. 1,993	Ps. 231,735	Ps. 236,279
Rediscounted portfolio	7,867	9,001	-	-	7,867	9,001
Denominated in USD						
Commercial	65,218	52,611	333	190	65,551	52,801
Rediscounted portfolio	1,546	1,407	-	-	1,546	1,407
Loans to financial institutions	28,686	24,898	-	-	28,686	24,898
Consumer loans						
Credit card	39,108	36,651	1,343	3,120	40,451	39,771
Other consumer loans	82,762	79,827	1,674	1,585	84,436	81,412
Mortgage loans						
Denominated in domestic currency	200,391	187,655	2,071	1,648	202,462	189,303
Denominated in USD	-	81	-	11	-	92
Denominated in UDIS	69	-	6	-	75	-
Government loans	147,734	156,115	154	33	147,888	156,148
Total loan portfolio	Ps. 802,861	Ps. 782,532	Ps. 7,836	Ps. 8,580	Ps. 810,697	Ps. 791,112

Restructured loans

Below are the restructured loans, which changed the terms and rates, among others:

	2021		2020	
	Performing	Past-due	Performing	Past-due
Commercial loans				
Business loans	Ps. 55,051	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. 56,469	Ps. 5,060	Ps. 27,638	Ps. 4,497

As of December 31, 2021, the 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. 701	Ps. 1,059	Ps. 694	Ps. 103	Ps. 2,557
Consumer loans	3,383	-	-	-	3,476
Mortgage loans	1,013	786	3	1	1,803
	Ps. 5,097	Ps. 1,938	Ps. 697	Ps. 104	Ps. 7,836

As of December 31, 2020, the 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. 1,587	Ps. 485	Ps. 105	Ps. 39	Ps. 2,216
Consumer loans	4,604	100	-	1	4,705
Mortgage loans	1,076	583	-	-	1,629
	Ps. 7,267	Ps. 1,168	Ps. 105	Ps. 40	Ps. 8,580

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. 8,580	Ps. 12,392
Liquidations	(4,037)	(2,245)
Write-offs*	(15,030)	(19,560)
Renewals	(703)	(579)
Discounts	(1,076)	(1,735)
Foreclosures	(179)	(79)
Transfers to performing loans	(6,087)	(6,260)
Transfers from performing loans	26,376	26,439
Sales of portfolio	-	(132)
Fluctuation from foreign exchange rate	(8)	339
Year-end balance	Ps. 7,836	Ps. 8,580

* 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. 1,470. 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 average term over which the deferred fee balance and the costs and expenses will be recorded is equivalent to the average term of the portfolio balance.

The collected fees and costs are presented net in the line item of "Deferred credits and advanced 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, 2021 and 2020, the balance of fully reserved past-due loans that were written off was Ps. 15,291 and Ps. 19,406, 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 are shown below:

	2021		2020	
	Amount	Concentration percentage	Amount	Concentration percentage
Private (companies and individuals)	Ps. 306,699	37.83%	Ps. 299,488	37.85%
Financial institutions	28,686	3.54%	24,898	3.15%
Credit card and consumer	124,887	15.40%	121,183	15.32%
Mortgage	202,537	24.98%	189,394	23.94%
Government loans	147,888	18.25%	156,149	19.74%
	Ps. 810,697	100.00%	Ps. 791,112	100.00%

Policies and procedures for granting loans

The granting, control and recovery of loans are regulated by the Institution'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 Institution 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 Commission Circular B6, "Loan Portfolio", 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. The commercial loans' ratings D and E risk degrees are shown below as distressed loans:

	2021	2020
Distressed commercial loans	Ps. 3,286	Ps. 2,830
Performing	786	854
Past-due	2,500	1,976
Commercial loans	505,748	499,744
Performing	505,505	499,503
Past-due	243	241
Total rated commercial loans	509,034	502,574
Total portfolio	Ps. 835,357	Ps. 811,811
Distressed Commercial Loans/Total Portfolio	0.39%	0.35%

The Institution'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 Institution 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 (punto final and UDIS trusts) (the Agreement) consequently as of January 1, 2011, the Institution 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 Institution'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	Government	Financial institutions' loans	Consumer portfolio	Mortgage portfolio	Total
Risk A1	694,673	1,069	388	99	712	251	2,519
Risk A2	42,741	162	171	-	257	23	613
Risk B1	30,582	83	15	8	811	15	932
Risk B2	16,577	36	121	-	446	20	623
Risk B3	15,951	92	240	7	390	14	743
Risk C1	12,371	72	141	-	653	73	939
Risk C2	11,609	112	-	-	1,577	164	1,853
Risk D	7,990	1,117	70	-	949	438	2,574
Risk E	3,967	107	-	-	2,550	78	2,735
Unclassified	(1,104)	-	-	-	-	-	-
	Ps. 835,357	Ps. 2,850	Ps. 1,146	Ps. 114	Ps. 8,345	Ps. 1,076	Ps. 13,531
Less: Recorded allowance							Ps. 15,744
Reserve supplement*							Ps. 2,213

2020							
Required allowances for losses							
Risk category	Loan portfolio	Companies	Government	Financial institutions' loans	Consumer portfolio	Mortgage portfolio	Total
Risk A1	Ps. 667,967	Ps. 943	Ps. 454	Ps. 68	Ps. 649	Ps. 259	Ps. 2,373
Risk A2	46,058	173	162	7	339	33	714
Risk B1	31,397	77	54	2	837	17	987
Risk B2	10,852	52	23	3	282	19	379
Risk B3	19,990	106	335	3	485	12	941
Risk C1	11,708	105	101	-	675	53	934
Risk C2	10,430	112	135	-	944	140	1,331
Risk D	10,376	944	16	-	2,572	397	3,929
Risk E	4,377	17	-	-	2,721	88	2,826
Unclassified	(1,344)	-	-	-	-	-	-
	Ps.811,811	Ps.2,529	Ps.1,280	Ps.83	Ps.9,504	Ps.1,018	Ps.14,414
Less: Recorded allowance							Ps.19,464
Reserve supplement*							Ps. 5,050

*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 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 2021 and 2020, the amount of the rating base for loan portfolios includes Ps. 24,743 and Ps. 20,776, respectively, for Granted Guarantors and Loan Acquisitions, which were recorded in memorandum accounts. Ps. 15,744 and Ps. 15,257 were also added for loans to consolidated related parties.

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 201% and 227%, 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 2020.

According to the current regulation, as of December 31, 2021, 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, 2021.

Type of portfolio	Exposure to Default	Weighted Probability of Non-compliance	Weighted Severity of Loss
Commercial*	Ps. 383,393	3.9%	24.1%
Mortgage	Ps. 202,536	3.1%	17.1%
Non-revolving consumer	Ps. 84,440	8.1%	68.3%
Revolving Consumer loan	Ps. 50,797	8.6%	83.7%

* Loans 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. 19,464	Ps.17,083
Increase charged to results	13,745	23,906
Discounts and write-offs	(17,470)	(21,823)
Rebates granted to housing debtors	(8)	(7)
Others	13	305
Year-end balance	Ps. 15,744	Ps.19,464

As of December 31, 2021, the net amount of preventive loan losses reserves charged to the consolidated income statement totals Ps. 11,107 and is presented net of Ps. 2,626 which is recorded in "Other income (expenses)", and due to the variation of the USD Ps. 12 exchange rate; such amounts are offset against results and comprised of Ps. 13,745 credited directly to the estimate. As of December 31, 2020, the net amount of preventive loan losses reserves charged to the consolidated income statement totals Ps.21,864 and is presented net of Ps. 2,261 which is recorded in "Other income (expenses)", and due to the variation of the USD (Ps.219) exchange rate; such amounts are offset against results and comprised of Ps.23,906 credited directly to the estimate.

12 - ACQUIRED COLLECTION RIGHTS

The acquired collection rights are comprised as of December 31, 2021 and 2020 as follows:

Valuation Method	2021	2020
Cash Basis Method	Ps. 327	Ps.647
Cost Recovery Method	709	970
Interest method	-	-
	Ps. 1,036	Ps.1,617

As of December 31, 2021, derived from applying the valuation methods (described in Note 4), the Institution recognized income from credit asset portfolios of Ps. 635, together with the respective amortization of Ps. 336, the effects of which were recognized under the "Other income" heading in the consolidated income statement. For the year ended December 31, 2020, the Institution recognized income of Ps. 625, together with the respective amortization of Ps. 377.

The Institution 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 other than cash that the Institution 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 - OTHER ACCOUNTS RECEIVABLE, NET

This item is made up as follows:

	2021	2020
Loans to officers and employees	Ps. 3,158	Ps. 3,123
Debtors from liquidation settlements	7,363	9,919
Debtors from cash collateral	15,525	21,823
Real estate property portfolios	556	993
Sundry debtors in Mexican pesos	4,054	4,005
Sundry debtors in foreign currency	589	735
Others	117	165
	31,362	40,763
Allowance for doubtful accounts	(222)	(268)
	Ps. 31,140	Ps. 40,495

The loans to officers and employees mature in 3 to 30 years, and accrue an interest rate, which goes from TIIE plus 0.6% to TIIE plus 1%.

14 -FORECLOSED ASSETS, NET

This item is made up as follows:

	2021	2020
Moveable property	Ps. 391	Ps. 516
Real estate property	2,827	2,836
Goods pledged for sale	112	90
	3,330	3,442
Allowance for losses on foreclosed assets	(187)	(235)
Allowance for losses on foreclosed real estate assets	(1,366)	(1,770)
Allowance for losses on assets pledged for sale	(60)	(53)
	(1,613)	(2,058)
	Ps. 1,717	Ps. 1,384

As of December 31, 2021, the aging of the reserves for foreclosed assets is as follows:

Concept / Months	18 to 24		More than 24		Total
Moveable property	Ps. 50		Ps. 137		Ps. 187

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. 28	Ps. 24	Ps. 21	Ps. 15	Ps. 1,220	Ps. 1,366
Goods pledged for sale	-	2	4	-	-	54	60
	Ps. 58	Ps. 30	Ps. 28	Ps. 21	Ps. 15	Ps. 1,274	Ps. 1,426

As of December 31, 2020, the aging of the reserves for foreclosed assets is as follows:

Concept / Months	18 to 24		More than 24		Total
Moveable property	Ps.1		Ps.234		Ps.235

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.30	Ps.13	Ps.13	Ps.19	Ps.20	Ps.1,675	Ps.1,770
Goods pledged for sale	2	-	1	-	-	50	53
	Ps.32	Ps.13	Ps.14	Ps.19	Ps.20	Ps.1,725	Ps.1,823

15 - PROPERTY, FURNITURE AND EQUIPMENT, NET

This item is made up as follows:

	2021	2020
Furniture and equipment	Ps. 14,614	Ps.32,450
Property intended for offices	9,213	8,687
Installation costs	10,213	9,011
	34,040	50,148
Less - Accumulated depreciation and amortization	(16,378)	(21,859)
	Ps. 17,662	Ps.28,289

The depreciation recorded in the results of 2021 and 2020 was Ps. 1,802 and Ps. 2,110, respectively.

The average estimated useful lives of the Institution's assets subject to depreciation are listed below:

	Useful Life
Furniture and equipment	4 to 10 years
Real estate	4 to 99 years
Installation costs	10 years

16 - PERMANENT STOCK INVESTMENTS

Investments in associated companies are valued according to the equity method, as detailed below:

	Share %	2021	2020
Controladora PROSA, S.A. de C.V.	19.73%	Ps. 318	Ps. 117
PAYCLIP INC.	2.62%	-	208
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	102	98
		Ps. 524	Ps. 519

The Institution 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.

17 - DEFERRED TAXES, NET

The tax reported by the Institution 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 Institution has recognized a recoverable net deferred tax asset of Ps. 1,122 and (Ps. 265), respectively, as of December 31, 2021 and 2020 as deta

	2021		2020	
	Temporary Differences	Deferred Effect	Temporary Differences	Deferred Effect
	ISR		ISR	
Temporary Differences - Assets				
Tax loss carryforwards	Ps. -	Ps. -	Ps. 29	Ps. 9
Allowance for loan losses				
Surplus preventive 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	237	88	1,056	330
PTU	1,421	435	520	156
Fees collected in advance	3,318	995	3,420	1,026
Accounting provisions	2,216	665	4,284	1,285
Financial instruments valuation	32	10	-	-
Total deferred assets	Ps. 22,968	Ps. 6,916	Ps. 28,773	Ps. 8,645
Temporary Differences - Liabilities				
Advance contributions to pension fund	Ps. 178	Ps. 53	Ps. 576	Ps. 173
Portfolios acquired	1,040	312	1,617	485
Capitalizable projects' expenses	22,118	6,636	20,194	6,058
Financial instruments valuation	3,433	1,030	7,288	2,186
Intangible assets			-	
Effect other liabilities	24	7	29	8
Total deferred liabilities	Ps. 26,793	Ps. 8,038	Ps. 29,704	Ps. 8,910
Deferred tax, net		(Ps. 1,122)		(Ps. 265)

As explained in Note 26, for 2021 and 2020, and in subsequent years, the applicable ISR rate is 30%.

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. Derived from consolidating 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.

18 - OTHER ASSETS, NET

This item is made up as follows:

	2021	2020
Net asset forecast from labor obligations and savings fund	Ps. 184	Ps. 162
Payments to amortize	32,446	16,127
Accumulated payment amortization	(10,507)	(7,538)
Goodwill	1,403	1,392
	Ps. 23,526	Ps. 10,143

As of December 31, 2021 and 2020, goodwill is as follows:

	2021	2020
Banorte-Ixe Tarjetas, S.A. de C.V. SOFOM, ER*	Ps. 1,005	Ps. 1,005
Uniteller Financial Services	398	387
	Ps. 1,403	Ps. 1,392

Includes Ps. 727 of goodwill generated by the acquisition of Banorte-Ixe Tarjetas, S.A. de C.V. SOFOM, ER and Ps. 278 this business entity recorded at the time of the acquisition.

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.

19 - 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 2021 and 2020, the Institution 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. 322,516
Checking accounts in US dollars for individual residents on the Mexican border	4,097	3,097
Demand deposits accounts	108,341	13,111
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	21,072	17,630
	535,201	530,747

	2021	2020
Time deposits		
General public:		
Fixed-term deposits	27,854	32,097
Retail time deposits	211,201	212,218
Promissory note with interest payable at maturity PRLV primary market for individuals	143	346
Promissory note with interest payable at maturity PRLV primary market for entities	208	7,170
Foreign residents' deposits	4	5
Provision for interest	679	495
	240,089	252,331
Money market:		
Over the counter promissory notes	100	14,187
Provision for interest	-	61
	100	14,248
Senior debt	27,800	43,342
Global account of deposit without movement	3,023	2,585
	Ps. 806,213	Ps. 843,253

The funding rates, which the Institution 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	1.16%	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:

	2020				2019			
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<u>General public</u>								
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 2020, the terms set for these deposits are as follows:

	2020			
	1 to 179 days	6 to 12 months	More than 1 year	Total
General public:				
Fixed-term deposits	Ps. 21,718	Ps. 933	Ps. 5,203	Ps. 27,854
Retail time 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
	216,223	18,409	5,457	240,089
Money market:				
Promissory notes	-	-	100	100
	-	-	100	100
	Ps. -	Ps. -	Ps. 100	Ps. 240,189

	2020			
	1 to 179 days	6 to 12 months	More than 1 year	Total
General public:				
Fixed-term deposits	Ps. 19,649	Ps. 1,686	Ps. 10,762	Ps. 32,097
Retail time deposits	206,231	5,729	258	212,218
Promissory note with interest payable at maturity				
PRLV primary market for individuals	323	10	13	346
Promissory note with interest payable at maturity				
PRLV primary market for entities	7,170	-	-	7,170
Foreign residents' deposits	5	-	-	5
Provision for interest	244	246	5	495
	233,622	7,671	11,038	252,331
Money market:				
Promissory notes	-	-	14,187	14,187
Provision for interest	-	-	61	61
	-	-	14,248	14,248
	Ps. 233,622	Ps. 7,671	Ps. 25,286	Ps. 266,579

20 - 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
Immediately due:						
Domestic banks (Call money)	Ps. 7,809	Ps. -	Ps. -	Ps. -	Ps. 7,809	Ps. -
Short-term:						
Banxico	202	-	-	-	202	-
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	-
	6,981	8,008	349	253	7,330	8,261
Long-term:						
Development banking	-	-	39	44	39	44
Public trusts	5,305	5,337	1,078	1,023	6,383	6,360
	5,305	5,337	1,117	1,067	6,422	6,404
	Ps. 20,095	Ps. 13,345	Ps. 1,466	Ps. 1,320	Ps. 21,561	Ps. 14,665

These liabilities incur interest depending on the type of instrument and average balance of the loans.

The average interest rates are shown below:

Foreign exchange	2021				2020			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<u>Call money</u>								
Mexican pesos and UDIS	0.00%	4.10%	3.72%	5.34%	7.55%	7.25%	5.63%	4.53%
<u>Other bank loans</u>								
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%

21 - 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
Provisions for indemnities	3,056	3,068
Provisions for other obligations	10,189	9,743
Others	12,303	15,028
	Ps. 29,181	Ps. 31,493

22 - EMPLOYEE RETIREMENT OBLIGATIONS

The Institution 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. 1,562)	(Ps. 3,415)	(Ps. 592)	(Ps. 5,569)
Fund market value	424	2,424	112	2,960
Funded status	(1,138)	(\$991)	(480)	(2,609)
Unrecognized prior service cost	-	-	-	
Unrecognized actuarial losses	-	-	-	
Net projected asset	(Ps. 1,138)	(Ps. 991)	(Ps. 480)	(Ps. 2,609)

2020				
	Pension plan	Seniority premiums	Medical services	Total
Projected benefit obligation (PBO)	(Ps. 1,791)	(Ps. 455)	(Ps. 3,661)	(Ps. 5,907)
Fund market value	511	173	2,620	3,304
Funded status	(1,280)	(Ps. 282)	(1,041)	(2,603)
Unrecognized prior service cost	-	-	-	
Unrecognized actuarial losses	-	-	-	
Net projected asset	(Ps. 1,280)	(Ps. 282)	(Ps. 1,041)	(Ps. 2,603)

Moreover, as of December 31, 2021, a separate fund amounting to Ps. 3,304, (Ps. 3,304 in 2020) has been set aside to meet the above-mentioned obligations, in accordance with NIF D-3 and is recorded under "Other assets". For the years ended December 31, 2021 and 2020, the net periodic pension cost is as follows:

	2021	2020
Service cost	(Ps. 57)	Ps. 76
Interest cost	506	456
Expected return on plan assets	(284)	(273)
Amortizations of unrecognized items:		
Profits (actuarial losses)	135	142
Cost of the advance reduction/liquidation of obligations	26	-
Net periodic pension cost	Ps. 326	Ps. 401

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 Nominales	2020 Nominales
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. 329)	(Ps. 333)
Net projected liability	(Ps. 329)	(Ps. 333)

For the years ended December 31, 2021 and 2020, the net periodic pension cost is as follows:

Concept	2021	2020
Service cost	Ps. 5	Ps. 36
Cost / (income) for immediate recognition of P/(G)	(9)	16
Net periodic pension cost	(Ps. 4)	Ps. 52

Pursuant to the law, the Institution 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 Ps. 363 in 2021 and Ps. 363 in 2020.

The balance of the employee retirement obligations presented in this Note refers to the Institution'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 MFRS D-3, because the cost of this plan is equivalent to the Institution'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. 3,978 and Ps. 3,304, 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. 1,349 and Ps. 538, respectively.

23 - 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 above-mentioned emission was registered as a liability and the interest 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 was Ps. 90 and Ps. 106 in 2021 and 2020, respectively.

24 – TRANSACTIONS AND BALANCES WITH SUBSIDIARIES AND ASSOCIATED COMPANIES

The balances and transactions with subsidiaries and associated companies as of December 31, 2021 and 2020 are made up as follows:

Institution	Revenues		Accounts receivable	
	2021	2020	2021	2020
Arrendadora y Factor Banorte, S.A. de C.V.	Ps. 743	Ps. 1,023	Ps. 17,805	Ps. 13,966
Almacenadora Banorte, S.A. de C.V.	34	46	892	454
Seguros Banorte, S.A. de C.V.	1,161	926	96	93
Pensiones Banorte, S.A. de C.V.	11	2	-	-
Casa de Bolsa Banorte, S.A. de C.V.	8,253	4,536	139	37
Operadora de Fondos Banorte, S.A. de C.V.	797	777	78	76
Total	Ps. 10,999	Ps. 7,310	Ps. 19,010	Ps. 14,626

Institution	Expenses		Accounts payable	
	2021	2020	2021	2020
Grupo Financiero Banorte, S.A.B. de C.V.	Ps. 677	Ps. 779	Ps. 16,436	Ps. 13,152
Arrendadora y Factor Banorte, S.A. de C.V.	12	34	32	26
Almacenadora Banorte, S.A. de C.V.	-	-	1	-
Seguros Banorte, S.A. de C.V.	447	410	1,547	277
Pensiones Banorte, S.A. de C.V.	2	2	2	1
Casa de Bolsa Banorte, S.A. de C.V.	339	702	4,205	2,941
Operadora de Fondos Banorte, S.A. de C.V.	60	56	1,369	1,191
Ixe Servicios, S.A. de C.V.	12	2	848	40
Banorte Ahorro y Previsión, S.A. de C.V.	35	55	44	1,011
Total	Ps. 1,584	Ps. 2,040	Ps. 24,484	Ps. 18,639

The premiums paid and collected in repurchase operations with Banorte-Ixe Brokerage House and Grupo Financiero Banorte are among the most significant transactions, as well as the account receivable from Banorte Leasing and Factor and Sólida Administradora de Portafolios corresponding to loans granted.

Pursuant to Article 73 Bis of the LIC, the transactions granted by Banking Institutions to related parties may not exceed 35% of the basic part of its net capital.

As of December 31, 2021 and 2020, the amount of the loans granted to related parties was as follows:

Institution 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 transactions granted by the Institution to related parties are under the 100% limit set forth by the LIC.

25 – INFORMATION BY SEGMENT

The main operations and balances per concept and/or business segment in the consolidated balance sheet and the consolidated statement of income are comprised as follows:

a. Interest income and expense is made up as follows:

	2021		
	Interest	Fees	Total
	MXP	MXP	MXP
Cash and cash equivalents	Ps. 1,871	Ps. -	Ps. 1,871
Margin securities	126	-	126
Investment in securities	9,691	-	9,691
Securities repurchasing and loans	12,211	-	12,211
Hedging transactions	4,031	-	4,031
Commercial loans	30,888	397	31,285
Mortgage loans	17,041	750	17,791
Consumer loans	26,058	323	26,381
Others	1,483	-	1,483
	Ps. 104,870	Ps. 1,470	Ps. 104,870

2020			
	Interest	Fees	Total
	MXP	MXP	MXP
Cash and cash equivalents	Ps. 2,507	Ps. -	Ps. 2,507
Margin securities	143	-	143
Investment in securities	13,876	-	13,876
Securities repurchasing and loans	6,574	-	6,574
Hedging transactions	3,947	-	3,947
Commercial loans	36,715	419	37,134
Mortgage loans	17,253	697	17,950
Consumer loans	27,871	322	28,193
Others	350	-	350
	Ps. 109,236	Ps. 1,438	Ps. 110,674

b. The composition of interest expense, segmented by type of deposit, is as follows:

2021			2020			
	MXP	F.E.	Total	MXP	F.E.	Total
Immediately Due and Payable Deposits:						
Checking accounts	Ps. 4,691	Ps. -	Ps. 4,691	Ps. 5,002	Ps. -	Ps. 5,002
Savings accounts	359	-	359	338	-	338
	5,050	-	5,050	5,340	-	5,340
Time Deposits:						
General public	7,870	-	7,870	11,308	36	11,344
Money market	223	-	223	1,447	37	1,484
	8,093	-	8,093	12,755	73	12,828
Total	Ps. 13,143	Ps. -	Ps. 13,143	Ps. 18,095	Ps. 73	Ps. 18,168

c. The composition of interest and commission expense, segmented by type of loan, is as follows:

	2021			2020		
	MXP	F.E.	Total	MXP	F.E.	Total
Call money	Ps. 70	Ps. -	Ps. 70	Ps. 100	Ps. -	Ps. 100
Banco de México	7	-	7	8	109	117
Commercial banks	34	-	34	78	7	85
Development banking	750	-	750	842	27	869
Provision for interest	7	-	7	5	-	5
Total	Ps. 868	Ps. -	Ps. 868	Ps. 1,033	Ps. 143	Ps. 1,176

d. The Intermediation income are as follows:

	2021	2020
Intermediation income:		
Spot foreign currency	(Ps. 71)	Ps. (1,062)
Derivative financial instruments	752	742
Investments in securities	338	(73)
Valuation	1,019	(393)
Purchase-sales result, net		
Spot foreign currency	3,155	2,307
Derivative financial instruments	(267)	1,252
Investments in securities	285	1,051
Total Intermediation income	3,173	4,610
Total Intermediation income	Ps. 4,192	Ps. 4,217

e. The current loan portfolio, grouped by economic sector and geographical location, is as follows

Economic sector	2021				
	Geographical location				
	North	Center	West	South	Total
Agriculture	Ps. 5,890	Ps. 1,287	Ps. 1,283	Ps. 1,109	Ps. 9,569
Mining	41	3,885	6	4	3,936
Manufacturing	21,704	16,230	2,608	1,953	42,495
Construction	10,192	15,739	3,054	5,734	34,719
Public utilities	426	10,067	100	4	10,597
Commerce	29,045	29,015	6,795	15,081	79,936
Transportation	4,444	29,062	605	6,386	40,497
Financial services	41,782	27,915	3,124	3,149	75,970
Communal, social services	8,711	23,299	767	2,221	34,998
Public administration and services	43,729	70,380	16,994	17,812	148,915
Credit card	-	-	-	-	39,108
Consumer	-	-	-	-	82,766
Mortgage	-	-	-	-	199,355
Performing loan portfolio	Ps. 165,964	Ps. 226,879	Ps. 35,336	Ps. 53,453	Ps. 802,861

Economic sector	2020				
	Geographical location				
	North	Center	West	South	Total
Agriculture	Ps. 5,445	Ps. 1,314	Ps. 1,343	Ps. 1,224	Ps. 9,326
Mining	54	4,679	4	7	4,744
Manufacturing	18,066	18,417	2,246	2,495	41,224
Construction	8,339	20,195	4,421	5,411	38,366
Public utilities	428	10,805	108	2	11,343
Commerce	25,411	28,489	6,501	14,382	74,783
Transportation	4,845	31,515	619	6,198	43,177
Financial services	34,055	28,771	2,255	2,631	67,712
Communal, social services	8,873	20,401	763	1,511	31,548
Public administration and services	42,350	73,829	17,035	22,882	156,096
Credit card	-	-	-	-	36,651
Consumer	-	-	-	-	79,826
Mortgage	-	-	-	-	187,736
Performing loan portfolio	Ps. 147,866	Ps. 238,415	Ps. 35,295	Ps. 56,743	Ps. 782,532

f. The past-due loan portfolio, grouped by economic sector and geographical location, is summarized as follows

Economic sector	2021				
	Geographical location				
	North	Center	West	South	Total
Agriculture	Ps. 117	Ps. 67	Ps. -	Ps. 2	Ps. 186
Mining	30	-	-	-	30
Manufacturing	19	447	15	164	645
Construction	12	276	12	273	573
Public utilities	1	-	1	-	2
Commerce	239	310	42	75	666
Transportation	20	7	2	17	46
Financial services	6	8	-	50	64
Communal, social services	157	173	8	38	376
Public administration and services	-	-	154	-	154
Credit card	-	-	-	-	1,343
Consumer	-	-	-	-	1,675
Mortgage	-	-	-	-	2,077
Past-due loan portfolio	Ps. 601	Ps. 1,288	Ps. 234	Ps. 619	Ps. 7,837

Economic sector	2020				
	Geographical location				
	North	Center	West	South	Total
Agriculture	Ps. 108	Ps. 45	Ps. 4	Ps. 13	Ps. 170
Mining	-	-	-	-	-
Manufacturing	30	84	42	133	289
Construction	24	738	3	8	773
Public utilities	1	-	-	-	1
Commerce	265	190	40	144	639
Transportation	14	11	-	10	35
Financial services	17	5	-	6	28
Communal, social services	67	108	22	52	249
Public administration and services	-	33	-	-	33
Credit card	-	-	-	-	3,120
Consumer	-	-	-	-	1,585
Mortgage	-	-	-	-	1,658
Past-due loan portfolio	Ps. 526	Ps. 1,214	Ps. 111	Ps. 366	Ps. 8,580

g. The assigned loan portfolio by responsibilities is made up as follows:

	2021		
	Commercial	Corporate	Total
Commercial	Ps. 352,647	Ps. 127,884	Ps. 480,531
Consumer loans	121,871	-	121,871
Housing mortgage loans	200,459	-	200,459
Total performing loan portfolio	674,977	127,884	802,861
Commercial	2,742	-	2,742
Consumer loans	3,017	-	3,017
Housing mortgage loans	2,077	-	2,077
Total past-due loan portfolio	7,836	-	7,836
Total loan portfolio	682,813	127,884	810,697
Allowance for loan losses	(15,744)	-	(15,744)
Loan portfolio, net	667,069	127,884	794,953
Acquired collection rights	1,036	-	1,036
Total loan portfolio, net	Ps. 668,105	Ps. 127,884	Ps. 795,989

	2020		
	Commercial	Corporate	Total
Commercial	Ps. 347,407	Ps. 130,912	Ps. 478,319
Consumer loans	116,477	-	116,477
Housing mortgage loans	187,736	-	187,736
Total performing loan portfolio	651,620	130,912	782,532
Commercial	2,217	-	2,217
Consumer loans	4,705	-	4,705
Housing mortgage loans	1,658	-	1,658
Total past-due loan portfolio	8,580	-	8,580
Total loan portfolio	660,200	130,912	791,112
Allowance for loan losses	(19,464)	-	(19,464)
Loan portfolio, net	640,736	130,912	771,648
Acquired collection rights	1,617	-	1,617
Total loan portfolio, net	Ps. 642,353	Ps. 130,912	Ps. 773,265

h. Deposit accounts grouped by product and geographical location are as follows:

Product	2021						
	Geographical location						
	Monterrey	Mexico City	West Northwest	South-east	Treasury and other	Foreign	Total
Non-interest bearing checking accounts	Ps. 80,372	Ps. 130,639	Ps. 35,198	Ps. 47,534	Ps. 47,377	Ps. 1,623	Ps. - Ps. 342,743
Interest-bearing checking accounts	16,208	63,535	8,091	8,077	19,998	1,174	- 117,083
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	16,118	7,616	2,493	1,294	1,206	52	- 28,779
Financial intermediaries	-	-	-	-	-	24,786	- 24,786
Total Deposits	Ps. 185,202	Ps. 314,833	Ps. 73,047	Ps. 98,409	Ps. 103,743	Ps. 28,307	Ps. - Ps. 803,541

Product	2020						
	Geographical location						
	Monterrey	Mexico City	West Northwest	South-east	Treasury and other	Foreign	Total
Non-interest bearing checking accounts	Ps. 72,199	Ps. 120,298	Ps. 31,402	Ps. 39,653	Ps. 42,357	Ps. 1,293	Ps. - Ps. 307,202
Interest-bearing checking accounts	21,250	98,652	7,943	8,862	21,857	283	- 158,847
Current account Ps. and pre-established	3,753	5,865	1,449	1,421	1,588	9	- 14,085
Non-interest bearing demand deposits, USD	7,636	9,963	1,776	9,715	2,429	1	- 31,520
Interest bearing demand deposits, USD	7,341	7,568	1,227	4,306	1,235	-	- 21,677
Retail time deposits	47,484	88,519	20,658	19,085	28,484	430	- 204,660
Time deposits, USD	3,156	5,035	1,421	2,408	586	6	- 12,612
Customers money market	17,420	10,952	3,616	1,159	1,815	98	- 35,060
Financial intermediaries	-	-	-	-	-	51,774	5,816 57,590
Total Deposits	Ps. 180,239	Ps. 346,852	Ps. 69,492	Ps. 86,609	Ps. 100,351	Ps. 53,894	Ps. 5,816 Ps. 843,253

26 - INCOME TAXES

The Institution is subject to Income Tax (ISR).

ISR

ISR According to the ISR Law, the rate for 2021 and 2020 and in subsequent years is 30%.

Conciliation of the accounting and fiscal results

The principal items affecting the determination of the current tax expense of the Institution were the annual adjustment for inflation, deduction of loan write-offs, and the valuation of financial instruments.

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%
Tax inflation	(6%)	(2%)
Non-tax accounting write-offs	2%	2%
Interest on subordinated debentures	(3%)	(4%)
Other entries	1%	(1%)
Effective rate	24%	25%

27 - STOCKHOLDERS' EQUITY

The Institution's shareholders' common stock is comprised as follows:

	Number of shares with a nominal value of Ps. 0.10	
Paid-in Capital	2021	2020
"O" Series	144,197,415,428	144,197,415,428

	Historical Amounts	
Paid-in Capital	2021	2020
"O" Series	Ps. 14,421	Ps. 14,420
Restatement in Mexican pesos through December 2007	4,374	4,374
	Ps. 18,795	Ps. 18,794

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 Institution 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 Institution's net profit is subject to Art. 99 A of the LIC that requires that net income of each year be transferred to the legal reserve until the reserve equals 10% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Institution, except in the form of a stock dividend. As of December 31, 2021 and 2020, the legal reserve is Ps. 18,795 and Ps. 18,795, respectively, and represents 100% and 91% of paid-in capital, respectively.

Share-based payments

During 2021 and 2020, the Institution recorded Ps. 841 and Ps. 795, respectively, in non interest expense as compensation for share-based payments against the paid-in capital.

As of December 31, 2021 and 2020, 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 Ps. 106.16.

During 2021 and 2020, 5,922,884 and 7,101,952 shares were exercised, respectively.

Capitalization ratio (Banorte) (unaudited)

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. In 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 2019.

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	Before regulatory national adjustments	-
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	-
BG21	Collateral 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

Reference of balance sheet items	Balance Sheet figures	Amount presented in the balance sheet
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)
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	-	

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.
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: 1,849 (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	N.A.	
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	-	
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	-	

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.
22	Workers ' participation in deferred earnings (net)	26 - N	-	
23	Investments of the pension plan for defined benefits	26 - P	-	
	Liability			
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			
34	Contributed capital that complies with annex 1-Q	1	22,646	BG29; 22,646 (Contributed capital)
35	Retained earnings from prior years	2	79,931	BG30; 79,931 (Earned capital)
36	Result from valuation of instruments for cash flow	3	(2,710)	BG30; (2,701) (Earned 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.
	hedging of items accounted at fair value			
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) (Capital ganado)
41	Result from conversions	3, 26 - A	-	BG30; - (Capital ganado)
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%)	-	-
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

Concept	Risk Weighted Assets	Capital requirement
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 issuer	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 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 issuer	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

Reference	Characteristics	D2 BANOD19 999999
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 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	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-convertibles in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument issuer	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.

Referenc e	Characteristic	D2 BANOE91 999999
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.

Referenc e	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	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-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument issuer	N.A.
30	Value decrease clause (Write Down)	Yes
31	Value decrease conditions	Yes

Reference	Characteristic	D2 BANOC36 311004
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 BANO64 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	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.

Reference	Characteristics	D2 BANO64 0999999
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument issuer	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 BANO48 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	Discretionary
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulative
23	Security convertibility	Non-convertibles

Reference	Characteristic	D2 BANO48 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 issuer	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

Reference	Characteristic	D2 BANOC21 0999999
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	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-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument issuer	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 BANO72 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

Reference	Characteristic	D2 BANO72 0999999
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	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-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument issuer	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 BANO99 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

Reference	Characteristic	D2 BANO A99 0999999
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
Yields / dividends		
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0Libor
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	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-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument issuer	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 Companies.

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
Exposure 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)	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 Counterparty)	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.

REFERENCE	EXPLANATION
3	Sum of lines 1 and 2
4	<p>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:</p> <p>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.</p> <p>b) The valuation at market of the operation is carried out daily and the received cash is exchanged with the same frequency.</p> <p>c) The cash received as well as the operation with the derivative instrument, are denominated in the same currency.</p> <p>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.</p> <p>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.</p> <p>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.</p>
5	<p>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.</p> <p>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.</p>
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	<p>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:</p> <p>a) The corresponding operations have the same settlement date.</p> <p>b) The right to settle the operations at any time.</p> <p>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.</p> <p>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.</p> <p>The amount must be registered with a negative sign.</p>

REFERENCE	EXPLANATION
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 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%

28 - FOREIGN CURRENCY POSITION

As of December 31, 2021 and 2020, the Institution holds certain assets and liabilities in foreign currency, mainly US dollars, converted to the exchange rate issued by Banco de México at Ps. 19.9087 and Ps. 18.8642 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	2021	2020
Assets	10,416,010	9,823,480
Liabilities	10,624,792	9,907,939
Net liability position in US dollars	(208,872)	(84,459)
Net liability position in Mexican pesos	(Ps. 4,282)	(Ps. 1,681)

29 – POSITION IN UDIS

As of December 31, 2021 and 2020, the Institution holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps. 7.108233 and 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 (liability) asset position in UDIS	812,931	(278,975)
Net (liability) asset position in Mexican pesos	Ps. 5,779	(Ps. 1,843)

30 - EARNINGS PER SHARE

Earnings per share is the result of dividing the net income by the weighted average of the Institution's shares in circulation during the year.

Earnings per share are shown below:

	2021			2020
	Net Income	Weighted share average	Earnings per share	Earnings per share
EPS continuous operations	Ps. 26,086	144,199,022,252	Ps. 0.1809	Ps. 0.2116
EPS discontinued operations				
Net income per share	Ps. 26,086	144,199,022,252	Ps. 0.1809	Ps. 0.2116

31 - RISK MANAGEMENT (Unaudited information)

Authorized bodies

To ensure adequate risk management of the Institution, as of 1997, the Institution's Board of Directors created the Risk Policy Committee (CPR), whose purpose is to manage the risks to which the Institution is exposed, and ensure that the performance of operations adheres to the established risk management objectives, guidelines, policies and procedures.

Furthermore, the CPR provides oversight on the global risk exposure limits approved by the Board of Directors, and also approves the specific risk limits for exposure to different types of risk.

The CPR is comprised of regular members of the Board of Directors, the CEO of the Institution, the Managing Directors of the Institution's entities, the Managing Director of Comprehensive Risk Management and the Managing Director of Audits, who have the right to speak but not to vote.

To adequately carry out its duties, the CPR performs the following functions, among others:

1. Propose for the approval of the Board of Directors:
 - The objectives, guidelines and policies for comprehensive risk management
 - The global limits for risk exposure
 - The mechanisms for implementing corrective measures
 - The special cases or circumstances in which the global and specific limits may be exceeded
2. Approve and review at least once a year:
 - The specific limits for discretionary risks, as well as tolerance levels for nondiscretionary risks
 - The methodology and procedures to identify, measure, oversee, limit, control, report and disclose the different kinds of risks to which the Institution is exposed
 - The models, parameters and scenarios used to perform the valuation, measurement and control of risks proposed by the Comprehensive Risk Management Unit
3. Approve:
 - The methodologies for identification, valuation, measurement and control of risks of the new operations, products and services which the Institution intends to introduce into the market
 - The corrective measures proposed by the Comprehensive Risk Management Unit
 - The manuals for comprehensive risk management
 - The technical evaluation of Comprehensive Risk Management aspects.

4. Assign and remove the person responsible for the Comprehensive Risk Management Unit, who is ratified by the Board of Directors.
5. Inform the Board, at least every quarter, of the exposure to risk and its possible negative effects, as well as follow up on limits and tolerance levels.
6. Inform the Board of the corrective measures implemented.

32 - COMPREHENSIVE RISK MANAGEMENT UNIT (UAIR by its acronym in Spanish) (Unaudited information)

Risk management at the Institution is a key element in determining and implementing the Institution's strategic planning. The Institution's risk management and policies comply with regulations and market best practices.

1. OBJECTIVES, SCOPE AND RISK MANAGEMENT FUNCTIONS

Institution'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 the Institution, through the use of robust systems and processes.
- To verify the observance of Risk Appetite.
- To estimate and control Institution'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, the Institution 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 Institution'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 the Institution 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:

- Institution'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) as accountable for managing the risks that the Institution 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 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 Department (DGAR), and among its functions, is responsible to identify measure, monitor, limit, control, report and disclose the different types of risk to which the Institution is exposed to.

The DGAR reports to CPR, in compliance with the regulation related to its independence from the Business areas.

1.2. Scope and Nature of Institution's Risk Management

The Risk Management function extends to all subsidiaries that comprise the Institution. 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, DGAR 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 the Institution, 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 counterparts not fulfilling their payment obligations. Therefore, proper management is essential to maintain loan quality of the portfolio.

The objectives of Credit Risk Management at the Institution 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.

Institution's 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 Alerts 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 Credit Risk models that identifies expected and unexpected losses at specific confidence intervals.
- 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

The Institution 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 Objective Markets, Criteria for Risk Acceptance, Early Alerts and Institution's Internal Risk Rating (CIR Banorte).

The Target Markets, Risk Acceptance Criteria and Early Alerts are tools that, together with the Internal Risk Rating, are part of Institution'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 the Institution 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, Enterprise's life cycle, Legal and Regulatory Risks, besides credit experience and management quality.

Early Alerts are a set of criteria based on borrower 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 Institution to take prompt preventive actions to mitigate Credit Risk.

Institution'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

The Institution 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 the Institution, 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 take action 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 the Institution based on the migration of the debtors through different risk rating levels. The recovery ratio is the percentage of total exposure that is estimated to be recovered if the debtor defaults. The classification of the debtor, based on the Merton model, associates the debtor's future behavior to loan 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 average of 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 losses given the distribution of losses, at a specific confidence level that for the Institution 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 Institution's strategy. The individual risk identification tools and the portfolio Credit Risk methodology are periodically verified and updated to 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 Risk of the different types of originators / issuers and counterparts. Credit Risk is allocated through: a risk rating obtained with an internal methodology, evaluations of external rating agencies or a combination of

both. Maximum parameters of operation are also defined depending on the type of originator / issuer or counterpart, 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, the UAIR is empowered to authorize counterparty credit lines (mainly financial entities) that comply with certain criteria through a parametric methodology approved by the CPR.

In the specific case of derivatives contracts, and in line with best practices, a methodology for calculating potential exposure of credit lines is used, which are analyzed and approved within the Credit Committee and are monitored on daily and monthly basis in the CPR, where guarantee analysis for derivative transaction is held both for clients and financial counterparties.

The National Credit Committee holds the minimum faculty to approve credit lines for derivatives (in case of applying facilities, the UAIR will hold the faculty). For these transactions, the use of derivatives with margin calls shall be privileged in order to mitigate the risk of potential exposure to these transactions.

To determine the lines of credit adversely correlated (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 qualification 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 nonfulfillment 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 compared to the instrument of an equivalent government bond, the lower the probability of non-fulfillment and vice versa.

2) The loss given default that could be experienced with respect of the total of the operation in the event of nonfulfillment, 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 4Q21, the total amount of the exposure subject to the Standard Method and to the Internal Rating Based Models (for Credit Card) to estimate the Capital Ratio is the following:

Gross Exposures subject to the Standard Method and/or Internal Models (Million pesos)	The Institution
Commercial	71,715
YoY Revenues or Sales < 14 MM UDIS	71,715
States or Municipalities	104,608
Decentralized Federal Government Agencies and State Companies	27,882
Projects with own source of payment	101,822
Financial Institutions	28,686
Mortgage	202,536
Consumer Non-revolving	56,451
Total loans subject to the Standard Method	593,699
Commercial	133,079
YoY Revenues or Sales >= 14 MM UDIS	133,079
Decentralized Federal Government Agencies and State Companies	15,399
Total loans subject to the Internal Basic Model	148,479
Consumer Non-Revolving (Auto	27,986
Credit cards	40,451
Total loans subject to the Internal Advanced Model	68,437
Total portfolio	810,614

* The Exhibition does not include Letters of Credit and includes 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. Exposure to Financial Instruments

As of 4T20, exposure to Credit Risk for Securities Investments of Banco Mercantil del Norte was Ps 225,236 billion, of which 94.3% 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 3T21. 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 8 months totaling Ps 12.4 billion at 5.6%; and market and bond certificates of Pemex for 4 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 3Q21.

Institution'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 of guarantees related to transactions (includes operations with Banxico. Excludes settled transactions through central counterparties).

Position (Million pesos)	4Q21	4Q21 Average
Forwards	328	291
FX Swap	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 Fair 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 fair 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:

	Potential Risk		Current Risk	
Counterparties				
Financial	4Q21	Average 4Q21	4Q21	Average 4Q21
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)	4T21	Average 4T21	4T21	Average 4T21
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 zero threshold, thus, guarantees to be delivered do not depend on credit rating but to market movements):

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 market value is detailed according to the ratings for derivatives' counterparties.

Rating (Million pesos)	MtM 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)

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 (Millones de pesos)	Banorte 4Q21
Total Loan Portfolio	810,697
Covered Loan Portfolio by type of collateral	
Real Financial Guarantees	16,807
Real Non-Financial Guarantees	470,192
Pari Passu	35,590
First Losses	18,159
Personal Guarantees	23,908
Total Loan Portfolio Covered	564,655

2.4. Expected Loss

As of 4Q21, Institution's total portfolio was Ps. 810,614 million. The expected loss represents 1.7% and the unexpected loss is 4.3% with respect to the total portfolio. The average expected loss is 1.7% during the period October – December 2021.

2.5. Internal Models

2.5.1. Internal Advanced Model for Credit Card

On November 15, 2017, the Institution received the approval from the banking regulator (Comisión Nacional Bancaria y de Valores) to use Internal Rating Based Models (IM) for credit card's reserve constitution and credit risk's regulatory capital requirements with an advanced approach (Document 111-3/706/2017).

These internal models improve credit risk management by estimating risk parameters from the bank's own experience, 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 Internal Advanced Model, classified by degrees of regulatory risk:

Consumer Revolving Portfolio under Internal Advanced Model						Million pesos	
Risk's Degree*	Accounting Balance	Default Exposure (DE)**	Severity of Loss	PD weighted by DE	Unused credit lines	DE Weighted by exposure	Current DE
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 Risk's Degrees of the Internal Advanced Model has been mapped in accordance with regulatory risk levels.

** The balances under Default Exposure 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 Internal Advance Model for Credit Cards starting on 1Q21:

Backtesting				
Portfolio	Expected Loss Internal Model (Dec'20)	Observed Loss Jan21-Dec21	Difference Ps. (Observed Loss – Expected Loss)	% Usage
Credit Card	4,868	4,862	(6)	100%
Total Portfolio	4,868	4,862	(6)	100%

2.5.2. Advanced Approach Internal Model for Auto Loans

On November 15, 2019, the Institution 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	0	0.00%	0.00%	0
B2	513	513	75.14%	0.00%	506
B3	0	0	0.00%	0.00%	0
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 4Q21.

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. Basic Internal Model for Commercial Loans

On November 30, 2018, the Institution 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 1, 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 the Institution. The parameter authorized under the Basic Internal Model for Corporations is:

- Probability of Default. 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.

A breakdown of risk exposure and expected loss by subsidiary is shown below:

Commercial Loans Portfolio subject to the Internal Basic Model			<i>Million pesos</i>
Subsidiary	Accounting Balance*	Exposure at Default (EAD)**	Expected Loss
Banco Mercantil del Norte	160,070	160,500	1,010
Total Loans*	160,070	160,500	1,010

* The balance includes Letters of Credit in the amount of Ps 11.590 billion and excludes accounting adjustments of Ps 1

** EAD balances include both potential risk as well as used balance risk.

2.6. Risk Diversification

In December 2005, the CNBV issued "General Dispositions Applicable to Credit Institutions regarding to Risk Diversification". These guidelines state that the institutions must carry-out an analysis of their borrowers and/or loans to determine the amount of "Common Risk"; also, the institutions must have the necessary information and documentation to prove that the person or group of persons represent common risk in accordance with the assumptions established in those Rules.

In compliance with the risk diversification regulation in asset and liability operations, the Institution submits the following information:

Tier 1 as of 3Q21 (Million pesos)	177,381
I. Loans with individual balance greater than 10% of basic equity:	
<u>Loan Operations</u>	
Number of loans	-
Total amount of loans	-
% in relation to Tier 1	-%
<u>Money Market Operations</u>	
Number of loans	-
Total amount of loans	-
% in relation to Tier 1	-%
<u>Overnight Operations</u>	
Number of loans	-
Total amount of loans	-
% in relation to Tier 1	-%
II. Loans with individual balance greater than 10% of basic equity:	48,096

3. MARKET RISK

Institution'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.

Institution's Market Risk Policies are:

- New products subject to market risk must be evaluated and approved through 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. It is noteworthy that based on Basel requirements referred in the document "Minimum Capital Requirements for Market Risk", Banorte implemented during January 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 standard methodology in the industry known as Value at Risk (VaR).

The VaR 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 for trading purposes) classified for accounting purposes as trading assets, both on and off the balance sheet.

The average VaR of the portfolio for 4Q21 was Ps. 96.2 million (Ps. 24.3 million higher than the average VaR 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.

VaR (Million pesos)	4Q21 Average
VaR the Institution	96.2
Net Capital the Institution	212,295
VaR / Net Capital the Institution	0.045%

VaR by risk factor for the Institution's portfolio had the following behavior during the fourth quarter of the year:

Risk Factor (Million pesos)	4Q21	4Q21 Average
Rates	17.5	19.4
FX	50.8	48.5
surcharge	24.4	24.9
FX	65.8	82.9
Equity	1.2	1.6
Diversification Effect VaR	(79.4)	(81.1)
Bank's Total VaR	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	4Q21 Average
Rates	5.7	6.4
FX	10.8	10.4
surcharge	(1.1)	(1.7)
FX	56.4	74.3
Equity	8.5	6.8
Bank's Total VaR	80.3	96.2

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	4Q21
Rates	38%
surcharge	14%
FX	47%
Equity	1%

3.3. Sensitivity Analysis and Stress Testing under extreme conditions

Since VaR indicates the potential losses under normal market conditions, the Institution complements its risk analysis enforcing 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.

3.4. Backtesting

In order to validate the effectiveness and accuracy of the VaR, 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 Value at Risk and if necessary make the required adjustments to the parameter.

4. BALANCE AND LIQUIDITY RISK

Institution'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.
- Monitor 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

Institution'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 the established limits and the Risk Appetite are reviewed 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)	3Q21	4Q21	Var 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 – Retail			
Local Currency ⁽²⁾	202,854	205,180	1.1%
Foreign Currency ⁽²⁾	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 and 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 (Million pesos)	Bank and Sofomes 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 Credit and liquidity lines	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	No aplica	141,338
22 TOTAL NET CASH DISBURSEMENTS	No aplica	72,811
23 LIQUID COVERAGE RATIO	No aplica	201.65%

During 4Q21, the average LCR for the 92 days in the quarter 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 the Institution can meet all of its short-term obligations in a crisis scenario ¹.

4.4. Evolution of LCR Components

The evolution of the LCR components comparing 3Q21 and 4Q21 is presented in the following table.

LCR Component <i>(Million pesos)</i>	3Q21	4Q21	Var vs. 3Q21
Liquid Assets	127,863	139,060	8.8%
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 <i>(Million pesos)</i>	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%)

Liquid assets increased in the quarterly comparison in 3Q2 and 4Q21, due to a growth in the deposits for monetary regulation and auctions with Banco de Mexico.

4.5. Liquidity Risk in foreign currency

For Liquidity Risk quantification and monitoring, in the specific case of the foreign currency denominated portfolio, the Institution 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.

¹ The Liquidity Coverage Ratio information is preliminary and is subject to Banco de Mexico's affirmation.

4.6. Main Initiatives affecting Banorte's Liquidity during 4Q21

The Institution's Liquidity strategy is aimed at maintaining adequate levels based on prevailing circumstances; as such during 4Q21 liquidity was managed through the core deposits, strengthening quality, stability and costs with customers while taking advantage of the historical cyclicalities observed during the last quarter that increases the core deposits volumes.

It should be mentioned, that the Institution 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

The Institution applies the regulatory methodology to determine cash outflows for derivatives. At the end of 4Q21, estimated outflows for derivatives were as follows:

Derivatives Cash Outflows <i>(Million pesos)</i>	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 former measurement shows that potential outflows for derivatives may represent a liquidity requirement up to Ps.6,744 million, stable vs. 3Q21.

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 4Q21 are presented in the following table.

Concept <i>(Million pesos)</i>	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 (Million pesos)	1 day	7 days	1 month	3 months	6 months	12 months
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)

4.9. Stress Testing under liquidity extreme conditions

As part of its Liquidity Risk management, the Institution 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, the Institution 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 repricing model by brackets in which all assets and liabilities are distributed in different bands depending on their repricing 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 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, and consider a parallel and symmetric shift for both active and passive interest rates. Relevant considerations behind margin sensitivity calculations are:

- All financial assets and liabilities in the balance sheet are considered. The separate book for trading is not included.
- This metrics takes into consideration all balance sheet behavior models, such as mortgage prepayments and deposit survival.
- The balance sheet is regarded as static and constant through time. Neither organic growth nor interest rate structure or changes in product's mixture are considered.

The following table shows Financial Margin Sensitivity for Banorte Bank:

Margin Sensitivity <i>(Million pesos)</i>	3Q21	4Q21	Var vs. 3Q21
Domestic 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. The calculation does not consider the positive effect of lower rates on the Negotiable Position that would be recorded under Trading Income.

5. OPERATIONAL RISK

The Institution has a formal Operational Risk department headed by the "Deputy Managing Director of Financial and Operational Risk", 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 per Operational Risk.

Pillars in Operational Risk Management

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:

Type of Events	Description
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. Moreover, the Database will enable, in the future, to own enough information to estimate capital requirements as per Advances Models.

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 the Institution’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

The Institution 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 the case, defining tolerance levels. Currently, work is being performed 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 Basic Model, which is estimated and reported periodically to the authorities; the assets subject to operational risk are disclosed in the corresponding note regarding the Rules for capital requirements.

5.5. Information and Reporting

The information generated by the Database and the Management Model is processed 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 performed regarding the status of the main Operating Risk mitigation initiatives implemented by the various areas of the organization.

5.6. Operational Risk Disclosure

Regarding the disclosure for Operational Risk, the cumulative operational losses for the last 12 months, represents 1.8% of the Net Interest Margin.

5.7. 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, the Institution 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.

5.8. 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 EXECUTED BY THE INSTITUTION

The main objective of the securitization operations carried out by the Bank, is to transfer risks and benefits of certain financial assets to third parties.

The Institution has accomplished the following securitizations:

- On October 11, 2006, Fincasa Hipotecaria (Fincasa), now merged with the Institution, 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 criteria 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 with respect to 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 the Institution to replace such loan or if replacement is not possible, to make payment for the "non-replaced ineligible loan" in question. If the Institution identifies any non-eligible loan, it must notify and replace or make the corresponding payment.

Particularly in Trust 477, operations with derivatives are carried out, specifically swaps, 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. If these risks materialize, payment to market certificates' holders could be adversely affected. The main risks 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.

The Institution 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. By 4Q21, the Institution had the following position in securities and securitization amounts carried out by the same Institution:

Securitization (Million pesos)	The Institution	
	Securities	Amount
97_FCASACB_06U	1,351,386	0.0%

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	Global	Local	Global
97_FCASACB_06U	mxCC		CC C (me x)											

As of 4Q21 the amounts of the underlying assets of each securitization were:

Securitization (Million pesos)	Amount		
	Performing	Past-Due	Total
97_FCASACB_06U	Ps 70	Ps 109	Ps 179

There are no impaired assets in trust 477.

Securitization exposure broken down by Credit Risk Weight is shown below:

No securitization position is recorded in memorandum accounts and no maintained securitization position is deducted from basic capital.

Securitizations trusts 563 consider 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:

- Eliminate transferred financial assets at the last book value;
- 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 BORHIS and GEM 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) BORHIS: the sum of the cash flow to receive from the securitized loan portfolio, less the cash flow to pay off the market certificates, less the monthly administration expenses plus the income from sales of foreclosed properties, if the case.
- b) GEM: the sum of the cash flow to receive from the securitized loan portfolio, less the cash flow to pay off the stock certificates, fewer expenses for Administration, plus or less the change in the reserve's interest.

Remaining flows are discounted with the B1 banking curve, which takes into consideration the trust's Credit Risk. 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 are 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 Valmer.

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.

Note: The complimentary information regarding Risk Management in order to comply with Article 88 from the CUB, is available in the Risk Management Note on the Quarterly Report for the Institution.

33 - MEMORANDUM ACCOUNTS

	2021	2020
Guarantees Granted	Ps. 211	Ps. -
Contingent assets and liabilities	Ps. 120	167
Credit commitments	288,260	256,306
Assets in trust or mandate	295,482	315,988
Managed assets in custody	365,569	370,011
Collateral received	362,593	280,054
Collateral received and sold or given as a pledge	259,597	183,050
Investment banking transactions on account of third parties (net)	140,990	97,374
Interest accrued but not charged of past due loans	220	178
Other registration accounts	320,313	267,726
	Ps. 2,033,355	Ps. 1,770,854

34 - COMMITMENTS

As of December 31, 2021 and 2020, the Institution had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps.- (Ps. 256,306 in 2020), 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, 2021, the commitments for payment of rents are as follows:

Year	Amount
2020	1,924
2021	2,061
2022	2,208
2023	2,367
2024 a 2032	35,909
Total	\$44,469

- In addition, the Institution 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
2020	1,435
2021	1,485
2022	1,537
2023	1,591
2025 a 2034	19,323
Total	\$25,371

35 – CONTINGENCIES

As of December 31, 2021, there are lawsuits filed against the Institution in civil and labor court cases; however, the Institution's attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Institution's consolidated financial position. As of December 31, 2021, the Institution has recorded a reserve for contentious matters of Ps. 944 (Ps. 819 in 2020).

36 - 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 maintaining 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 2021 and 2020, the amount of contributions to the IPAB payable by the Institution for fees amounted to Ps.- and Ps. 3,630 respectively.

37 - 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 Companies 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 Companies 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 22.65% and an estimated increase in the heading of “Collaterals sold or given as guarantee”, which would generate an approximate increase in Liabilities of 25.65%, 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 0.04% 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 Institution, considering the credit risk of the counterparty and its own. As of December 31, 2021, an approximate decrease of 2.12% 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 0.05% 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 0.58% and 0.65% 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 Institution 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 .

**Banco Mercantil del Norte, S.A.,
Institución de Banca Múltiple,
Grupo Financiero Banorte and
Subsidiaries**

Unaudited Condensed Consolidated
Interim Financial Statements for the
Nine-Month Periods Ended
September 30, 2024 and December
31, 2023, and Independent Auditors'
Review Report Dated November 8,
2024



**Banco Mercantil del Norte, S. A.,
Institución de Banca Múltiple,
Grupo Financiero Banorte and Subsidiaries**

**Independent Auditors' Review Report and Condensed Unaudited Consolidated Interim
Financial Statements for the Nine-Month Periods Ended September 30, 2024**

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Independent Auditors' Review Report to the Board of Directors and Stockholders of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and Subsidiaries (Subsidiary of Grupo Financiero Banorte, S.A.B. de C.V.)

Introduction

We have reviewed the accompanying unaudited condensed consolidated interim statement of financial position of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and Subsidiaries (the "Institution") as of September 30, 2024 and the related unaudited condensed consolidated interim statements of income, condensed consolidated interim statements of changes in stockholders' equity and condensed consolidated interim statements of cash flows for the nine-month period ended September 30, 2024, and a summary of significant condensed accounting policies and other explanatory notes for such period. Management is responsible for the preparation and presentation of these unaudited condensed consolidated interim financial statements in accordance with the accounting principles prescribed by the Mexican National Banking and Securities Commission (the "Commission") through the "General Provisions applicable to Credit Institutions" in Circular A-1, "Basic Framework of the Accounting Criteria Applicable to Banking Institutions" and the Circular A-2, "Application of Particular Accounting Standards" (collectively, the Accounting Criteria), which refer to Mexican Financial Reporting Standards ("MFRS") B-9, "Interim Financial Reporting". Our responsibility is to express a conclusion on these unaudited condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with the accounting criteria prescribed by the Commission through the "General Provisions applicable to Credit Institutions".

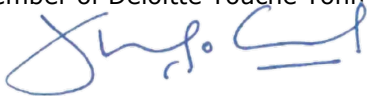


Emphasis of matters

As mentioned in Note 3 the accompanying unaudited condensed consolidated interim financial statements, should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2023. Our conclusion is not modified in respect of this matter.

As described in Note 3, solely for the convenience of readers (i) certain Mexican peso amounts have been translated into U.S. dollar amounts in conformity with the basis stated therein and (ii) the accompanying unaudited condensed consolidated interim financial statements have been translated into English for the convenience of readers. Our conclusion is not modified in respect of this matter.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited



C.P.C. Fernando Nogueta Conde

Registration in the General Administration
Of Federal Tax Audit No. 13204
Monterrey, Nuevo León, México

November 8th, 2024



**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
(SUBSIDIARY OF GRUPO FINANCIERO BANORTE, S.A.B. DE C.V.)
UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2024 (UNAUDITED) AND DECEMBER 31, 2023**
In millions of Mexican pesos (Ps) and in millions of U.S. dollars (US) (See Note 3)

ASSETS	September 30, 2024	September 30, 2024	December 31, 2023
CASH AND CASH EQUIVALENTS	Us. \$5,061	Ps. 99,660	Ps. 100,128
MARGIN SECURITIES (DERIVATIVE FINANCIAL INSTRUMENTS)	200	3,935	4,918
INVESTMENTS IN SECURITIES			
Trading Financial Instrument	7,482	147,335	109,121
Financial Instruments to Collect or Sell	7,651	150,674	161,049
Financial instruments to collect principal and interest	4,817	94,864	94,624
	19,950	392,873	364,794
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	2,330	45,890	83,103
DERIVATIVE FINANCIAL INSTRUMENTS			
For trading purposes	881	17,351	28,791
For hedging purposes	148	2,907	4,442
	1,029	20,258	33,233
LOAN PORTAFOLIO WITH CREDIT RISK STAGE 1			
Commercial loans			
Business loans	20,662	406,873	369,978
Financial institution's loans	2,831	55,744	43,454
Government loans	8,422	165,839	164,035
Consumer loans	9,826	193,490	172,325
Mortgage loans			
Medium and residential	13,292	261,751	248,257
Low-income housing	-	1	2
Loans acquired from INFONAVIT or FOVISSSTE	73	1,443	1,618
TOTAL LOAN PORTAFOLIO WITH CREDIT RISK STAGE 1	55,106	1,085,141	999,669
LOAN PORTAFOLIO WITH CREDIT RISK STAGE 2			
Commercial loans			
Business loans	132	2,602	1,233
Consumer loans	160	3,155	2,935
Mortgage loans			
Medium and residential	178	3,501	3,193
Loans acquired from INFONAVIT or FOVISSSTE	4	74	69
TOTAL LOAN PORTAFOLIO WITH CREDIT RISK STAGE 2	474	9,332	7,430
LOAN PORTAFOLIO WITH CREDIT RISK STAGE 3			
Commercial loans			
Business loans	187	3,689	2,883
Financial institution's loans	7	130	119
Government loans	0	2	7
Consumer loans	232	4,567	4,820
Mortgage loans			
Medium and residential	86	1,694	1,831
Loans acquired from INFONAVIT or FOVISSSTE	17	343	346
TOTAL LOAN PORTAFOLIO WITH CREDIT RISK STAGE 3	529	10,425	10,006
LOAN PORTFOLIO	56,109	1,104,898	1,017,105
(Plus/Minus) DEFERRED ITEMS	153	3,005	2,436
(Minus) ALLOWANCE FOR LOAN LOSSES	(962)	(18,950)	(18,749)
LOAN PORTFOLIO, NET	55,300	1,088,953	1,000,792
ACQUIRED COLLECTION RIGHTS, net	43	843	1,094
TOTAL LOAN PORTFOLIO, net	55,343	1,089,796	1,001,886
OTHER ACCOUNTS RECEIVABLE, net	3,323	65,417	38,352
FORECLOSED ASSETS, net	248	4,892	4,792
ADVANCE PAYMENTS AND OTHER ASSETS, net	211	4,161	4,959
PROPERTY, FURNITURE AND EQUIPMENT, net	1,338	26,341	25,623
ASSETS FOR RIGHTS OF USE OF PROPERTY, FURNITURE AND EQUIPMENT, net	213	4,195	3,795
PERMANENT STOCK INVESTMENTS	76	1,502	1,570
DEFERRED INCOME TAX ASSETS	91	1,785	-
INTANGIBLE ASSETS, net	598	11,771	13,843
GOODWILL	135	2,649	1,497
TOTAL ASSETS	Us. \$90,146	Ps. 1,775,125	Ps. 1,682,493

"See accompanying notes to these unaudited condensed consolidated interim financial statements.



LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 2024	September 30, 2024	December 31, 2023
DEPOSITS			
Demand deposits	Us. \$36,117	Ps. 711,211	Ps. 685,561
Time deposits			
General public	18,869	371,569	332,098
Money market	198	3,905	8,098
Senior debt issued	2,629	51,772	43,718
Global account of deposits without movements	199	3,923	3,656
	58,012	1,142,380	1,073,131
INTERBANK AND OTHER LOANS			
Demand loans	95	1,877	-
Short-term loans	198	3,895	5,525
Long-term loans	362	7,120	4,584
	655	12,892	10,109
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	12,882	253,674	206,018
COLLATERAL SOLD OR PLEDGED			
Repurchase or resale agreements (creditor balance)	2,330	45,890	83,098
DERIVATIVE FINANCIAL INSTRUMENTS			
For trading purposes	927	18,249	21,488
For hedging purposes	95	1,866	2,259
	1,022	20,115	23,747
LEASE LIABILITY	223	4,386	3,835
OTHER ACCOUNTS PAYABLES			
Creditors from settlements of transactions	2,003	39,445	9,465
Creditors from collaterals received in cash	518	10,200	19,747
Contributions payable	81	1,603	1,519
Sundry creditors and other payables	1,092	21,522	31,450
	3,694	72,770	62,181
FINANCIAL INSTRUMENTS THAT QUALIFY AS LIABILITY			
Subordinated debentures	2,667	52,513	55,421
INCOME TAX LIABILITIES	349	6,864	2,501
EMPLOYEE BENEFIT LIABILITY	503	9,897	10,346
DEFERRED CREDITS AND ADVANCED COLLECTIONS	55	1,081	1,140
TOTAL LIABILITIES	82,392	1,622,462	1,531,527



STOCKHOLDERS' EQUITY			
PAID-IN CAPITAL			
Common stock	954	18,795	18,795
Additional paid-in capital	274	5,390	4,500
	1,228	24,185	23,295
OTHER CAPITAL			
Capital reserves	963	18,959	18,959
Retained earnings from prior years	5,838	114,953	115,000
Other comprehensive income			
Result from valuation of securities to collect or sell	(41)	(806)	(969)
Result from valuation of instruments for cash flow hedging	39	762	183
Defined remeasurements for employee benefits	(98)	(1,934)	(1,993)
Cumulative Translation Adjustment	10	191	(191)
	6,711	132,125	130,989
CONTROLLING INTEREST	7,939	156,310	154,284
NON-CONTROLLING INTEREST	(185)	(3,647)	(3,318)
TOTAL STOCKHOLDERS' EQUITY	7,754	152,663	150,966
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	Us. \$90,146	Ps. 1,775,125	Ps. 1,682,493

"See accompanying notes to these unaudited condensed consolidated interim financial 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
Deputy Managing Director – Accounting



**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
(SUBSIDIARY OF GRUPO FINANCIERO BANORTE, S.A.B. DE C.V.)
UNAUDITED CONDENSED CONSOLIDATED INTERIM COMPREHENSIVE INCOME STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023**
In millions of Mexican pesos (Ps) and in millions of U.S. dollars (US) (See Note 3)

	September 30, 2024	September 30, 2024	September 30, 2023
Interest income	Us. \$12,904	Ps. 254,103	Ps. 244,318
Interest expense	(8,812)	(173,517)	(169,758)
NET INTEREST INCOME	4,092	80,586	74,560
Allowance for loan losses	(718)	(14,142)	(12,223)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES	3,374	66,444	62,337
Commission and fee income	1,514	29,808	25,543
Commission and fee expense	(753)	(14,831)	(12,786)
Brokerage revenues	71	1,404	1,735
Other operating income (expenses)	(145)	(2,855)	(3,271)
Non-interest expense	(1,727)	(34,013)	(30,687)
	(1,040)	(20,487)	(19,466)
OPERATING INCOME	2,334	45,957	42,871
Equity in earnings of unconsolidated subsidiaries and associated companies	17	334	138
INCOME BEFORE INCOME TAX	2,351	46,291	43,009
Income tax	(652)	(12,843)	(11,315)
INCOME BEFORE DISCONTINUED OPERATIONS	1,699	33,448	31,694
NET INCOME	Us. \$1,699	Ps. 33,448	Ps. 31,694
Other comprehensive income:			
Financial instruments to collect or sell valuation	9	168	(421)
Result from valuation of instruments for cash flow hedging	29	579	(30)
Defined remeasurements for employee benefits	3	59	67
Cumulative Translation Adjustment	19	383	(125)
	60	1,189	(509)
COMPREHENSIVE INCOME	Us. \$1,759	Ps. 34,637	Ps. 31,185
Attributable net income to:			
Controlling interest	1,725	33,960	31,693
Non-controlling interest	(26)	(512)	1
	Us. \$1,699	Ps. 33,448	Ps. 31,694
Attributable comprehensive income to:			
Controlling interest	1,785	35,149	31,184
Non-controlling interest	(26)	(512)	1
	Us. \$1,759	Ps. 34,637	Ps. 31,185
Earnings per ordinary share	Us. \$0.0012	Ps. 0.0236	Ps. 0.220

See accompanying notes to these unaudited condensed consolidated interim financial statements.

Act. José Marcos Ramírez Miguel
CEO

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Deputy Managing Director – Accounting



**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES**
UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023
(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 to collect and sell	Result from valuation of instruments for cash flow hedging
Balances, January 1, 2023	Ps. 18,795	Ps. 4,651	Ps. 18,959	Ps. 108,126	(Ps. 2,326)	(Ps. 1,571)
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Share repurchase for executive shares' plan payable in equity instruments	-	757	-	-	-	-
Dividends Decreed by the Ordinary General Assembly of Shareholders on April 5 and July 12, 2023	-	-	-	(18,000)	-	-
Total transactions approved by stockholders	-	757	-	(18,000)	-	-
OTHER STOCKHOLDERS' TRANSACTIONS:						
Effect of subsidiaries, affiliates and mutual funds	-	-	-	(11)	-	-
Interest on subordinated obligations	-	-	-	(3,051)	-	-
Total	-	-	-	(3,062)	-	-
COMPREHENSIVE INCOME:						
Comprehensive income	-	-	-	31,693	-	-
OTHER COMPREHENSIVE INCOME:						
Financial instruments to collect or sell valuation	-	-	-	-	(420)	-
Effect of subsidiaries, affiliates and mutual funds	-	-	-	-	(1)	(28)
Cumulative Translation Adjustment	-	-	-	-	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	(2)
Defined remeasurements for employee benefits	-	-	-	-	-	-
Total	-	-	-	31,693	(421)	(30)
Non-controlling interest	-	-	-	-	-	-
Balances, September 30, 2023	18,795	5,408	18,959	118,757	(2,747)	(1,601)
Balances, January 1, 2024	Ps. 18,795	Ps. 4,500	Ps. 18,959	Ps. 115,000	(Ps. 969)	Ps. 183
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Share repurchase for executive shares' plan payable in equity instruments	-	890	-	-	-	-
Dividends Decreed by the Ordinary General Assembly of Shareholders on April 29, July 4, 2024	-	-	-	(31,000)	-	-
Total transactions approved by stockholders	-	890	-	(31,000)	-	-
OTHER STOCKHOLDERS' TRANSACTIONS:						
Interest on subordinated obligations	-	-	-	(3,009)	-	-
Effect of subsidiaries, affiliates and mutual funds	-	-	-	2	(5)	-
Total	-	-	-	(3,007)	(5)	-
COMPREHENSIVE INCOME:						
Comprehensive income	-	-	-	33,960	-	-
OTHER COMPREHENSIVE INCOME:						
Financial instruments to collect or sell valuation	-	-	-	-	355	-
Cumulative Translation Adjustment	-	-	-	-	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	565
Defined remeasurements for employee benefits	-	-	-	-	-	-
Effect of subsidiaries, affiliates and mutual funds	-	-	-	-	(187)	14
Total	-	-	-	33,960	168	579
Non-controlling interest	-	-	-	-	-	-
Balances, September 30, 2024	Ps. 18,795	Ps. 5,390	Ps. 18,959	Ps. 114,953	(Ps. 806)	Ps. 762

See accompanying notes to these unaudited condensed consolidated interim financial statements.



OTHER CAPITAL					
	Defined remeasurements for employee benefits	Cumulative foreign currency translation adjustment	Total Controlling interest	Total Non- controlling interest	Total stockholders' equity
Balances, January 1, 2023	(Ps. 1,924)	(Ps. 37)	Ps. 144,673	Ps. 5	Ps. 144,678
TRANSACTIONS APPROVED BY STOCKHOLDERS:					
Share repurchase for executive shares' plan payable in equity instruments	-	-	757	-	757
Dividends Decreed by the Ordinary General Assembly of Shareholders on April 5 and July 12, 2023	-	-	(18,000)	-	(18,000)
Total transactions approved by stockholders	-	-	(17,243)	-	(17,243)
OTHER STOCKHOLDERS' TRANSACTIONS:					
Effect of subsidiaries, affiliates and mutual funds	-	-	(11)	-	(11)
Interest on subordinated obligations	-	-	(3,051)	-	(3,051)
Total	-	-	(3,062)	-	(3,062)
COMPREHENSIVE INCOME:					
Comprehensive income	-	-	31,693	1	31,694
OTHER COMPREHENSIVE INCOME:					
Financial instruments to collect or sell valuation	-	-	(420)	-	(420)
Effect of subsidiaries, affiliates and mutual funds	-	-	(29)	-	(29)
Cumulative Translation Adjustment	-	(125)	(125)	-	(125)
Result from valuation of instruments for cash flow hedging	-	-	(2)	-	(2)
Defined remeasurements for employee benefits	67	-	67	-	67
Total	67	(125)	31,184	1	31,185
Non-controlling interest	-	-	-	(1)	(1)
Balances, September 30, 2023	(1,857)	(162)	155,552	5	155,557
Balances, January 1, 2024	(Ps. 1,993)	(Ps. 192)	Ps. 154,283	(Ps. 3,318)	Ps. 150,965
TRANSACTIONS APPROVED BY STOCKHOLDERS:					
Share repurchase for executive shares' plan payable in equity instruments	-	-	890	-	890
Dividends Decreed by the Ordinary General Assembly of Shareholders on April 29, July 4, 2024	-	-	(31,000)	-	(31,000)
Total transactions approved by stockholders	-	-	(30,110)	-	(30,110)
OTHER STOCKHOLDERS' TRANSACTIONS:					
Interest on subordinated obligations	-	-	(3,009)	-	(3,009)
Effect of subsidiaries, affiliates and mutual funds	-	-	(3)	-	(3)
Total	-	-	(3,012)	-	(3,012)
COMPREHENSIVE INCOME:					
Comprehensive income	-	-	33,960	(512)	33,448
OTHER COMPREHENSIVE INCOME:					
Financial instruments to collect or sell valuation	-	-	355	-	355
Cumulative Translation Adjustment	-	383	383	-	383
Result from valuation of instruments for cash flow hedging	-	-	565	-	565
Defined remeasurements for employee benefits	59	-	59	-	59
Effect of subsidiaries, affiliates and mutual funds	-	-	(173)	-	(173)
Total	59	383	35,149	(512)	34,637
Non-controlling interest	-	-	-	183	183
Balances, September 30, 2024	(Ps. 1,934)	Ps. 191	Ps. 156,310	(Ps. 3,647)	Ps. 152,663

See accompanying notes to these unaudited condensed consolidated interim financial 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
Deputy Managing Director – Accounting



**BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023**

In millions of Mexican pesos (Ps) and in millions of U.S. dollars (US) (See Note 3)

	September 30, 2024	September 30, 2024	September 30, 2023
Operating activities			
Income before income tax	Us. \$2,351	Ps. 46,291	Ps. 43,009
Adjustments for items associated with investing activities			
Depreciation of property, furniture and equipment	147	2,895	2,414
Amortization of intangible assets	26	505	447
Equity in earnings of unconsolidated subsidiaries and associated companies	(17)	(334)	(138)
Adjustments for items associated with financing activities			
Interest associated with interbank and other loans	42	824	832
Interest associated with financial instruments that qualify as liability	177	3,489	2,168
	375	7,379	5,723
Changes in operating activities:			
Changes in margin accounts (derivative financial instruments)	50	983	(1,487)
Changes in investments in securities (net)	(1,408)	(27,725)	(11,927)
Changes in debtor balances under repurchase and resale agreements (net)	1,890	37,213	(61,802)
Changes in derivative financial instruments (asset)	581	11,440	1,822
Change in loan portfolio (net)	(4,477)	(88,161)	(87,748)
Changes in acquired collection rights (net)	13	251	(233)
Change in other accounts receivables	(1,374)	(27,064)	(10,290)
Change in foreclosed assets	(5)	(100)	331
Change in other operating assets (net)	87	1,717	4,582
Change in deposits	3,517	69,249	124,078
Change in interbank and other loans	99	1,959	(6,117)
Change in creditor balances under repurchase and sale agreements	2,420	47,656	(18,003)
Collateral sold or pledged	(1,889)	(37,208)	63,740
Change in liability position of derivative financial instruments	(164)	(3,239)	(2,539)
Change in other operating liabilities	(3)	(59)	35
Change in hedging instruments related to operations	86	1,702	(1,441)
Change in assets / liabilities for employee benefits	(23)	(449)	402
Change in other account payable	571	11,273	9,794
Income tax payment	(491)	(9,670)	(15,477)
Net cash flows provided by operating activity	2,206	43,438	36,452
INVESTING ACTIVITIES:			
Payments for acquisition of property, furniture and equipment	(265)	(5,212)	(5,433)
Proceeds on disposal of property, furniture and equipment	103	2,030	2,953
Payment on acquisitions of subsidiaries and associated companies	(0)	(3)	(94)
Proceeds for cash dividends	12	234	142
Net cash flows in investment activity	(150)	(2,951)	(2,432)
FINANCING ACTIVITIES:			
Lease liability paid	(25)	(497)	(122)
Payments associated with financial instruments that qualify as equity	(153)	(3,009)	(3,051)
Dividends paid	(1,574)	(31,000)	(18,000)
Payments associated with financial instruments that qualify as liability	(325)	(6,397)	(11,110)
Interest of leasing paid	(15)	(288)	(276)
Net cash flow by financing activity	(2,092)	(41,191)	(32,559)
Net increase in cash and cash equivalents	(36)	(704)	1,461
Effects from changes in the value of cash and cash equivalents	12	236	(120)
Cash and cash equivalents at the beginning of the year	5,085	100,128	107,581
Cash and cash equivalents at the end of the year	Us. \$5,061	Ps. 99,660	Ps. 108,922

See accompanying notes to these unaudited condensed consolidated interim financial statements.

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1 – ACTIVITY AND REGULATORY ENVIRONMENT

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and Subsidiaries (the Institution or Banorte), is a full-banking institution whose main activities are regulated by the Credit Institutions Law (LIC), the Mexican Central Bank (Banco de México) and the Mexican National Banking and Securities Commission (the “Commission”). Its activities consist of receiving deposits, accepting and granting loans and credits, attracting public funds, making investments in securities, carrying out repurchase agreements, performing transactions with derivative financial instruments (futures, swaps, options and forward contracts), together with other fullservice banking operations, in accordance with the LIC. The Subsidiaries' activities are supervised by the Commission.

The Subsidiaries' main activity involves financial operations such as managing retirement funds (until October 17, 2016, the date on which the spin-off of the Institution became effective).

The main regulating aspect compel the Institution to maintain a minimum capitalization index for market and credit 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 Institution complies satisfactorily with all of the above as of September 30, 2024.

By legal provision, the Institution is jointly and unlimitedly liable for the fulfillment of the obligations of the financial entities that are members of the group and unlimitedly for the losses of each and every one of said entities.

The Institution is a 98.26% owned subsidiary of Grupo Financiero Banorte, S.A.B. de C.V. (the Financial Group).

The powers of the Commission in its capacity as banking institutions' regulator include reviewing the Institution's financial information and requesting modifications to such information.

The Institution performs its activities throughout Mexico and until March 2017, in the United States of America.

The Institution's unaudited condensed consolidated interim financial statements have been authorized for issuance by the Board of Directors at their October 29, 2024 meeting.

2 – SIGNIFICANT EVENTS DURING THE YEAR

Issuance of bank stock certificates

On February 15, 2024, the Institution placed the amount of Ps. 13,064 through the issuance of bank stock certificates, in three different issues, under the recurring issuer program for up to Ps. 70,000 or its equivalent in Investment Units (“UDIs”) or any foreign currency, authorized on December 15, 2023 by the Commission.

The characteristics of the issue are the following:

- The BANORTE 24X ticker for an amount of Ps. 4,172 for a 4-year term and TIIE funding rate plus spread of 0.33%.
- The BANORTE 24-2X ticker for an amount of Ps. 3,642 for a term of 7 years and a fixed rate of 9.74%.
- The BANORTE 24UX ticker for an amount of 648 million UDIs (equivalent to Ps.5,249) with a term of 10 years and a rate of 4.90%.



Amortization of BANORTE Bank Bonds 3-23

On March 21, 2024, the Institution exercised the right to fully redeem the BANORTE 3-23 Structured Bank Bonds, issued on April 12, 2023, the amortization amount was Ps. 202.

Amortization of BANORTE Stock Certificates 23-6

On July 5, 2024, the Institution exercised the right to fully redeem the BANORTE 23-6 Structured Bank Bonds, issued on November 9, 2023, the amortization amount was Ps. 10,000.

Acquisition of More Payment Evolution

On August 13, 2024, Uniteller Financial Services, Inc. (UniTeller) closed on the acquisition of More Payment Evolution (More). The acquisition price was valued at \$59 USD and generated goodwill of \$55 USD.

3 – BASIS OF PRESENTATION

Presentation of consolidated financial statements

The unaudited condensed consolidated interim financial statements as of September 30, 2024 and for the nine months ended September 30, 2024 and 2023, have been prepared in accordance with the accounting criteria established by the Commission, which refer to Mexican Financial Reporting Standards ("MFRS") B-9, "Interim Financial Reporting". This interim condensed consolidated report does not include all the notes of the type normally included in an annual consolidated report. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2023.

Monetary unit of the consolidated financial statements

The unaudited condensed consolidated interim financial statements and the corresponding explanatory notes as of September 30, 2024 and for the nine months ended September 30, 2024 and 2023 include balances and transactions in Mexican pesos and purchasing power as of such dates.

Consolidation of financial statements

The accompanying consolidated financial statements include those of Institution and its subsidiaries mentioned below. All significant intercompany balances and transactions have been eliminated in consolidation.

As of September 30, 2024 (unaudited) and December 31, 2023, the Institution's consolidated subsidiaries and its equity ownership is as follows:

	September 30, 2024	December 31, 2023
Administradora de Servicios Profesionales Especializados, S.A. de C.V.	99.99%	99.99%
Casa Servicios Administrativos, S.A. de C.V.	99.60%	99.60%
Bonds Finance Company Limited*	100.00%	100.00%
Fideicomiso BONY 469	100.00%	100.00%
Estrategia en Finanzas & Infraestructura, S.A. de C.V.	99.99%	99.99%
Fideicomiso de coinversión FCICK16-1	97.50%	97.50%
Banorte Financial Services, INC.	100.00%	100.00%
Fideicomiso Bursa GEM 2023	100.00%	100.00%
Tarjetas del Futuro, S.A.P.I. de C.V.	4.99%	4.99%



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.

Conversion of financial statements of Banorte Financial Services, INC. (indirect 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, 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. 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 September 30, 2024 and 2023, comprehensive income includes the net income of the year, the result from valuation of securities to collect and sell; the effect of subsidiaries, affiliates, and mutual funds; the cumulative conversion effect; remeasurements for employee benefits; Interest on subordinated debentures, Commission special accounting criteria and the result from valuation of cash flow hedging instruments and effects of adoption of accounting guidance.

Explanation for translation into English

The accompanying unaudited condensed consolidated interim financial statements have been translated from Spanish into English for the convenience of users. These unaudited condensed consolidated interim financial statements are presented on the basis of accounting practices prescribed by the Commission. Certain accounting practices applied by the Institution may not conform to Mexican Financial Reporting Standards ("MFRS" or individually referred to as *Normas de Información Financiera* or "NIFs") or other accounting principles generally accepted outside of Mexico.

The unaudited condensed consolidated interim financial statements are stated in millions of Mexican pesos ("Ps.") the currency of the country in which the Institution is incorporated and has its principal operations. The translations of Mexican pesos into U.S. dollars ("US") are included solely for the convenience of the readers and have been made at the rate of Ps. 19.6921 per one U.S. dollar according to the closing exchange rate of September 30, 2024, as issued by Banco de México. Such translation should not be construed as representations that the Mexican peso amounts have been, could have been, or could in the future, be converted into U.S. dollars at this rate or at any other rate, if at all.



4 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these unaudited condensed consolidated interim financial statements are the same as those applied in the most recent annual report for the year ended 31 December 2023.

The significant accounting policies of the Institution 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 (MFRS)) 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.

Recognition of the effects of inflation in unaudited condensed consolidated interim financial 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 financial statements.

The cumulative Mexican inflation over the three years prior to 2023 and 2022 was 19.50% and 14.16%, respectively. Therefore, the Mexican economy is considered as non-inflationary. However, assets, liabilities and stockholders' equity as of September 30, 2024 (unaudited) and December 31, 2023 include the restatement effects recorded up through December 31, 2007.

The cumulative Mexican inflation over the three prior years to September 30, 2024 (unaudited) was 11.31% and 15.03%.

Changes in accounting policies

Improvements to MFRS 2024 – The following improvements were issued with entry into force as of January 1, 2024, which do not generate accounting changes.

MFRS C-2.- An entity will classify financial assets based on its business model, among others, as financial instruments receivable or sold (IFCV). The term "financial instruments to collect or sell" is replaced by the term "financial instruments to collect and sell" because the main objective of these must be to obtain a profit from their sale, which will be carried out when the conditions are met. optimal market conditions and in the meantime, collect contractual cash flows; That is, they are held to collect and sell.

MFRS C-10.- Converges with the provisions of IFRS 9, Financial Instruments; Therefore, in the case of hedging a foreign currency risk, a non-derivative financial instrument denominated in that currency may be designated as a hedging instrument, provided that it is not an equity instrument for which an entity has elected to be presented at fair value in Other Comprehensive Income in accordance with MFRS C-2.



Special accounting treatment of the support programs granted by the Holding Company derived from Hurricane Otis

Given the negative impact generated by the hydrometeorological phenomenon with severe impact in the state of Guerrero, Mexico, the Holding Company has determined to support its clients by implementing various support programs that will be applicable to all clients located in the aforementioned state. and subscribe to the program from October 24, 2023 until April 30, 2024, in accordance with the following:

Credit card:

- The support consists of maintain interests from the October 2023 cutoff and recommence interests in May 2024. This applied to the entire State of Guerrero. The accounts that were included were accounts with up to 2 payments due as of October 24, 2023.

Non-revolving consumer credit, housing credit and Pymes

- The support consists of a 6-month deferral without capitalization of interest, during which no payment of capital or interest is required and the term is extended by 6 months. Those credits are considered for all clients domiciled in the State of Guerrero, whose credit risk corresponds to stage 1 and stage 2 as of October 24, 2023.

By virtue of the above, on October 27, 2023, through official letter P307/2023, the Commission issued the Special Accounting Criteria, applicable to credit institutions for the period from October 24, 2023 to April 30, 2024, according to the following:

Those loans with the schemes of single payment of principal at maturity and periodic payments of interest, single payment of principal at maturity and interest at maturity, periodic payments of principal and interest, as well as revolving credits, which are renewed or restructured, were not transferred to the next immediate category with the highest credit risk in terms of what is established in paragraphs 98 to 112 of criterion B-6, the special accounting criterion applied only to credits that as of October 24, 2023 were registered as a credit portfolio with stage 1 and stage 2 credit risk and that the new maturity period does not exceed six months from the expiration date of the original contract.

Additionally, the credits subject to the special accounting criterion were not considered as restructured in accordance with the provisions of paragraph 35 of Criterion B-6, nor were they reported as overdue credits to the credit information institutions.

The amounts that would have been recorded and presented both in the statement of financial position and in the statement of comprehensive income by type of portfolio, if the special accounting criteria had not been applied, as well as the details of the concepts and amounts by type of portfolio, for which the accounting impact has been made due to the application of the special accounting criterion as of September 30, 2024, are shown below:



Concept	Balances with special accounting criteria	Effects on portfolio and allowance	Balances without special accounting criteria
LOAN PORTAFOLIO WITH CREDIT RISK STAGE 1			
Commercial loans	Ps. 628,456	(Ps. 2)	Ps. 628,454
Consumer loans	193,490	(1,161)	192,329
Mortgage loans	263,195	(1,830)	261,365
TOTAL LOAN PORTAFOLIO WITH CREDIT RISK STAGE 1	1,085,141	(2,993)	1,082,148
LOAN PORTAFOLIO WITH CREDIT RISK STAGE 2			
Commercial loans	2,602	-	2,602
Consumer loans	3,155	-	3,155
Mortgage loans	3,575	(2)	3,573
TOTAL LOAN PORTAFOLIO WITH CREDIT RISK STAGE 2	9,332	(2)	9,330
LOAN PORTAFOLIO WITH CREDIT RISK STAGE 3			
Commercial loans	3,821	2	3,823
Consumer loans	4,567	1,161	5,728
Mortgage loans	2,037	1,832	3,869
TOTAL LOAN PORTAFOLIO WITH CREDIT RISK STAGE 3	10,425	2,995	13,420
LOAN PORTFOLIO	1,104,898	-	1,104,898
(+/-) DEFERRED ITEMS	3,005	-	3,005
(Minus) ALLOWANCE FOR LOAN LOSSES	18,950	3,146	22,096
ACQUIRED COLLECTION RIGHTS	843	-	843
LOAN PORTFOLIO	1,089,796	(3,146)	1,086,650
TOTAL ASSETS	1,775,125	(3,146)	1,771,979
Allowance for loan losses (Net income)	14,142	3,146	17,288
NET INCOME	33,448	(3,146)	30,302
TOTAL STOCKHOLDERS' EQUITY	152,663	(3,146)	149,517
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	Ps. 1,775,125	(Ps. 3,146)	Ps. 1,771,979

As of September 30, 2024, the balance of credits subject to program support is Ps. 3,180

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset in such a way that the debit or credit balance is presented in the statement of financial position, as appropriate, if and only if there is the contractual right to offset recognized imports, and the intention to settle the net amount, or to realize the asset and cancel the liability, simultaneously.

Recording of operations

Transactions with securities and repurchase agreements, among others, for its own account or for the account of third parties, are recorded on the date they are agreed, regardless of the date of their settlement.

Financial instruments valuation

To determine the fair value of the positions in financial instruments, both its own and those of third parties, the Institution uses the prices, rates and other market information provided by a price provider authorized by the Commission, except for what refers to the operations with futures, which are valued with the market prices determined by the clearing house of the stock exchange in which they are operated.



Cash and cash equivalents

Cash and cash equivalents are stated and valued at nominal value, except for precious metal coins, which are stated at fair value at the end of the period. Cash and cash equivalents available in foreign currency are valued at the closing of the day exchange rate published by Banco de México at the Consolidated statement of financial position.

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 statement of financial position, 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 September 30, 2024, the Institution maintained standardized derivative and future operations, so cash collateral (cash margin calls) was recognized to ensure compliance with the obligations corresponding to the operations held in markets recognized for the purpose to mitigate the default risk.

Investments in securities

Business model

Pursuant to MFRS C-2, the Institution determined a business model consistent with the management of its investments in financial instruments, in order to classify them properly. The business model is based on the way in which financial instruments are managed to generate cash flows for the Institution when carrying out its activities and not on a particular intention to hold an instrument.

The Institution's business model is determined at a level that reflects how the groups of financial instruments are managed as a whole to achieve a business objective and not based on management's intentions regarding a particular instrument.

The business model for managing financial instruments is based on facts and not on intention. It is typically observable through the activities carried out to achieve the business objective and judgment is applied to determine the business model, since it is not based on a single factor or activity, therefore all the evidence available at the time is considered to do the evaluation.



Derived from the analysis that the Institution carried out to determine the business model, financial instruments are classified as follows:

a) financial instruments to collect principal and interest (IFCPI), whose objective is to collect the contractual cash flows and the terms of the contract consider cash flows on pre-established dates, which correspond only to payments of principal and interest on the outstanding principal amount payment. Due to the above, the IFCPI has loan characteristics and are managed based on its contractual performance. These instruments are valued after their initial recognition at their amortized cost, as established in MFRS C-20.

b) financial instruments to collect or sell (IFCV), the objective is to obtain a possible profit in their sale when it is convenient or to collect the contractual cash flows to obtain a profit for the contractual interest that they generate. These instruments are valued at their fair value through Other Comprehensive Income (ORI); or

c) trading financial instrument (IFN), which are all those investments in financial instruments that do not have the characteristics mentioned in the two previous paragraphs, and are made up of debt or capital financial instruments, whose objective is to obtain a profit between the purchase price and the sale price and not to collect principal and interest, that is, its administration is based on the market risks of said instruments, which are valued at their fair value through results.

For the application of the business model, the Institution performs SPPI tests (Only payments of principal and interest) to the investments in financial instruments, which consist of testing whether the recovery of the flows is represented only by concept of principal and interest.

Trading financial instruments

Trading financial instruments are securities owned by the Institution, 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 Institution 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 Institution.

The trading financial instruments valuation result is recorded in the results of the period.

Financial instruments to collect or sell

Financial instruments to collect or sell 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 collect principal and interest.

They are valued in the same way as trading financial instruments, but with unrealized gains and losses recognized in other comprehensive income in consolidated stockholders' equity.

Financial instruments to collect principal and interest

Financial instruments to collect principal and interest 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 accrued interest.

The provisions of paragraph 41.1.1 numeral 4 of MFRS C-20 regarding the use of the market rate as the effective interest rate in the valuation of the financial instrument to collect principal and interest when both rates are substantially different are not applicable.



The option to irrevocably designate a financial instrument to collect principal and interest upon initial recognition, to be subsequently valued at fair value with effect on net income referred to in paragraph 41.3.4 of MFRS C-20, is not applicable.

General valuation standards

Upon the sale of trading financial instruments, 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 financial instruments to collect or sell, 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.

In the event of reclassifications under section 44 of MFRS C-2 among the different categories of investments in financial instruments, they may be made due to changes in the business model, which must be reported in writing to the Commission within the 10 business days following the authorization issued for such purposes by the Risk Committee, detailing the change in the business model that justifies them.

If securities to collect principal and interest are reclassified as securities to collect and sell, the corresponding valuation result on the reclassification date is recorded in other comprehensive income within stockholders' equity.

In the case of debt instruments reclassified from securities to collect and sell to securities to collect principal and interest, 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 financial instruments 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 7.

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 Institution periodically assesses whether its financial instruments to be collected or sold and its financial instruments to be collected principal and interest present impairment under the expected credit loss method (PCE), in accordance with MFRS C-16, considering the credit risk of them. The PCEs are estimated based on all possible default events in the entire life of the IFCVs and IFCPI.

The PCE are the losses accrued in the IFCV and IFCPI that can be evidenced later in view of their probability of default and their severity of loss. Therefore, its recognition begins from the time the IFC is generated, since there is already a risk of uncollectibility, even if it is minimal at that time.

The Institution evaluates the PCE on the IFCV and IFCPI considering the following:

- a) The PCE are not the losses verified at the date of the financial statements, but the losses accrued in the IFCV and IFCPI that could be evidenced later in view of their probability of default and their severity of loss.



Therefore, its recognition begins when the IFCV and IFCPI are generated, since there is already a risk of uncollectibility, even if it is minimal at that time.

- b) The time value of money; and
- c) Reasonable and supported information that is available without any undue effort or cost at the date of analysis, about past events, current conditions and forecasts of future economic conditions.

In accordance with MFRS C-16, the Institution determines the stage of default of IFCV and IFCPI as follows:

Stage 1: They are all those for which their risk of default has not increased significantly since their initial recognition, up to the date of the financial statements. The Probability of Default (PI) is determined at 12 months.

Stage 2: Includes those that have already shown a significant increase in credit risk from their initial recognition to the date of the financial statements. The PI is determined by the total term.

Stage 3: They are those for which one or more events have occurred that have a detrimental impact on future cash flows. The IP considered for these investments is 100%.

Based on the identification of the three stages of default described the amount of the allowance for PCE is determined. For this, the following steps are applied

- 1) The investments with non-compliance of each of the three previous stages are determined, considering the IP applicable to each stage
- 2) Based on the severity of loss (SP), the recoverable amount (MR) of the defaulted investments is determined, valuing the cash flows that are estimated to be recovered at their present value, with the original effective interest rate; and
- 3) The recoverable amount is compared against the defaulted portfolio determined in step 1 above

The PCE allowance is recognized in the income statement at the time it is determined

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 Institution, 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 Institution, 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 Institution reclassifies the financial asset in the Consolidated Statement of Financial Position as restricted and values it according to the criteria mentioned earlier in this note until the maturity of the repurchase agreement.



The Institution, 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 Institution records it in off Consolidated Statement of Financial position memorandum accounts until the repurchase agreement's maturity, following the guidelines of Circular B-9, "Asset Custody and Management", issued by the Commission.

When the Institution sells the collateral or delivers it as a guarantee, the proceeds from the transaction are recognized, as well as an account payable for the obligation to return the collateral to the reported (initially measured at the agreed price), which is valued, to the case of its sale at fair value or, in the event that it is given as collateral in another repurchase agreement, at its amortized cost (any difference between the price received and the value of the account payable is recognized in the results of the year). For presentation purposes, said account can be offset with the account receivable "Repo debtors" in accordance with the provisions of MFRS B-12.

Derivative financial instruments

The Institution is authorized to perform two types of transactions involving derivative financial instruments:

Transactions to hedge the Institution's open risk position: Such transactions involve purchasing or selling derivative financial instruments to mitigate the risk resulting from one or a group of given transactions.

Transactions for trading purposes: The Institution enters into such transactions as a market participant for reasons other than to hedge its exposed position.

Transactions with derivative 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 Institution'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 Institution in the Consolidated Statement of Financial Position 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 line 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 Statement of financial position are offset when the Institution 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 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 Institution 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 Statement of Financial Position 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 Institution's Consolidated Statement of Financial Positions and to anticipate interest and exchange rate fluctuations, thereby protecting the stockholders' equity.

For hedging derivatives, the Institution 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 Institution documents the hedging transactions As of the date on which the derivative financial instruments are designated as hedging transactions. A file for each transaction is created in order to have documented evidence 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 Institution 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 amount (in absolute terms) from the following items:
 - 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

As the derivative products operated by the Institution are deemed Plain Vanilla, the standard valuation models contained in the Institution’s derivatives operation and risk management systems are used.

All of the valuation methods that the Institution 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 performed 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. As of September 30, 2024, 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 valued 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 Institution participates in the derivatives market with trading purposes, and the risk exposures generated are computed within its overall value at risk limit.

The trading strategy is submitted on a weekly basis to the Institution'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 Institution, 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 Institution's future income and expenses are covered, maximizing its profitability.

Hedging derivatives can be restated entirely or partially due to hedging inefficiencies, maturity or sale of primary position.



Contingencies

To enter the derivatives market, the Institution is bound by an 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 Institution; if the statements stipulated in the contract are incorrect; the Institution's failure to fulfill its obligations and/or payments; breach of contract; the Institution'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 are expired or diminished in value; the Institution'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 Institution 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 Institution's ability to comply.

As of September 30, 2024 (unaudited) and December 31, 2023, 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 Institution prior to January 2011 are from service and leasing contracts established in US dollars.

Loan portfolio

Business model

In accordance with criterion B-6, the Institution has implemented a business model in accordance with the provisions of MFRS C-2 based on the administration and management of the loan portfolio to generate cash flows, with this business model the Institution determines whether the cash flows will come from obtaining contractual cash flows, from the sale of the credit portfolio, or from both.

The business model to administer and manage the loan portfolio is a matter of facts, not an intention or statement. It is typically observable through the activities carried out to achieve the business objective and judgment is applied to determine the business model, since it is not based on a single factor or activity, therefore all the evidence available at the time is considered to do the evaluation.

The loan portfolio is recognized if the objective of the business model is to hold it to collect the contractual cash flows and the terms of the contract provide for cash flows on pre-established dates, which correspond only to payments of principal and interest on the outstanding principal amount payment, in this case the portfolio is valued at amortized cost in accordance with criterion B-6, if the above is not met, it is valued in accordance with the provisions of MFRS C-2.



Loans or loan portfolios previously evaluated, whose contractual conditions are modified and in the case of new products, are submitted to the SPPI tests and are authorized by the Credit Committee of the Institution, it is also communicated in writing to the Commission within the 10 calendar days prior to its application, stating in detail the justification for its classification within the business model for collection of principal and interest, to negotiate or to collect or sell.

The Institution evaluates periodically the business model, in accordance with its established policies for the classification of the portfolio based on the business model. The aforementioned policies are duly documented.

Loan portfolio represents the balance of the amounts effectively granted to borrowers plus accrued interest not collected, less interest collected in advance. The allowance for loan losses is presented by deducting the balances of the portfolio. Transaction costs and commissions charged at the beginning of the loan are recognized separately as a deferred charge or credit, and are presented net in deferred items, as part of the loan portfolio.

Interest collected in advance is recognized as a deferred credit and is presented net of the loan portfolio that originated it.

The unpaid loan balance is classified as stage 1 as follows:

- Loans with single amortization at maturity of principal and interest that accumulate from 0 to 29 calendar days after payment overdue.
- In the case of loans with a single amortization of principal at maturity, but with periodic interest payments, when they accumulate between 0 and 29 days after payment overdue of principal, or between 0 and 30 days after payment overdue in interest payments.
- Commercial loans whose amortization of principal and interest have been agreed in partial periodic payments, when the first amortization is 0 to 30 calendar days after payment overdue, in the case of consumer credits when they accumulate zero arrears or the equivalent of 1 arrears or less.

The unpaid loan balance is classified as stage 2 as follows:

- In the case of commercial loans with a single amortization of principal at maturity, but with periodic interest payments, when interest accumulates from 31 to 89 calendar days after payment overdue.
- Loans whose amortization of principal and interest have been agreed in partial periodic payments, when they are 31 to 89 calendar days after payment overdue in their amortizations, in the case of consumer loans when they accumulate more than 1 arrears or the equivalent of 3 arrears or less.

The unpaid loan balance is classified as stage 3 as follows:

- Loans with single amortization at maturity of principal and interest, 30 calendar days after maturity occurs
- In the case of loans with a single amortization of principal at maturity, but with periodic interest payments, the total principal and interest at 30 and 90 calendar days after payment overdue, respectively.
- Loans whose amortization of principal and interest have been agreed in partial periodic payments, 90 calendar days after payment overdue in their amortizations, in the case of consumer loans when they accumulate more than 3 arrears or 90 or more days after payment overdue in their payments, whichever comes first.
- In the case of revolving loans, when payment has not been made for two periods or they are 90 or more days after payment overdue, in the case of consumer loans when they accumulate more than 3 arrears or 90 or more days in arrears in their payments.
- In the case of overdrafts in customer checking accounts, they are considered as a stage 3 portfolio at the time the overdraft occurs.

Interest is recognized and accrued as income when earned. The accrual of interest income is suspended when loans are transferred to stage 3.



The fees charged for the initial granting, restructuring and renewal of loans, interest collected in advance, as well as the loss from renegotiation, are recorded as a deferred credit, which is amortized against the results of the year as interest income, under the effective interest method, through the application of the effective interest rate, during the life of the credit, except those originating from credit cards that are recognized directly in results.

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, as well as the profit from renegotiation, are stated as a deferred charge, which is amortized against the results of the year as interest income, under the effective interest method, through the application of the effective interest rate, during the life of the credit, except those originating from credit cards that are recognized directly in results.

When a loan is considered to have stage 3 credit risk, the balance pending amortization of transaction costs, as well as commissions charged for the initial granting, restructuring and renewal of credits, and interest collected in advance are recognized in results and, if applicable, the effect of the profit or loss in renegotiation pending amortization against the results of the year.

The restructured or renewed loans that have been transferred to the next immediate risk stage, until the moment in which there is evidence of sustained payment, which is considered when the Institution receives the collection without delay and in its entirety of three consecutive amortizations, in the case of loans with amortizations that cover between 61 and 90 days, the payment of two amortizations, or, the collection of an exhibition in the cases in which the amortization covers periods greater than 90 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 and this period has passed.

When a loan is restructured in stage 1 or 2 and remains in one of those stages, the effect of renegotiation is determined as follows:

- a) The book value of the loan is determined, which corresponds to the amortized cost at the date of the renegotiation,
- b) The new future cash flows are determined on the partially restructured or renewed amount, discounted at the original effective interest rate,
- c) The difference between the book value and the cash flows determined in subparagraph b) above is determined and recognized as a deferred charge or credit against the profit or loss from loan portfolio renegotiation in the statement of comprehensive income.

The determination of profit or loss from renegotiation is not applicable to credit cards, or to credits with stage 3 credit risk.

If the Institution renews a loan, it is considered that there is a new loan, therefore the previous loan is canceled in the event of a total renewal.

Accrued interest during the period in which the loan was included in stage 3 is recognized as income when collected.

The recognition of interest income is renewed when the portfolio is no longer considered stage 3, 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 Institution regularly evaluates whether a stage 3 loan should remain in the Statement of Financial Position or be written off. Such write-offs are done by canceling the outstanding loan balance against the allowance for loan losses. The Institution may opt to eliminate from its assets those stage 3 loans that are 100% provisioned according to the following parameters:

- Commercial loans – Must be classified in stage 3 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.

Write-offs and discounts, that is, the amount forgiven for the payment of the loan partially or totally, is recorded with a charge to allowance for credit risks. In the event that the amount of these exceeds the balance of the estimate associated with the loan, estimates are made up to the amount of the difference.

When the balance of the allowance for credit risks exceeds the amount required under the Provisions, the differential is canceled in the period in which said excesses occur, against the results of the year, affecting the allowance for loan losses.

Allowance for loan losses

As of January 1, 2022, regulatory modifications of the Commission entered into force, regarding the classification and registration of the loan portfolio (Accounting Criterion B-6) for the implementation of the MFRS C-16 (IFRS 9), modifications to the standard methodologies for rating and calculating allowance for loan losses, recalibration of the standard methodologies for calculating the probability of default of the commercial portfolio and changes in the requirements to certify internal models and methodologies for calculating capital requirements for credit risk and estimate of preventive reserves.

Within these modifications, loans are classified into three "Stages" based on their risk: those cataloged within Stage 1 are considered to have no 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. With the above description, for loans classified in Stage 1 and 3, the expected loss was calculated over a 12-month time horizon, while for those loans classified in Stage 2, expected losses were recognized throughout the life of the loan.

Among the most relevant regulatory changes in standard portfolio rating methodologies and in the requirements to certify internal models and methodologies, the following stand out:

Standard methodology

- All portfolios
 - In loans classified as Stage 2, allowances are estimated considering the higher of the expected loss with a 12-month horizon or the expected loss considering the remaining term of the loan.



- Commercial loans
 - The methodologies for determining the Probabilities of Default of all types of borrowers (Governments loans, Financial Holding Companies and Business with Sales of less than 14 million UDIS) are replaced.
 - The methodology for determining the percentage of reserves in loans 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 additionally, the evolution of said Severity of the Loss of credits classified in Stage 3 is modified, which will gradually increase to reach 100% in a period of 36 months after its classification in Stage 3
 - The formulas for estimating the Exposure at Default in committed lines of credit are adjusted
 - In certain exposures, Rebuttal of Stage 2 is allowed when the borrower's delay event 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 impairment in the credit quality of the borrower, in certain exposures the deterioration to a Stage of higher risk is allowed after a quantitative and qualitative analysis, and that is also approved by a collegiate body.

Internal models

In October 2016, the Board of Directors approved the implementation plan for the internal models for calculating reserves and capital requirements for all modelable portfolios, which was sent to the Commission that same year. Pursuant to this implementation plan, the models for the Credit Card, Business and Personal Automotive portfolios were certified.

At the end of 2018, the Commission released the project to migrate standard and internal methodologies under the IFRS 9 approach, but it was not until March 2020 that the definitive rules for Internal Methodologies on the Official Gazette of the Federation (DOF). reserves based on MFRS C-16 (IFRS 9), effective as of January 2021, however, derived from the Covid-19 pandemic, the Commission issued a statement in April 2020, indicating that the rule would be effective as of January 2022.

Due to the foregoing, the Institution adhered to the new regulation and adopted the Internal Reserve Methodologies based on MFRS C-16, requesting in April 2021 the CPR and the Board of Directors, the approval of the new Implementation Plan (Capital and Reserves), which was authorized by the Commission in January 2022 through Official Letter No. 111-2/852/2022.

Therefore, as of January 2022, when the MFRS C16 (IFRS 9) standard came into force, it is being used to calculate preventive reserves for credit risks, both in the Standard Approach and in the Internal Models. Consequently, for the Internal Models there will be estimates for the risk parameters under two approaches: IRB for calculating the capital requirement and MFRS9 for calculating reserves:

- The approach for equity will maintain long-term estimates under Annex 15 of the CUB.
- The approach for reserves captures current behaviors and with a prospective approach (future macroeconomic environment), under Annex 15 Bis of the CUB. In addition, the new methodology indicates that the portfolio must be classified into 3 risk stages, being necessary for stage 2 a reserve calculation for the remaining term.

Given the new guidelines of the CUB on Internal Models, the Commission will only issue an official letter of approval for the use of the methodology for the Calculation of Equity, for a maximum period of 18 months. The use of the internal reserve methodology is authorized by the Board of Directors with the support of the Technical Evaluation made by the Independent Evaluator that guarantees compliance with the model under the standards established in Annex 15 Bis. It should be noted that the Technical Evaluation Report is sent to the Commission for its review, the validity of this model is also for a maximum period of 18 months.



Advanced Internal Model for Credit Card

On November 15, 2017, the Institution obtained approval from the Commission for the use of Internal Models (IM) for Credit Card (TDC) qualification for the constitution of regulatory reserves and capital for credit risk with an advanced approach (Official 111-3/706/2017). Every year, the Internal Models are recalibrated, and the certification is obtained again, and given that, on December 17, 2021, the Commission granted authorization for the use of the MI only for the calculation of capital requirements for a maximum period of 18 months. (Official Letter 111-2/272/2021) and the Board of Directors authorized the use of the reserve methodology based on MFRS C-16 at its meeting held on October 21, 2021. The maximum period of use of the reserve model is also for 18 months.

These internal models improve comprehensive credit risk management, estimating risk parameters through the Institution's experience, and have been applied as of February 2018 (with January figures). The aforementioned parameters are:

- Probability of Default (PD). Indicates the probability that a borrower defaults on his contractual obligations in the following twelve months with respect to the month of qualification. A score is obtained for each credit, which is mapped to a Master rating scale.
- Loss severity (SP). Measures the intensity of the loss at default expressed as a percentage of the Exposure at Default (EI)
- Exposure at Default (EI). It is the amount of the debt at the time of default on a loan, considering a horizon of the following 12 months with respect to the month of qualification.

Advanced Internal Model for Individual Auto Loan

On November 25, 2019, the Institution obtained approval from the Commission for the use of Internal Models (IM) for the qualification of Individuals Auto Loans (Auto PF) for the constitution of regulatory reserves and capital for credit risk with a focus advanced (Official 111/678/2019). Every year, the Internal Models are recalibrated, and the certification is obtained again, and given that, on September 29, 2022, the Commission (Official 111-2/272/2021) granted authorization for the use of the MI only for the calculation of capital requirements for a maximum period of 18 months, and the Board of Directors authorized the use of the reserve methodology based on MFRS-C16 at its meeting on July 21, 2022. The maximum period of use of the reserve model also is for 18 months.

These internal models improve comprehensive credit risk management, estimating risk parameters through the Institution's experience. The aforementioned parameters are:

- Probability of the Default (PI). Indicates the probability that a borrower defaults on his contractual obligations in the following twelve months with respect to the month of qualification. A score is obtained for each credit, which is mapped to a Master rating scale.
- Loss severity (SP). Measures the intensity of the loss at default expressed as a percentage of the Exposure at Default (EI)
- Exposure at Default (EI). It is the amount of the debt at the time of default on a loan, considering a horizon of the following 12 months with respect to the month of qualification.



Basic Internal Model for Business

The Institution obtained on November 30, 2018 from the Commission the approval for the use of the Internal Model for business for the constitution of reserves and regulatory capital requirement for credit risk with a basic approach (Official Letter 111-3/1472/ 2018) in Banorte, and on March 1, 2019 for AyF (Oficios 111-1/160/2019 and 111-1/161/2019). Every year, the Internal Models are recalibrated, and the certification is obtained again, and given that, on December 17, 2021, the Commission granted authorization for the use of the MI only for the calculation of capital requirements for a maximum period of 18 months. for Banorte (Official 111-2/269/2021) and AyF (Official 111-2/267/2021). Likewise, the Board of Directors authorized the use of the reserve methodology based on MFRS C16 at its meeting held on October 21, 2021 for Banorte and on October 20, 2021 for AyF. The maximum period of use of the reservation model is also for 18 months.

The positions subject to those qualification are Business Entities (other than federal entities, municipalities and financial entities) and individuals with business activity, both with annual sales greater than or equal to 14 million UDIs.

The Internal Model improves comprehensive credit risk management, estimating risk parameters through the Institution's experience, and has been applied as of February 2019 (with figures as of January) at Banorte; and as of March 2019 (with figures as of February) in AyF. The authorized parameter under the Basic Internal Model of Companies is:

- Probability of the Default (PI). Indicates the probability that a borrower defaults on his contractual obligations in the following twelve months with respect to the month of qualification. A score is obtained for each credit, which is mapped to a Master rating scale.

Acquired collection rights

This balance is represented by the acquisition cost of the various packages of credit assets acquired by the Institution and are valued at amortized cost through the effective interest method with the effective interest rate.

For purposes of recognition of effective interest, the effective interest rate of the collection rights may be adjusted periodically in order to recognize variations in the estimated cash flows to be received.

The Institution periodically evaluates the estimate of the cash flows expected from the collection rights.

The collection rights acquired by the Institution are considered as financial instruments receivable with high credit risk (stage 3), and cannot be transferred to another stage for any subsequent effect.

Impairment of credit assets.- The Institution performs an evaluation of the expected cash flows periodically during the term of the collection rights, discounts them based on the effective interest rate of each portfolio in accordance with the provisions of the MFRS C-16, in the event that, based on events and information, it is determined that said discounted cash flows will decrease, it constitutes an estimate for irrecoverability or difficult collection against the results of the year, for the amount by which said discounted cash flows are less to the book value of the account receivable.

Other accounts receivable and payable

The Institution 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, which are recorded when entered into and are settled within 48 hours.



Impairment of the value of long-lived assets and their disposal

The Institution 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 gross 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 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 financial instruments 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 financial instruments must be valued in accordance with the provisions of the MFRS C-2 or MFRS C-20, 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 Institution records additional reserves based on management's best estimates. On September 30, 2024, there were no reserves other than those created by the percentage applied based on the accounting criteria that could indicate signs of impairment or 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.

Lease right-of-use assets (net) / Lease liability

Asset for rights of use.

It represents the initial valuation amount of the lease liability, plus the lease payments made in advance, plus the initial direct costs incurred. Subsequently, the right-of-use asset is depreciated monthly in accordance with MFRS C-6 during the life of the lease.

Lease liability.

It represents the present value of future lease payments. Future payments are discounted using a risk-free rate, which is maintained until the end of the lease. The subsequent valuation of the lease liability is at amortized cost.

Permanent stock investments

The Institution 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 Statement of Financial Position under the "Deferred Income taxes, net" line.

Intangible assets

Intangible assets are recognized in the Consolidated Statement of Financial Position provided they are identifiable and generate future economic benefits that are controlled by the Institution. 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 regulatory provisions regarding annual impairment tests.

Goodwill

The Institution 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 MFRS 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 MFRS C-15, "Impairment in the value of long-lasting assets and their disposal." No indicators of impairment of goodwill have been identified as of September 30, 2024.

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 Institution 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.

Provisions

Provisions are recognized when the Institution 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 benefits labor obligations

According to Mexican Federal Labor Law, the Institution has obligations derived from severance payments and seniority premiums payable to employee that cease to render their services under certain circumstances.

Defined benefit plan

The Institution 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 Institution's overall employee, as well as the obligation related to retired personnel.

At the end of 2022, 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 Institution applies the provision of MFRS 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 employee 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 Institution 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 MFRS D-3, because the cost of this plan is equivalent to the Institution'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 Institution 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 Institution can act as the assignor or assignee, as applicable, in this type of transactions. Moreover the Institution 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 Institution grants stock options to key officers through different payment schemes based on stocks. The Institution 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 Institution records its stock option plans according to the guidelines of MFRS D-8, "Share-based payments." The compensation expense is recorded at fair value as of the date the stock options are granted. Pursuant to MFRS D-8 and given that the Institution grants its own stock options, the Institution 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 Institution's general Consolidated Statement of Financial Position, 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 unaudited memorandum accounts 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 Institution 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 Institution 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 Institution.

- Collateral received:



The balance represents all the collateral received in securities repurchase agreement operations when the Institution 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 Institution is acting as the buyer, and which in turn are sold by the Institution acting as the seller.

5 - CASH AND CASH EQUIVALENTS

As of September 30, 2024 (Unaudited) and December 31, 2023, cash and cash equivalents are as follows:

	2024	2023
Cash	Ps. 26,637	Ps. 29,566
Banks	72,988	70,539
Other cash equivalents	35	23
	Ps. 99,660	Ps. 100,128

"Banks" is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de México of Ps. 19.6921 and Ps. 20.5623 as of September 30, 2024 (Unaudited) and December 31, 2023, respectively, and is made up as follows:

	Mexican pesos		USD		Total	
	2024	2023	2024	2023	2024	2023
Call money	Ps. 16,749	Ps. 26,474	Ps. -	Ps. -	Ps. 16,749	Ps. 26,474
Deposits with foreign credit institutions	-	-	10,663	12,662	10,663	12,662
Domestic banks	1,604	2,217	-	-	1,604	2,217
Banco de México	42,463	29,186	1,509	-	43,972	29,186
	Ps. 60,816	Ps. 57,877	Ps. 12,172	Ps. 12,662	Ps. 72,988	Ps. 70,539

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 September 30, 2024 (unaudited), and December 31, 2023, the Institution had made monetary regulation deposits of Ps. 25,929 and Ps. 25,899, respectively.

As of September 30, 2024 (unaudited) and December 31, 2023, the total sum of restricted cash and cash equivalents is Ps. 59,212 and Ps. 34,855, 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.

The exchange rates used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 1,283.12 and Ps. 689.01, per unit, respectively, in 2024; and Ps. 881.395 and Ps. 504.29, per unit, respectively, in 2023.



6 - INVESTMENTS IN SECURITIES

a. Trading financial instruments

As of September 30, 2024 (unaudited) and December 31, 2023, trading financial instruments are as follows:

	2024			
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value
Government securities	Ps. 140,249	Ps. 1,664	Ps. 729	Ps. 142,642
Not restricted	33,736	368	498	34,602
F Bonds	(506)	-	-	(506)
M Bonds	34,978	360	489	35,827
BPA	44	-	-	44
Cetes	(1,313)	-	1	(1,312)
Udibonos	533	8	8	549
Restricted	106,513	1,296	231	108,040
D Bonds	14,807	111	6	14,924
F Bonds	19,513	104	2	19,619
M Bonds	5,799	59	93	5,951
BPA	60,353	1,017	115	61,485
Cetes	5,536	-	30	5,566
Udibonos	505	5	(15)	495
Bank securities	3,459	9	-	3,468
Restricted	3,459	9	-	3,468
CEBUR – development bank	2,062	5	-	2,067
CEBUR – bank	1,000	4	-	1,004
Other bank securities	397	-	-	397
Private securities	397	-	828	1,225
Not restricted	397	-	828	1,225
CEBUR – corporate	13	-	(10)	3
Shares	384	-	838	1,222
	Ps. 144,105	Ps. 1,673	Ps. 1,557	Ps. 147,335

	2023			
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value
Government securities	Ps. 100,988	Ps. 1,129	Ps. 351	Ps. 102,468
Not restricted	5,575	35	189	5,799
F Bonds	63	-	-	63
M Bonds	5,564	35	189	5,788
Udibonos	(52)	-	-	(52)
Restricted	95,413	1,094	162	96,669
D Bonds	9,716	11	3	9,730
F Bonds	19,953	122	11	20,086
M Bonds	3,140	29	59	3,228
BPA	60,914	932	86	61,932
Cetes	1,523	-	(3)	1,520
Udibonos	167	-	6	173
Bank securities	5,546	17	1	5,564
Restricted	5,546	17	1	5,564
CEBUR – development bank	3,117	9	1	3,127
CEDES	2,000	7	-	2,007
Other bank securities	429	1	-	430
Private securities	396	-	693	1,089
Not restricted	14	-	(9)	5
CEBUR – corporate	14	-	(9)	5
Restricted	382	-	702	1,084
Shares	382	-	702	1,084
	Ps. 106,930	Ps. 1,146	Ps. 1,045	Ps. 109,121

As of September 30, 2024 (unaudited) and September 30, 2023, the Institution recognized under “Brokerage revenues” a loss of Ps. 513 and Ps. 279, respectively, for the fair value valuation of these instruments.



As of September 30, 2024 (unaudited) and December 31, 2023, there are Ps. 111,508 and Ps. 102,232, respectively, in restricted trading securities associated mainly with repurchase operations.

b. Financial Instruments to Collect or Sell

As of September 30, 2024 (unaudited) and December 31, 2023, financial instruments to collect or sell are as follows:

	2024			
	Acquisition cost	Accrued interest	Increase (decrease) by valuation	Book value
Government securities	Ps. 117,138	Ps. 1,633	(Ps. 783)	Ps. 117,988
Not restricted	35,559	234	(256)	35,537
M Bonds	7,138	49	153	7,340
BREMs	7,778	9	-	7,787
CEBUR – Government	706	7	(95)	618
Cetes	1,700	-	-	1,700
Eurobonds - Government	12,756	152	(339)	12,569
Udibonos	5,481	17	25	5,523
Restricted	81,579	1,399	(527)	82,451
D Bonds	2,996	22	2	3,020
M Bonds	8,010	191	101	8,302
BPA	38,838	1,006	54	39,898
CEBUR – Government	494	2	(1)	495
Eurobonds - Government	28,255	149	(666)	27,738
Udibonos	2,986	29	(17)	2,998
Bank securities	13,363	161	(253)	13,271
Not restricted	11,330	149	(252)	11,227
CEBUR – development bank	3,197	38	(205)	3,030
CEBUR – bank	2,755	45	(96)	2,704
CEDES	1,500	4	-	1,504
Other bank securities	3,878	62	49	3,989
Restricted	2,033	12	(1)	2,044
CEBUR – development bank	2,033	12	(1)	2,044
Private securities	19,873	276	(734)	19,415
Not restricted	18,023	248	(677)	17,594
CEBUR – corporate	10,338	57	(560)	9,835
CEBUR – Municipality	819	8	26	853
Eurobonos	6,866	183	(143)	6,906
Restricted	1,850	28	(57)	1,821
CEBUR – corporate	200	-	-	200
CEBUR – Municipality	95	2	3	100
Eurobonos	1,555	26	(60)	1,521
	Ps. 150,374	Ps. 2,070	(Ps. 1,770)	Ps. 150,674



	2023			
	Acquisition cost	Accrued interest	Increase (decrease) by valuation	Book value
Government securities	Ps. 117,278	Ps. 2,085	(Ps. 720)	Ps. 118,643
Not restricted	37,240	573	(169)	37,644
M Bonds	6,072	165	188	6,425
BREMs	7,778	24	-	7,802
CEBUR – Government	787	2	(69)	720
Cetes	2,000	-	-	2,000
Eurobonds - Government	7,974	185	(348)	7,811
Treasury Bills	1,670	-	(5)	1,665
Treasury Notes	10,959	197	65	11,221
Restricted	80,038	1,512	(551)	80,999
D Bonds	3,042	3	3	3,048
M Bonds	7,854	64	213	8,131
BPA	41,689	1,093	26	42,808
CEBUR – Government	524	3	(1)	526
Eurobonds - Government	24,311	343	(786)	23,868
Udibonos	2,618	6	(6)	2,618
Bank securities	26,202	193	(245)	26,150
Not restricted	24,169	177	(243)	24,103
CEBUR – development bank	2,834	29	(212)	2,651
CEBUR – bank	2,679	17	(85)	2,611
CEDES	15,000	119	-	15,119
Other bank securities	2,072	12	54	2,138
Promissory Notes	1,584	-	-	1,584
Restricted	2,033	16	(2)	2,047
CEBUR – development bank	2,033	16	(2)	2,047
Private securities	16,854	320	(918)	16,256
Not restricted	14,958	279	(805)	14,432
CEBUR – corporate	6,159	45	(613)	5,591
CEBUR – Municipality	838	11	44	893
Eurobonos	7,961	223	(236)	7,948
Restricted	1,896	41	(113)	1,824
CEBUR – corporate	470	1	-	471
CEBUR – Municipality	100	5	-	105
Eurobonos	1,326	35	(113)	1,248
	Ps. 160,334	Ps. 2,598	(Ps. 1,883)	Ps. 161,049

As of September 30, 2024 (unaudited) and December 31, 2023, there are Ps. 86,316 and Ps. 84,869, respectively, in restricted securities to collect and sell, mainly associated with securities repurchasing transactions.

c. Financial instruments to collect principal and interest

As of September 30, 2024 (unaudited) and December 31, 2023, financial instruments to collect principal and interest are as follows:



Medium and long-term debt securities:

2024			
	Acquisition cost	Accrued interest	Book value
Government securities	Ps. 83,089	Ps. 1,427	Ps. 84,516
Not restricted	37,288	737	38,025
M Bonds	926	21	947
CEBUR – Government	218	2	220
Cetes	4,334	-	4,334
CETES - Specials	36	437	473
Eurobonds - Government	27,471	226	27,697
Udibonos	2,339	35	2,374
Treasury Notes	1,964	16	1,980
Restricted	45,801	690	46,491
M Bonds	15,484	325	15,809
Eurobonds - Government	30,317	365	30,682
Bank securities	25	-	25
Not restricted	25	-	25
CEBUR – Bank	25	-	25
Private securities	10,279	44	10,323
Not restricted	7,691	39	7,730
CEBUR – BORHIS	2	-	2
CEBUR – corporate	1,900	8	1,908
EUROBONOS	4,700	31	4,731
Other private securities	1,089	-	1,089
Restricted	2,588	5	2,593
CEBUR – Municipality	2,588	5	2,593
	Ps. 93,393	Ps. 1,471	Ps. 94,864

2023			
	Acquisition cost	Accrued interest	Book value
Government securities	Ps. 82,593	Ps. 1,124	Ps. 83,717
Not restricted	52,946	901	53,847
F Bonds	2,000	15	2,015
M Bonds	927	6	933
CEBUR – Government	210	-	210
Cetes	3,987	-	3,987
CETES - Specials	36	426	462
Eurobonds - Government	35,838	372	36,210
Treasury Notes	9,948	82	10,030
Restricted	29,647	223	29,870
M Bonds	15,498	115	15,613
CEBUR - Municipality	2	-	2
Eurobonds - Government	14,147	108	14,255
Bank securities	25	-	25
Not restricted	25	-	25
CEBUR – Bank	25	-	25
Private securities	10,824	58	10,882
Not restricted	8,229	49	8,278
CEBUR – BORHIS	2	-	2
CEBUR – corporate	2,400	16	2,416
EUROBONOS	4,700	33	4,733
Other private securities	1,127	-	1,127
Restricted	2,595	9	2,604
CEBUR – Municipality	2,595	9	2,604
	Ps. 93,442	Ps. 1,182	Ps. 94,624

As of September 30, 2024 (unaudited) and December 31, 2023, there are Ps. 48,537 and Ps. 32,473, respectively, in restricted financial instruments to collect principal and interest associated mainly with repurchasing operations.



7 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

As of September 30, 2024 (unaudited) and December 31, 2023, creditor and debtor balances under repurchase agreements are as follows:

Acting as seller of securities

Instrument	2024		2023	
	Repurchase agreement from debtors	Received, sold collateral in repurchase	Repurchase agreement from debtors	Received, sold collateral in repurchase
CETES	Ps. 636	Ps. 636	Ps. 100	Ps. 100
CEBUR – Government	1,490	1,490	5,026	5,020
CEBUR – Development Bank	8,116	8,116	6,120	6,120
IPAB Bonds 28	435	435	2,885	2,886
IPAB Bonds 91	24,169	24,169	20,074	20,074
IPAB Bonds 182	-	-	5,385	5,385
F Bonds	12	12	27,970	27,996
M Bonds			-	-
D Bonds			1,031	1,005
Government Bonds (Fix)	1,276	1,276	2,088	2,088
Udibonos	419	419	-	-
Government securities	36,553	36,553	70,679	70,674
CEBUR – Bank	5,746	5,746	3,311	3,311
CEDES (Fix)	2,633	2,633	6,843	6,843
Others	616	616	341	341
Bank securities	8,995	8,995	10,495	10,495
CEBUR Municipality	25	25	141	141
CEBUR Udis	-	-	287	287
CEBUR corporate	317	317	-	-
CEBUR Udis	-	-	1,501	1,501
Private securities	342	342	1,929	1,929
	Ps. 45,890	Ps. 45,890	Ps. 83,103	Ps. 83,098

With the Institution acting as the vendor, accrued interest were charged to the results of operations for the nine months ended September 30, 2024 (unaudited) and for the nine months ended September 30, 2023 for Ps. 10,514 and Ps. 26,799, respectively, which is presented in the “interest income”.

During 2024, the period of repurchase transactions carried out by the Institution in its capacity as vendor ranged from 1 day to 7 years.



Acting as securities purchaser

Instrument	2024	2023
CEBUR	Ps. 496	Ps. 526
Cetes tax	4,253	1,522
CEBUR – Development Bank	4,111	5,174
UMS (Fix) Bonds - Government	42,490	29,324
IPAB Bonds 28	16,192	15,895
IPAB Bonds 91	43,204	47,160
IPAB Bonds 180	42,185	41,812
Bonds D	17,939	32,990
Bonds F	19,138	-
Government Bonds	29,266	23,312
Udibonds	3,346	2,729
Government securities	222,620	200,444
CEBUR – Bank	1,004	-
Multilateral Financial Organizations	400	433
CEDES	-	2,007
Bank securities	1,404	2,440
CEBUR Municipality	2,650	2,659
CEBUR corporate	27,000	475
Private securities	29,650	3,134
	Ps. 253,674	Ps. 206,018

With the Institution in its capacity as purchaser, accrued interest was charged to the results of operations for the nine months ended September 30, 2024 (unaudited) and for the nine months ended September 30, 2023 (unaudited) of Ps. 28,456 and Ps. 10,982, respectively, and reported under “interest expenses”.

During 2024, repurchase transactions carried out by the Institution in its capacity as purchaser ranged in term from 1 day to 10 years.

8 - DERIVATIVE FINANCIAL INSTRUMENTS

Transactions carried out by the Institution involving derivatives correspond mainly to futures, swaps and options contracts. These transactions are done to hedge various risks and for trading purposes.

The Institution has evaluated the effectiveness of derivatives' transactions for hedging purposes and has concluded that they are highly effective.



As of September 30, 2024 (unaudited) and December 31, 2023, positions in derivative financial instruments are as follows:

Asset position	2024	2023
Forwards		
Foreign currency forwards	Ps. 221	Ps. 939
Options		
Interest rate options	634	899
Shares options	269	81
Foreign currency options	14	14
Swaps		
Interest rate swaps	12,441	18,309
Foreign currency swaps	3,770	8,547
Credit swaps	2	2
Total trading	Ps. 17,351	Ps. 28,791
Swaps		
Foreign currency swaps	1,105	3,701
Interest rate swaps	1,802	741
Total hedging	2,907	4,442
Total position	Ps. 20,258	Ps. 33,233
Liability position	2024	2023
Forwards		
Foreign currency forwards	Ps. 683	Ps. 731
Options		
Interest rate options	529	932
Foreign currency options	224	87
Share options	6	-
Swaps		
Interest rate swaps	7,221	11,960
Foreign currency swaps	9,553	7,765
Credit swaps	33	13
Total trading	18,249	21,488
Swaps		
Interest rate swaps	203	1,151
Foreign currency swaps	1,663	1,108
Total hedging	1,866	2,259
Total position	Ps. 20,115	Ps. 23,747

Trading instruments:

As of September 30, 2024 (unaudited), the trading derivative financial instruments are classified by fair value and the result of the period.

Trading	Book value	Valuation
Forward	(\$463)	(\$667)
Options	158	167
Foreign Currency Swaps	(5,782)	2,301
Interest Rate Swaps	5,219	(1,195)
Credit Swaps	(30)	1



An analysis of undiscounted trading cash flows as of September 30, 2024 (unaudited) is broken down below.

Instrument	Currency	1 year	1 to 5 years	5 to 10 years	More than 10 years
Interest Rate Swap	MXN	(6,336)	(28,001)	(13,258)	(933)
Interest Rate Swap	USD	768	(855)	(91)	21
Foreign Currency Swap	MXN	(2,783)	(24,576)	(11,508)	(1,303)
Foreign Currency Swap	USD	(939)	(2,959)	62	27
Foreign Currency Swap	EUR	-	(52)	(19)	-

As of September 30, 2024 (unaudited), the items hedged by type of coverage and risk are detailed.

Instrument	Book value		Item
	Asset	Liability	
Interest Rate Swaps (Forecast Fund)	-	892	Liability
Interest Rate Swaps (DRM)	689	-	Asset
Interest Rate Swaps (Loans)	1,105	-	Asset
Foreign Currency Swap (UDI Liability)	181	-	Liability
Foreign Currency Swap (Debentures)	798	-	Liability
Foreign Currency Swap (EUR Assets)	-	970	Asset
Foreign Currency Swap (GBP Assets)	-	35	Asset
Foreign Currency Swap (USD Assets)	-	659	Asset

As of September 30, 2024 (unaudited) and December 31, 2023, ORI movements to results from cash flow hedges are detailed.

Instrument	2024	2023
Interest Rate Swaps (Forecast Fund)	Ps. 1,060	Ps. 1,205
Interest Rate Swaps (DRM)	(603)	9
Foreign Currency Swap (ME Asset)	(788)	(986)

The instruments operated and their main underlying instruments are as follows

Forwards	Options	Interest Rate 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 SOFR	Euribor

The risk management policies and internal control procedures to manage the risks inherent to derivatives are described in Note 38.

Transactions carried out for hedging purposes have maturities from 2024 to 2029 and are intended to mitigate the financial risk derived from long-term loans offered by the Institution at fixed nominal rates, as well as the exchange rate risk generated by market instruments in the Institution's portfolio.

As of September 30, 2024 (unaudited) and December 31, 2023, the collateral was comprised mainly of cash. Their fair value is shown in Note 6 d).

As of September 30, 2023 (unaudited) and December 31, 2023, the net earnings from the valuation and realization of derivative financial instruments were (Ps. 955) and Ps. 593, respectively.



The net amount of estimated gains or losses originated by transactions or events recorded within Comprehensive Income As of September 30, 2024 (unaudited) and December 31, 2023 and that are expected to be reclassified to earnings within the next 12 months amounts to (Ps. 37) and ps. 15, respectively.

As of September 30, 2024, the main positions hedged by the Institution and the derivatives designated to hedge such positions are:

Cash flow hedging:

- Forecast funding using TIIE rate Caps and Interest Rate Swaps.
- Cash flow hedge of Banxico's monetary regulation deposits (DRM) using TIIE interest rate swaps.
- Recorded assets and liabilities in foreign currency using Cross Currency Swaps.

As of September 30, 2024, there are 134 coverage files. All hedging relationships are effective as they meet the effectiveness requirements of MFRS C-10.

9 - LOAN PORTFOLIO

Loan portfolio management

As of September 30, 2024 (unaudited) and December 31, 2023, the loan portfolio by loan type is as follows:

	2024			Total
	Stage 1	Stage 2	Stage 3	
Commercial loans				
Denominated in domestic currency				
Commercial	Ps. 288,736	Ps. 2,550	Ps. 3,028	Ps. 294,314
Denominated in USD				
Commercial	118,137	52	661	118,850
Loans to financial institutions				
Consumer loans	55,744	-	130	55,874
Mortgage loans	193,490	3,155	4,567	201,212
Denominated in domestic currency	263,167	3,566	2,034	268,767
Denominated in UDIS	28	9	3	40
Government loans	165,839	-	2	165,841
Total loan portfolio	Ps. 1,085,141	Ps. 9,332	Ps. 10,425	Ps. 1,104,898

	2023			Total
	Stage 1	Stage 2	Stage 3	
Commercial loans				
Denominated in domestic currency				
Commercial	Ps. 274,929	Ps. 1,096	Ps. 2,458	Ps. 278,483
Rediscounted portfolio	5,535	122	-	5,657
Denominated in USD				
Commercial	88,319	15	425	88,759
Rediscounted portfolio	1,195	-	-	1,195
Loans to financial institutions	43,454	-	119	43,573
Consumer loans	172,325	2,935	4,820	180,080
Mortgage loans				
Denominated in domestic currency	249,841	3,250	2,175	255,266
Denominated in UDIS	36	12	2	50
Government loans	164,035	-	7	164,042
Total loan portfolio	Ps. 999,669	Ps. 7,430	Ps. 10,006	Ps. 1,017,105

As of September 30, 2024 (unaudited), the balance of deferred loan origination fees was Ps. 2,424 and the amount recorded in results was Ps. 1,398. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 5,854, and the amount recorded in results was Ps. 2,286.



As of December 31, 2023, the balance of deferred loan origination fees was Ps. 2,546 and the amount recorded in results was Ps. 1,688. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 5,371, and the amount recorded in results was Ps. 2,472.

The average term in which the deferred balance of commissions and costs and expenses will be recognized is equivalent to the average term of the portfolio balances.

The collected fees and costs are presented net in the line item of "Deferred credits and advance collections" within the Consolidated Statement of financial positions as well as in Interest Income and Interest Expenses, respectively, in the Consolidated income statements.

As of September 30, 2024 (unaudited) and December 31, 2023, the balance of written off loans that had been fully reserved as past due was Ps. 13,676 and Ps. 16,725, respectively.

During the nine months ended September 30, 2024 (unaudited) and the nine months ended September 30, 2023 (unaudited), revenues from recoveries of previously written-off loan portfolios were Ps. 1,887 and Ps. 1,928, respectively.

10 - ALLOWANCE FOR LOAN LOSSES

The Institution's portfolio classification, which serves as the basis for recording the allowance for loan losses, is detailed below:

September 30, 2024 (unaudited)							
Required allowances for losses							
	Loan		Financial				
Risk category	portfolio	Companies	Govern	institutions'	Consumer	Mortgage	Total
			ment	loans	portfolio	portfolio	
Risk A1	Ps. 999,190	Ps. 1,077	Ps. 777	Ps. 83	Ps. 1,054	Ps. 202	Ps. 3,193
Risk A2	25,377	34	44	-	457	42	577
Risk B1	45,952	24	53	-	1,344	28	1,449
Risk B2	17,645	27	-	-	732	37	796
Risk B3	14,034	49	-	1	747	7	804
Risk C1	15,380	51	-	-	896	214	1,161
Risk C2	16,184	100	-	-	2,334	240	2,674
Risk D	7,925	729	-	4	1,211	413	2,357
Risk E	7,610	1,016	2	77	4,198	78	5,371
Unclassified	(1,007)	-	-	-	-	-	-
Deferred items	3,005	-	-	-	-	-	-
	Ps. 1,151,295	Ps. 3,107	Ps. 876	Ps. 165	Ps. 12,973	Ps. 1,261	Ps. 18,382
Recorded allowance							Ps. 18,950
Supplement							Ps. 568



2023							
Risk category	Required allowances for losses						
	Loan portfolio	Companies	Government	Financial institutions' loans	Consumer portfolio	Mortgage portfolio	Total
Risk A1	Ps. 903,846	Ps. 1,197	Ps. 795	Ps. 67	Ps. 805	Ps. 201	Ps. 3,065
Risk A2	31,979	134	13	-	399	46	592
Risk B1	37,723	69	4	-	1,065	23	1,161
Risk B2	22,214	25	-	-	955	37	1,017
Risk B3	13,144	61	1	-	651	6	719
Risk C1	16,081	63	-	-	764	212	1,039
Risk C2	12,833	87	-	-	1,225	235	1,547
Risk D	9,678	489	-	5	2,229	416	3,139
Risk E	8,264	1,296	4	32	4,493	76	5,901
Unclassified	(1,135)						
Deferred items	2,436						
	Ps. 1,057,063	Ps. 3,421	Ps. 817	Ps. 104	Ps. 12,586	Ps. 1,252	Ps. 18,180
Recorded allowance	-	-	-	-	-		Ps. 18,749
Supplement	-	-	-	-	-		Ps. 569

The reserve complement is in accordance with the provisions of the general provisions applicable to credit institutions.

As of September 30, 2024 (unaudited) and December 31, 2023, the provisions to cover 100% of the rating base for loan portfolios includes Ps. 000 and Ps. 29,113, respectively, for Guarantees Granted and Credit Commitments, which are recorded in memorandum accounts. Ps. 000 y Ps. 18,749 were also added for loans to related parties consolidated by the Parent Company.

As of September 30, 2024 (unaudited) and December 31, 2023, the estimated allowance for loan losses is determined based on portfolio balances at those dates.

As of September 30, 2024 (unaudited) and December 31, 2023, the allowance for loan losses represents 181% and 187%, 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 September 30, 2024 (unaudited) and December 31, 2023.

Movements in allowance for loan losses

An analysis of the movements in allowance for loan losses is detailed below:

	2024	2023
Balance at the beginning of the year	Ps. 18,749	Ps. 16,961
Increase charged to results	16,067	19,590
Discounts and write-offs	(15,935)	(17,662)
Rebates granted to housing debtors	(39)	(31)
Others	108	(109)
Year-end balance	Ps. 18,950	Ps. 18,749



11 – ASSETS FOR RIGHT OF USE OF PROPERTY, FURNITURE AND EQUIPMENT, NET

The Institution leases computer equipment, furniture and equipment and real estate, agreed upon in previous years.

The asset balance of the right-of-use As of September 30, 2024 (unaudited) and December 31, 2023 is as follows

	2024	2023
Computer equipment	Ps. 4,067	Ps. 27
Real estate	128	3,768
	Ps. 4,195	Ps. 3,795

As of September 30, 2024 (unaudited) and December 31, 2023, the lease liability is made up as follows:

Analysis of Maturity - Undiscounted Contractual Cash Flows

	2024	2023
From zero to five years	Ps. 1,981	Ps. 17
From more than five to ten	232	2,057
ten years and more	2,173	1,761
	Ps. 4,386	Ps. 3,835

The depreciation expense of asset right-of-use recognized in results As of September 30, 2024 (unaudited) and 2023, was Ps. 936 and Ps. 575, respectively.

The interest expense of the lease liability recognized in results As of September 30, 2024 (unaudited) and 2023, was Ps. 287 and Ps. 276, respectively.

Lease payments made in nine months ended September 30, 2024 and 2023 were Ps. 1,128 and Ps. 1,004, respectively.

12 - PERMANENT STOCK INVESTMENTS

Investments in non-consolidated companies and associated companies are valued according to the equity method, as detailed below:

	Share %	2024	2023
McN Investments Ltd.	4.95%	Ps. 1,008	Ps. 1,008
Controladora PROSA, S. A. de C. V.	19.73%	353	431
Fondo Chiapas, S.A. de C.V.	12.09%	-	18
Other	Divers	141	113
		Ps. 1,502	Ps. 1,570

The Institution 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.



13 - DEFERRED TAXES, NET

The tax reported by the Institution 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 statement of financial position accounts, As of September 30, 2024 (unaudited) and December 31, 2023, the Institution has recognized a net deferred tax for Ps. 1,785 and (Ps. 882), respectively, and it is made up as follows:

	2024		2023	
	Temporary Differences	Deferred Effect	Temporary Differences	Deferred Effect ISR
<u>Temporary Differences - Assets</u>				
Allowance for loan losses	Ps. 18,745	Ps. 5,867	Ps. 17,440	Ps. 5,232
Excess of tax over book value of foreclosed and fixed assets	864	284	2,687	825
PTU	1,272	382	1,268	380
Fees collected in advance	3,597	1,079	3,775	1,133
Accounting provisions	4,809	1,443	3,529	1,059
Other assets	6	1	28	8
Total assets	29,293	9,056	28,727	8,637
<u>Temporary Differences - Liabilities</u>				
Advance contributions to the pension fund	5	2	\$5	\$2
Acquisition of Portfolios	843	253	1,094	328
Capitalizable projects' expenses	22,224	6,667	23,618	7,085
Financial instruments valuation	1,165	349	6,963	2,104
Total Liabilities	24,237	7,271	31,680	9,519
Deferred tax, net		Ps. 1,785		(Ps. 882)

As explained in Note 29, the applicable income tax rate is 30% for 2024 and later years.

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 September 30, 2024 (unaudited) and December 31, 2023, a net amount of Ps. 57 was added to deferred taxes determined at a rate of 21% as per the tax law of the USA.

14 - ADVANCE PAYMENTS AND OTHER ASSETS, NET

The balance of advanced payments and other assets As of September 30, 2024 (unaudited) and December 31, 2023 is as follows:

	2024	2023
Payments to amortize	Ps. 1,068	Ps. 635
Various taxes	905	936
advances to suppliers	1,256	2,291
Other assets	932	1,097
	Ps. 4,161	Ps. 4,959



15 - DEPOSITS

Deposits

The liabilities derived from core deposits are made up as follows:

	2024	2023
Demand deposits		
Non-interest bearing checking accounts:		
Cash deposits	Ps. 398,844	Ps. 408,257
Checking accounts in US dollars for individual residents on the Mexican border	4,556	4,417
Demand deposits accounts	11,335	12,238
Interest bearing checking accounts:		
Other bank checking deposit	272,598	237,593
Checking accounts in US dollars for individual residents on the Mexican border	2,336	2,297
Demand deposits accounts	21,541	20,759
	711,210	685,561
Time deposits		
General public:		
Fixed-term deposits	29,159	25,588
Retail time deposits	340,096	304,429
Promissory note with interest payable at maturity PRLV primary market for individuals	177	87
Promissory note with interest payable at maturity PRLV primary market for institutions	124	148
Provision for interest	2,014	1,846
	371,570	332,098
Money market:		
Over the counter promissory notes	3,905	8,098
	3,905	8,098
	375,475	340,196
Senior debt	51,772	43,718
Global account of deposits without movement	3,923	3,656
	Ps. 1,142,380	Ps. 1,073,131

16 - INTERBANK AND OTHER LOANS

The loans received from other banks As of September 30, 2024 (unaudited) and December 31, 2023 is as follows:

	Mexican pesos		Valued in USD		Total	
	2024	2023	2024	2023	2024	2023
Demand deposits:						
Call Money	Ps. 1,877	Ps. -	Ps. -	Ps. -	Ps. 1,877	Ps. -
	Ps. 1,877	Ps. -	Ps. -	Ps. -	Ps. 1,877	Ps. -
Short-term:						
Commercial banking	2,046	2,345	-	-	2,046	2,345
Public trusts	1,645	2,842	186	298	1,831	3,140
Provision for interest	15	40	3		18	40
	3,706	5,227	189	298	3,895	5,525
Long-term:						
Commercial banking	-	-	2,954	32	2,954	32
Public trusts	3,308	3,796	858	756	4,166	4,552
	3,308	3,796	3,812	788	7,120	4,584
	Ps. 8,891	Ps. 9,023	Ps. 4,001	Ps. 1,086	Ps. 12,892	Ps. 10,109



17 - SUBORDINATED DEBENTURES

As of September 30, 2024 (unaudited) and December 31, 2023, the subordinated debentures in circulation are as follows:

	2024	2023
Non-preferred subordinated obligations, non-preferent, perpetual, non-cumulative 10 years callable BANOE91 999999 C10 Notes denominated in USD, with an interest rate of 7.625%. **	Ps. 10,831	Ps. 9,332
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.	1,493	1,380
Non-preferred subordinated obligations, non-preferent, perpetual, non-cumulative 5 years callable NC5 Notes denominated in USD, with an interest rate of 6.750%**	-	10,180
Non-preferred subordinated obligations, non-preferent, perpetual, non-cumulative 10 years callable NC10 Notes denominated in USD, with an interest rate of 7.50%**	9,846	8,483
Non-preferred subordinated obligations, non-preferent, perpetual, non-cumulative 10 years callable NC10 Notes denominated in USD, with an interest rate of 8.375%.	9,846	8,483
Non-preferred subordinated obligations, non-preferent, perpetual, non-cumulative 5 years callable NC10 Notes denominated in USD, with an interest rate of 5.875%.	9,846	8,483
Non-preferred subordinated obligations, non-preferent, perpetual, non-cumulative 10 years callable NC10 Notes denominated in USD, with an interest rate of 6.625%.	10,831	9,332
Accrued interest.	42	19
Issuance and placement expenses.	(222)	(271)
	Ps. 52,513	Ps. 55,421

** Issuance recorded in liabilities and the interest generated by the notes is payable against the results of previous years, given the characteristic established in the obligations to pay the returns at the discretion of the issuer, it is considered a component of equity.

Expenses related to these issuances are amortized based on the effective interest rate during the issuance term. The amount charged to results for amortization amounted to Ps. 106 and Ps.48 for the nine months ended September 30, 2024 (unaudited) and 2023, respectively.

18 - INFORMATION BY SEGMENT

The main operations and balances per concept and/or business segment in the General Statement of financial position and the Income Statement are comprised as follows:

a. Interest and fees income is made up as follows:

September 30, 2024 (unaudited)			
	Interest	Fees	Total
	MXP	MXP	MXP
Cash and cash equivalents	Ps. 6,060	Ps. -	Ps. 6,060
Margin securities	(355)	-	(355)
Investment in securities	23,629	-	23,629
Securities repurchasing and loans	10,514	-	10,514
Hedging transactions	103,957	-	103,957
Commercial loans	54,549	376	54,925
Mortgage loans	18,259	397	18,656
Consumer loans	35,059	626	35,685
Others	1,032	-	1,032
	Ps. 252,704	Ps. 1,399	Ps. 254,103



September 30, 2023 (unaudited)			
	Interest	Fees	Total
	MXP	MXP	MXP
Cash and cash equivalents	Ps. 5,471	Ps. -	Ps. 5,471
Margin securities	(486)	-	(486)
Investment in securities	21,067	-	21,067
Securities repurchasing and loans	10,982	-	10,982
Hedging transactions	110,570	-	110,570
Commercial loans	49,228	295	49,523
Mortgage loans	16,328	335	16,663
Consumer loans	29,683	618	30,301
Others	227	-	227
	Ps. 243,070	Ps. 1,248	Ps. 244,318

b. The composition of interest expense, segmented by type of deposit, is as follows:

September 30, 2024 (unaudited)				September 30, 2023 (unaudited)		
	MXP	F.E.	Total	MXP	F.E.	Total
Immediately Due and Payable Deposits:						
Checking accounts	Ps. 14,121	Ps. -	Ps. 14,121	Ps. 11,404	Ps. -	Ps. 11,404
Savings accounts	504	-	504	405	-	405
	14,625	-	14,625	11,809	-	11,809
Time Deposits:						
General public	22,424	-	22,424	17,247	-	17,247
Money market	500	-	500	994	-	994
	22,924	-	22,924	18,241	-	18,241
Total	Ps. 37,549	Ps. -	Ps. 37,549	Ps. 30,050	Ps. -	Ps. 30,050

c. The composition of interest and commission expense, segmented by type of loan, is as follows:

September 30, 2024 (unaudited)				September 30, 2023 (unaudited)		
	MXP	F.E.	Total	MXP	F.E.	Total
Call money	Ps. 104	Ps. -	Ps. 104	Ps. 5	Ps. -	Ps. 5
Banco de México	-	-	-	6	-	6
Commercial banks	74	-	74	79	-	79
Development banking	643	-	643	739	-	739
Provision for interest	2	-	2	2	-	2
Total	Ps. 823	Ps. -	Ps. 823	Ps. 831	Ps. -	Ps. 831

d. The Intermediation income for the nine months ended September 30, 2024 (unaudited) and 2023 (unaudited) are as follows:

	2024	2023
Intermediation income:		
Spot foreign currency	Ps. 10,487	(Ps. 4,653)
Derivative financial instruments	(8,522)	525
Investments in securities	207	423
Valuation	2,172	(3,705)
Purchase-sales result, net		
Spot foreign currency	(1,194)	5,276
Derivative financial instruments	44	334
Investments in securities	382	(170)
Purchase-sales	(768)	5,440
Total Intermediation income	Ps. 1,404	Ps. 1,735



19 - INCOME TAXES

The Institution is subject to Income Tax (ISR). Pursuant to the 2014 ISR Law the rate for September 30, 2024 (unaudited) and December 31, 2023 was 30% and will continue at the same rate for subsequent years.

Reconciliation of the accounting and tax result

The main items that affected the determination of the current tax expense of the Institution were the annual adjustment for inflation, the deduction in the exercise of the write-offs of the loan portfolio and the valuation of financial instruments.

Reconciliation of the ISR legal rate and the effective rate expressed as a percentage of the income before ISR and PTU is:

	September 30, 2024 (unaudited)	September 30, 2023 (unaudited)
Legal rate	30%	30%
Tax inflation	(3%)	(3%)
Non-tax accounting write-offs	2%	1%
Interest on subordinated	(3%)	(3%)
Other items	2%	1%
Effective rate	28%	26%

20 - DISCLOSURE OF FAIR VALUE

The level of the fair value hierarchy is determined based on the input data and the valuation methodologies used, and is divided into:

- Level 1: are those instruments whose input data are quoted prices, stock market closing prices, facts or position in active markets. These data represent reliable evidence for the determination of fair value without the need to be adjusted.
- Level 2: when the price or input data used to calculate the fair value is that of an instrument similar to the valued one. Also included are those instruments that, despite the existence of quoted prices in the market, do not have transactions on the valuation date or that such transactions are not of a considerable volume.
- Level 3: these are financial instruments whose fair value was calculated using input data that are not available in the market or that are not observable.

As of September 30, 2024 (unaudited) and December 31, 2023, the Institution determined the fair values of its assets and liabilities, as well as the amount corresponding to each fair value hierarchy level classification as shown in the following table:

Asset	As of September 30, 2024		Level 1	Level 2	Level 3	As of December 31, 2023		Level 1	Level 2	Level 3
Derivatives – Trading										
Forwards	Ps.	220		220		Ps.	939	Ps.	939	Ps.
Options		918		918			998		998	
Swaps		16,214		16,214			26,854		26,854	
Derivatives – Hedge										
Swaps	Ps.	2,907		2,907		Ps.	4,442	Ps.	4,442	Ps.
Investment in securities										
Trading financial instrument	Ps.	147,335	58,187	88,521	627	Ps.	109,121	Ps.	24,327	Ps.
Financial Instruments to Collect or Sell		150,674	75,737	74,886	51		161,049		86,678	
Total	Ps.	318,268	133,924	183,666	678	Ps.	303,403	Ps.	98,638	Ps.
									204,161	Ps.
										604



Liability	As of September 30, 2024		Level 1	Level 2	Level 3	As of December 31, 2023		Level 1	Level 2	Level 3
Derivatives – Trading										
Forwards	Ps.	683		683		Ps.	731	Ps.	-	Ps. 731
Options		760		760			1,024	-	1,024	-
Swaps		16,807		16,807			19,733	-	19,733	-
Derivatives – Hedge										
Swaps	Ps.	1,866		1,866		Ps.	2,259	Ps.	-	Ps. 2,259
Total	Ps.	20,116		20,116		Ps.	23,747	Ps.	-	Ps. 23,747

- **Input data and valuation techniques for assets and liabilities classified as level 2 and level 3**

The following table shows the valuation techniques and the observable and unobservable input data used to determine the fair value of those assets and liabilities classified as level 2 and level 3, as well as the figures corresponding to September 30, 2024 (unaudited) and December 31, 2023:

Asset

	As of September 30, 2024				As of December 31, 2023						
Concept	Level 2		Level 3		Level 2		Level 3		Valuation methodology	Observable input data	Non-observable input data
Derivatives – Trading	Ps.	17,427	Ps.	-	Ps.	28,926	Ps.	-			
Forwards		219		-		939		-	- Net present value	<u>Net present value:</u> - Spot exchange rate - Forward points - Market interest rates	
Currency		219		-		939		-			
Options		918		-		1,003		-	Black Model	<u>Black Normal/Lognormal model:</u> - Market interest rates - Embedded volatility	
Interest rate		635		-		908		-	Normal/Lognormal		
									Black-Scholes Model	<u>Black-Scholes model:</u> - Spot exchange rate - Market interest rates - Embedded volatility - Dividends	
Index		14		-		14		-			
									Black-Scholes Model	<u>Black-Scholes model:</u> - Spot exchange rate - Market interest rates - Forward points - Embedded volatility FX	
Currency		269		-		81		-			
Swaps		16,290		-		26,984		-			
Interest rate		12,519		-		18,426		-	Net Present Value	<u>Net present value:</u> - Market interest rates	
									Net Present Value	<u>Net present value:</u> - Market interest rates - Spot exchange rate - Forward points	
Currency		3,769		-		8,556		-			
									Default Intensity Model	<u>Default intensity model:</u> - Market interest rates - Market credit spread - Recovery rate	
Credit		2		-		2		-			
Derivatives – Hedge	Ps.	2,915	Ps.	-	Ps.	4,444	Ps.	-			
Swaps		2,915		-		4,444		-			
Interest rate		1,112		-		742		-	Net Present Value	<u>Net present value:</u> - Market interest rates	
									Net Present Value	<u>Net present value:</u> - Market interest rates - Spot exchange rate - Forward points	
Currency		1,803		-		3,702		-			



Concept	As of September 30, 2024				As of December 31, 2023				Valuation methodology	Observable input data	Non-observable input data
	Level 2	Level 3	Level 2	Level 3	Level 2	Level 3	Level 2	Level 3			
XVA	Ps.	(86)	Ps.	-	Ps.	(137)	Ps.	-			
Forwards		-		-		-		-	<u>Probability of Default:</u> - Default Intensity Model	- Market credit spread - Market loss severity - Interest rate volatility - Market interest rates - Spot exchange rate - Forward points - Embedded volatility	- Synthetic credit spread - Historical values - Correlations between market variables
Options		(1)		-		(5)		-	<u>Synthetic credit spread:</u> - Global CDS data regression model		
Swaps – Trading		(77)		-		(130)		-	<u>Exposures:</u> - Hull-White Model - Black-Scholes Model - CIR Model		
Swaps – Hedge		(8)		-		(2)		-			
Investment in securities	Ps.	163,407	Ps.	-	Ps.	170,928	Ps.	604			
Trading financial instrument		88,521		-		84,250		544			
Bank		3,469		-		5,564		-	Net present value	<u>Net Present Value:</u> - Market rate on the valuation day - Weighted bank funding rate - Exchange rate	
Government		85,052		-		78,686		-	Net present value	<u>Net Present Value:</u> - Market rate on the valuation day - Exchange rate	
Private		-		-		-		544	Net Present Value Indicative Net Asset Value Basket price of financial assets and liabilities Last observable price Value in books Comparable Multiples Method Value relative to similar issues	<u>Indicative Net Asset Value:</u> - Theoretical price of the TRAC on the day before the valuation - Closing of the TRAC the day before the valuation - Closing of the TRAC on the valuation day <u>Last Observed Price:</u> - Last share price <u>Value in books:</u> - Valuation to the millionth <u>Comparable multiples method:</u> - Exchange rate - Market value <u>Value with respect to similar emissions:</u> - Price of the similar instrument	<u>Basket price of financial assets and liabilities:</u> - Acquired financial assets - Administrative and placement expenses - Adjustment for rights decreed that affect the shareholding structure <u>Value in books:</u> - Book value at valuation date - Last observed price of the share - Book value at the date of the last observed price <u>Comparable multiples method:</u> - Control premium - Liquidity discount - Company value

Concept	As of September 30, 2024		As of December 31, 2023		Valuation methodology	Observable input data	Non-observable input data
	Level 2	Level 3	Level 2	Level 3			
Financial Instruments to Collect or Sell	74,886		86,678	60			
Bank	12,665		26,152	-	Net present value	<u>Net Present Value:</u> - Market rate on the valuation day - Weighted bank funding rate - Exchange rate	
Government	47,252		51,180	-	Net present value	<u>Net Present Value:</u> - Market rate on the valuation day - Exchange rate	
Private	14,969		9,346	60	Net present value Reiner-Rubinstein Cash or Nothing Prepayment method	<u>Net Present Value:</u> - Market rate on the valuation day - Exchange rate <u>Reiner-Rubinstein Cash or Nothing:</u> - Market bank interest rate - Implied volatility	



Prepayment Method:
- Auction price
- Market rate on the valuation day
- History of amortizations
- Exchange rate

Total	Ps.	183,663	Ps.	204,161	Ps.	604			
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Liabilities

Concept	As of September 30, 2024				As of December 31, 2023				Valuation methodology	Observable input data	Non-observable input data
	Level 2	Level 3	Level 2	Level 3	Level 2	Level 3	Level 2	Level 3			
Derivatives – Trading	Ps.	18,430	Ps.	-	Ps.	21,687	Ps.	-			
Forwards		683		-		730		-			
Currency		683		-		730		-	Net present value	<u>Net Present Value:</u> - Spot exchange rate - forward points - Market interest rates	
Options		774		-		1,045		-			
Interest rate		544		-		958		-	Normal Black Model /NormalLog	<u>Black Normal/Lognormal model:</u> - Market interest rates - Implied volatility	
Index		6		-		-		-	Black-Scholes Model	<u>Black-Scholes model:</u> - Spot price of the index - Market interest rates - Implied volatility - Dividends	
Currency		224		-		87		-	Black-Scholes Model	<u>Black-Scholes model:</u> - Spot exchange rate - Market interest rates - Forward Points - Implied FX Volatility	

Concept	As of September 30, 2024				As of December 31, 2023				Valuation methodology	Observable input data	Non-observable input data
	Level 2	Level 3	Level 2	Level 3	Level 2	Level 3	Level 2	Level 3			
Swaps	16,973	-	19,912	-							
Interest rate	7,353	-	12,128	-					Net Present Value	<u>Net Present Value:</u> - Market interest rates	
Currency	9,587	-	7,771	-					Net Present Value	<u>Net Present Value:</u> - Market interest rates - Spot exchange rate - Forward Points	
Credit	33	-	13	-					Default intensity model	<u>Default intensity model:</u> - Market interest rates - Market Credit Spread - Recovery rate	
Derivatives – Hedge	Ps.	1,878	Ps.	-	Ps.	2,277	Ps.	-			
Swaps		1,878		-		2,277		-			
Interest rate		204		-		1,152		-	Net Present Value	<u>Net Present Value:</u> - Market interest rates	
Currency		1,674		-		1,125		-	Net Present Value	<u>Net Present Value:</u> - Market interest rates - Spot exchange rate - Forward Points	
XVA	Ps.	(192)	Ps.	-	Ps.	(215)	Ps.	-			
Forwards		-		-		1		-	<u>Probability of default:</u> - Default intensity model		
Options		(15)		-		(21)		-	<u>Synthetic credit spread:</u> - Global CDS data regression model	- Market credit spread - Severity of market loss - Volatility of interest rates - Market interest rates - Spot exchange rate - forward points - Implied volatility	- Synthetic credit spread - Historical values - Correlations between market variables
Swaps – Trading		(165)		-		(178)		-	<u>Exhibitions:</u> - Hull-White model - Black-Scholes model		
Swaps – Hedge		(12)		-		(17)		-	IRC model		



- Transfers of amounts between classifications of level 1 and level 2 of the determination of fair value

The conditions to recognize the transfer from level 1 to level 2 will be considered in accordance with the instrument:

Investments in securities

When there are no facts or positions for the operations, and the price is determined through the movement of the price of similar instruments, the price of the previous period is considered, there is no market information on the instrument, no fact is presented for the amount minimum required, some theoretical adjustment is made to the surcharge or the instrument changes range, it is considered that there is a transfer to level 2 of the hierarchy.

Derivative financial instruments

In the case of derivatives, the prices of derivatives quoted on derivatives exchanges through clearing houses are considered as level 1 of the hierarchy. Therefore, if there is no information in the market and the price is estimated or the last observable price is taken, the transfer to level 2 of the fair value hierarchy will be recognized.

As of September 30, 2024, no transfers were made between Level 1 and Level 2 of the fair value hierarchy within the assets and liabilities held by the Institution.

- Description of valuation techniques for assets and liabilities classified as level 3

As of September 30, 2024, the Institution maintains investments in financial instruments classified as collect and sell, negotiable financial instruments and derivative financial instruments classified as level 3, whose valuation techniques are described below:

Investments in securities

The recorded fair value of investments in financial instruments and their fair value hierarchy is obtained from the vector of prices of the Integral Price Provider (PiP). The valuation techniques used for those instruments classified as level 3 of the fair value hierarchy are as follows:

- Net present value: the flows are projected based on the characteristics of the instrument, discounting them with a market discount rate.
- Last observable price: if there is no price on the valuation date, the last price issued will be maintained until there is a publication by an independent appraiser, a corporate event or a change in the information reported by the Entity.
- Price of basket of financial assets and liabilities: the net value between the Entity's financial assets and liabilities is considered, dividing the result by the number of titles issued.
- Book value: when a share has not operated or been suspended for more than 20 days, will be considered its book value. Depending on the case, the corresponding method will be applied:
 - *Without operation*: the last price determined will be taken between the book value on the date the last price was determined, multiplied by the book value on the valuation date.
 - *Suspended*: if the Entity delivered its financial information in the last 4 quarters, a percentage of the book value will be taken based on the time that the shares have been suspended. Time will be considered in quarters, taking 75% of the value if the shares have been suspended for a quarter, 50% of the value if they have been suspended for two quarters, 25% if they have been suspended for three quarters and 10% if they have been suspended for 4 quarters. If you did not provide your financial information, there are two options: (1) if you updated your financial information, 10% of the book value will be considered as fair value of the share; (2) if you did not update your financial information, the share will be valued at one millionth (0.000001).



- **Comparable multiples method:** based on market information, the last transaction carried out is obtained. Said value is adjusted by means of a discount for lack of control and a discount for illiquidity, which are obtained as follows:
 - *Discount for lack of control:* first, the control premium is determined based on comparable companies, to later infer the discount for lack of control.
 - *Illiquidity discount:* comparable companies are considered, from which the ratio of the company's market value and sales in the last 12 months of each one is obtained. An average of these ratios is obtained and multiplied by the Institution's estimated income for the last 12 months to obtain the enterprise value. With said enterprise value, income and cash figures, said discount is obtained using the Damodaran formula.

Likewise, the movements for the determination of fair value classified in level 3 as of September 30, 2024 (unaudited) and December 31, 2023 are disclosed:

Concepts	2024	2023
Initial balance	Ps. 643	Ps. 861
Change in profit and loss recognized in the income statement	44	(89)
Change in profit and loss recognized in OCI	(8)	(168)
Transfers to/from Level 3	-	-
Final balance	Ps. 679	Ps. 604

21 - STOCKHOLDERS' EQUITY

The Institution's shareholders' common stock as of September 30, 2024 (unaudited) and December 31, 2023 is comprised as follows:

	Number of shares with a nominal value of Ps. 0.10	
	September 30, 2024	December 31, 2023
	Paid-in Capital	Paid-in Capital
"O" Series	144,199,022,252	144,197,415,428

	Historical Amounts	
	September 30, 2024 (unaudited)	December 31, 2023
"O" Series	Ps. 14,420	Ps. 14,420
Restatement in Mexican pesos through December 2007	4,375	4,375
	Ps. 18,795	Ps. 18,795

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 Institution 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 are subject to additional 10% ISR which will be withheld by the Institution.



The Institution's net profit is subject to Art. 99 A of the LIC that requires that net income of each year be transferred to the legal reserve until the reserve equals 10% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Institution, except in the form of a stock dividend. As of September 30, 2024 (unaudited) and December 31, 2023, the legal reserve is Ps. 18,796, and represents 100% and 91% of paid-in capital, respectively.

Share-based payments

As of September 30, 2024 (unaudited) and September 30, 2023 (unaudited), the Institution recorded Ps. 681 and Ps. 624, respectively, in administration expenses as compensation for share-based payments against paid-in capital.

As of September 30, 2024 (unaudited) and December 31, 2023, the shares that the Institution has assigned to its executives through various share-based plans with shares that it has structured and that are pending exercise are 17,040,356 and 25,382,036, respectively. The weighted share's average price for all the plans during the 2023 and 202 was Ps. \$81.1441 and Ps. \$81.1441 pesos per share, respectively.

During September 30, 2024 and December 31, 2023, 9,741,680 and 9,741,680 shares were operated, respectively.

Annex I-O Disclosure of information related to capitalization (Unaudited)

Capitalization ratio (information corresponding to Banco Banorte, figures in millions of pesos)

The principal purpose of these disclosures is to meet the directives by the Central Bank of Mexico (Banxico) directives on public disclosures under the Basel III framework.

This document comprises of the bank's capital and risk management disclosures as of September 30th 2024. During 2021, Banorte was designated as a Locally Systemic Important Bank of II Degree, for which it must comply with a capital buffer of 0.90 pp. With the latter, the total capital ratio has a minimum required level of 11.40%.

The bank's total capital ratio as of September 30th 2024 was 19.23% when considering its total risk (market, credit and operational) and 27.97% when considering only credit risk, with both exceeding the minimum regulatory requirements. As such, the institution has a Level I classification level regarding the total capital ratio required by CNBV.

I. Composition of Capital

Table I.1

Ref	Common Equity Tier 1 capital: instruments and reserves	Million MXN
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	24,184
2	Retained earnings	81,358
3	Accumulated other comprehensive income (and other reserves)	50,448
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	N/A
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	N/A
6	Common Equity Tier 1 capital before regulatory adjustments	155,990
	Common Equity Tier 1 capital: regulatory adjustments	
7	Prudential valuation adjustments	N/A
8	Goodwill (net of related tax liability)	1,151
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	8,216
10 (conservative)	Deferred tax assets excluding those arising from temporary differences (net of related tax liability)	-



11	Cash flow hedge reserve	762
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	N/A
15	Defined benefit pension fund net assets (net of related tax liability)	-
16 (conservative)	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17 (conservative)	Reciprocal cross holdings in common equity	-
18 (conservative)	Non-significant investments in the capital of banking, financial and insurance entities, net of eligible short positions (amount above 10% threshold)	-
19 (conservative)	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	3,766
20 (conservative)	Mortgage servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	N/A
23	of which: significant investments in the common stock of financials	N/A
24	of which: mortgage servicing rights	N/A
25	of which: deferred tax assets arising from temporary differences	N/A
26	Derogated	
A	of which: Accumulated other comprehensive income (and other reserves)	192
B	of which: Investments in subordinated debt	-
C	of which: Securitisation gain on sale	-
D	of which: Investments in multilateral organizations	-
E	of which: Investments in related parties	-
F	of which: Investments in capital risk	-
G	of which: Investments in fund investments	-
H	of which: Own shares acquisition funding	-
I	of which: Contravening depositions operations	-
J	of which: Deferred liabilities and advances	4,670
K	of which: First loss positions	-
L	of which: Deferred profit sharing	-
M	of which: Relevant related parties	-
N	of which: Defined benefit pension fund net assets	-
O	Derogated	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-
28	Total regulatory adjustments to Common Equity Tier 1	17,650
29	Common Equity Tier 1 capital (CET1)	138,340
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	51,199
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	N/A
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-



34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	N/A
35	of which: instruments issued by subsidiaries subject to phase out	N/A
36	Additional Tier 1 capital before regulatory adjustments	54,293
	Additional Tier 1 capital: regulatory adjustments	
37 (conservative)	Investments in own Additional Tier 1 instruments	N/A
38 (conservative)	Reciprocal cross holdings in Additional Tier 1 instruments	N/A
39 (conservative)	Non-significant investments in the capital of banking, financial and insurance entities, net of eligible short positions (amount above 10% threshold)	N/A
40 (conservative)	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	N/A
41	Other deductions from Tier 1 capital	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	N/A
43	Total regulatory adjustments to Additional Tier 1 capital	-
44	Additional Tier 1 capital (AT1)	51,199
45	Tier 1 capital (T1 = CET1 + AT1)	189,539
	Tier 2 capital: instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	1,493
47	Directly issued capital instruments subject to phase out from Tier 2	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	N/A
49	of which: instruments issued by subsidiaries subject to phase out	N/A
50	Provisions	718
51	Tier 2 capital before regulatory adjustments	2,211
	Tier 2 capital: regulatory adjustments	
52 (conservative)	Investments in own Tier 2 instruments	N/A
53 (conservative)	Reciprocal cross holdings in Tier 2 instruments	N/A
54 (conservative)	Non-significant investments in the capital of banking, financial and insurance entities, net of eligible short positions (amount above 10% threshold)	N/A
55 (conservative)	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	N/A
56	Other deductions from Tier 2 capital	-
57	Total regulatory adjustments to Tier 2 capital	-
58	Tier 2 capital (T2)	2,211
59	Total capital (TC = T1 + T2)	191,750
60	Total risk-weighted assets	997,350
	Capital ratios	
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	13.87%
62	Tier 1 (as percentage of risk-weighted assets)	19.00%
63	Total capital (as percentage of risk-weighted assets)	19.23%
64	Buffer requirement (minimum CET1 requirement plus capital conservation buffer plus G-SIB buffer requirement plus DSIB buffer requirement expressed as a percentage of risk-weighted assets)	7%
65	of which: capital conservation buffer requirement	2.50%
66	of which: bank specific countercyclical buffer requirement	0.0001%



67	of which: G-SIB buffer requirement	0.90%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	5.97%
	National minima (where different from Basel III)	
69	Common Equity Tier 1 minimum ratio	N/A
70	Tier 1 minimum ratio	N/A
71	Total capital minimum ratio	N/A
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financials	N/A
73	Significant investments in the common stock of financials	N/A
74	Mortgage servicing rights (net of related tax liability)	N/A
75	Deferred tax assets arising from temporary differences (net of related tax liability)	6,740
	Applicable caps on the inclusion of provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	718
77	Cap on inclusion of provisions in Tier 2 under standardised approach	5,178
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings- based approach (prior to application of cap)	70
79	Cap on inclusion of provisions in Tier 2 under internal ratings-based approach	2,142
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
80	Current cap on CET1 instruments subject to phase out arrangements	N/A
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-



II. Reconciliation of Regulatory Capital

Table II.1
Balance Sheet

Reference	Balance Sheet	Million MXN
	Assets	1,779,460
BG1	Cash and due from banks	98,058
BG2	Margin accounts	3,935
BG3	Investment in securities	419,650
BG4	Debtor balance in repo trans, net	45,890
BG5	Securities lending	-
BG6	Transactions with derivatives	20,258
BG7	Valuation adjustments for asset coverage	-
BG8	Net loan portfolio	1,066,084
BG9	Benef. receivab. securization transactions	3,897
BG10	Sundry debtors & other accs rec, net	64,450
BG11	Foreclosed assets, net	4,892
BG12	Real estate, furniture & equipment, net	25,947
BG13	Investment in subsidiaries	4,808
BG14	Long-term assets held for sale	-
BG15	Deferred taxes, net	1,218
BG16	Other assets	20,372
	Liabilities	1,622,491
BG17	Deposits	1,141,925
BG18	Due to banks & correspondents	12,892
BG19	Creditor balance in repo trans, net	256,676
BG20	Securities' loans	-
BG21	Total collateral sold	45,890
BG22	Transactions with Derivatives	20,116
BG23	Valuation adjustments for financial liability coverage	-
BG24	Obligations in securitization transactions	-
BG25	Other Payable Accounts	74,693
BG26	Subordinated non convertible debt	52,513
BG27	Deferred taxes, net	16,708
BG28	Deferred credits	1,078
	Equity	156,969
BG29	Paid-in capital	24,184
BG30	Earned capital	132,785
	Memorandum Accounts	2,419,226
BG31	Endorsement guarantees granted	-
BG32	Contingent assets & liabilities	62
BG33	Loan obligations	508,937
BG34	Properties in trusts and warrant	339,632
BG35	Government secs of the corp under custody	-
BG36	Properties in custody or management	708,520
BG37	Collateral received	190,755
BG38	Collateral received or sold	45,888
BG39	Investment banking transactions for third parties, net	-
BG40	Uncollected accrued interest from past due loans	403
BG41	Miscellaneous accounts	625,027



Table II.2
Net Capital Components

Id	Net Capital Components	Section I Reference	Amount	Reference and amount in balance sheet
	Activo			
1	Goodwill	8	1,151	BG16: 1,151 (Goodwill)
2	Other Intangibles	9	8,216	BG16: 8,216 (Other Intangibles)
3	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	10	-	
4	Securitisation gain on sale	13	-	BG9: 0 (Securitisation gain on sale)
5	Defined benefit pension fund net assets (net of related tax liability)	15	-	
6	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	16		
7	Reciprocal cross holdings in common equity	17	-	
8	Non-significant investments in the capital of banking, financial and insurance entities, net of eligible short positions (amount above 10% threshold)	18	-	
9	Non-significant investments in the capital of banking, financial and insurance entities, net of eligible short positions (amount above 10% threshold)	18	-	
10	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	19	-	
11	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	19	3,766	BG13: 3,766 (Investment in subsidiaries)
12	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	21	N/A	
13	Provisions	50	718	BG16: 718 (Provisions)
14	Investments in subordinated debt	26 - B	-	
15	Investments in multilateral organizations	26 - D	-	
16	Investments in related parties	26 - E	-	
17	Investments in capital risk	26 - F	-	
18	Investments in fund investments	26 - G	-	
19	Own shares acquisition funding	26 - H	-	
20	Deferred liabilities and advances	26 - J	-	
21	Deferred profit sharing	26 - L	-	
22	Defined benefit pension fund net assets	26 - N	-	
23	Investments in clearing houses	26 - P	-	
	Liability			
24	Goodwill (net of related tax liability)	8	1,151	BG16: 1,151 (Goodwill)
25	Other intangibles other than mortgage-servicing rights (net of related tax liability)	9	8,216	BG16: 8,216 (Other Intangibles)
26	Defined benefit pension fund net assets (net of related tax liability)	15	-	



27	Defined benefit pension fund net assets (net of related tax liability)	15	-	
28	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	21	-	
29	of which: classified as equity under applicable accounting standards	31	-	
30	Directly issued capital instruments subject to phase out from Additional Tier 1	33	-	
31	Directly issued qualifying Tier 2 instruments plus related stock surplus	46	-	
32	Directly issued capital instruments subject to phase out from Tier 2	47	-	BG26: 0 (Subordinated non convertible debt)
33	of which: Deferred liabilities and advances	26 - J	-	
	Equity			
34	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	1	24,184	BG29; 24,184 (Paid- in capital)
35	Retained earnings	2	80,570	BG30; 80,570 (Earned Capital)
36	Accumulated other comprehensive income (and other reserves)	3	762	BG30; 762 (Earned Capital)
37	Other earned capital elements	3	50,473	BG30; 50,473 (Earned capital)
38	Classified as equity under applicable accounting standards	31	-	
39	Classified as equity under applicable accounting standards	46	-	
40	Cash flow hedge reserve	3, 11	762	BG30; 762 (Earned capital)
41	Prudential valuation adjustments	3, 26 - A	-	BG30; 0 (Earned Capital)
42	Accumulated other comprehensive income (and other reserves)	3, 26 - A	-	
	Memorandum Accounts			
43	First loss positions	26 - K	-	
	Regulatory concepts not considered in balance sheet			
44	Shortfall of provisions to expected losses	12	-	
45	Securitisation gain on sale	26 - C	-	
46	Contravening depositions operations	26 - I	-	
47	Relevant related parties	26 - M	-	
48	Derogated	26 - O, 41, 56	-	



III. Total Risk Weighted Assets

Table III.1
Market Risk Exposures

Concept	Exposures	Capital Requirement
Domestic currency with nominal interest rate operations	143,044	11,444
Domestic currency with variable interest rate operations	8,215	657
Domestic currency with UDI's based rate operations	2,239	179
Domestic currency with SMG based rate operations	-	-
UDI's exposures	35	3
SMG exposures	-	-
Foreign currency nominal interest rate operations	17,619	1,410
FX exposures	4,178	334
Equity exposures	4,617	369
Merchandise exposures	-	-

Table III.2
Credit Risk Weighted Assets by Group

Concept	RWA	Capital Requirement
Group IOA (0%)	-	-
Group IOA (10%)	-	-
Group IOA (20%)	-	-
Group IOB (20%)	1,026	82
Group II (100%)	-	-
Group III (20%)	20,850	1,668
Group III (23%)	-	-
Group III (50%)	669	53
Group III (57.5%)	18,208	1,457
Group III (100%)	82	7
Group III (115%)	-	-
Group III (120%)	-	-
Group III (138%)	-	-
Group III (150%)	-	-



Group III (172.5%)	-	-
Group IV (0%)	7,044	563
Group IV (20%)	-	-
Group V (10%)	14,109	1,129
Group V (20%)	2,546	204
Group V (50%)	-	-
Group V (115%)	12,520	1,002
Group V (150%)	34,911	2,793
Group VI (20%)	37,721	3,018
Group VI (50%)	102,386	8,191
Group VI (75%)	154,086	12,327
Group VI (100%)	-	-
Group VI (120%)	-	-
Group VI (150%)	-	-
Group VI (172.5%)	-	-
Group VII_A (10%)	-	-
Group VII_A (11.5%)	4,923	394
Group VII_A (20%)	-	-
Group VII_A (23%)	199	16
Group VII_A (50%)	-	-
Group VII_A (57.5%)	89,869	7,190
Group VII_A (100%)	-	-
Group VII_A (115%)	-	-
Group VII_A (120%)	-	-
Group VII_A (138%)	1	-
Group VII_A (150%)	-	-
Group VII_A (172.5%)	-	-



Group VII_B (0%)	12,712	1,017
Group VII_B (20%)	-	-
Group VII_B (23%)	913	73
Group VII_B (50%)	-	-
Group VII_B (57.5%)	86,583	6,927
Group VII_B (100%)	-	-
Group VII_B (115%)	-	-
Group VII_B (120%)	-	-
Group VII_B (138%)	-	-
Group VII_B (150%)	-	-
Group VII_B (172.5%)	3,509	281
Group VIII (115%)	2,023	162
Group VIII (150%)	61,884	4,951
Group IX (10%)	-	-
Group IX (50%)	-	-
Group IX (100%)	15,510	1,241
Group IX (115%)	372	30
Group X (1250%)	860	69
Securitisations (20%)	-	-
Securitisations (50%)	105	8
Securitisations (100%)	-	-
Securitisations (350%)	-	-
Securitisations (1250%)	-	-
Securitisations (40%)	-	-
Securitisations (100%)	-	-
Securitisations (225%)	-	-
Securitisations (650%)	-	-



Securitisations (1250%)	-	-
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Table III.3

Operational Risk Weighted Assets

Approach	RWA	Capital Requirement
Business Indicator Method	131,209	10,497
Market and credit risk requirements average from past 36 months		Annual positive earnings average from past 36 months
63,099		93,803

IV. Main features of regulatory capital instruments

Ref	Feature	D2 BANOE91 999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Group Financiero Banorte.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	USP14008AE91
3	Governing law(s) of the instrument	New York
Regulatory treatment		
4	Transitional Basel III rules	Additional Tier 1
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/group/group&solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	U.S.\$550,000,000 (Five hundred fifty tmillion USD)
9	Par value of instrument	U.S. \$1,000.00 (One thousand USD)
9A	Currency of instrument	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Original date of issuance	04/10/2017
12	Perpetual or dated	Dated
13	Original maturity date	Perpetual
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Any time before maturity date
15A	Regulatory or fiscal events	Yes
15B	Liquidation price in advance	Nominal value plus coupons to the advance date
16	Subsequent call dates, if applicable	Any time before maturity date
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	IRUSD0Libor
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A



25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	Non-convertible
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Non preferred subordinated debt
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	30 day default coupon, default on maturity date, bankruptcy

Ref	Feature	D2 BANOC36 311004
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Group Financiero Banorte.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	USP14008AC36
3	Governing law(s) of the instrument	New York
Regulatory treatment		
4	Transitional Basel III rules	Tier 2 Capital
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/group/group&solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	U.S.\$500,000,000 (Five hundred million USD)
9	Par value of instrument	U.S. \$1,000.00 (One thousand USD)
9A	Currency of instrument	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Original date of issuance	04/10/2016
12	Perpetual or dated	Dated
13	Original maturity date	04/10/2031
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Any time before maturity date
15A	Regulatory or fiscal events	Yes
15B	Liquidation price in advance	Nominal value plus coupons to the advance date
16	Subsequent call dates, if applicable	Any time before maturity date
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	IRUSD0Libor



19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	Non-convertible
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Yes
32	If write-down, full or partial	7%.
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Non preferred subordinated debt
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	30 day default coupon, default on maturity date, bankruptcy

Ref	Feature	D2 BANO48 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Group Financiero Banorte.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	USP1400MAB48
3	Governing law(s) of the instrument	New York
Regulatory treatment		
4	Transitional Basel III rules	Additional Tier 1
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/group/group&solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	U.S.\$500,000,000 (Five hundred million USD)
9	Par value of instrument	U.S. \$1,000.00 (One thousand USD)
9A	Currency of instrument	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Original date of issuance	27/06/2019
12	Perpetual or dated	Dated
13	Original maturity date	Perpetual
14	Issuer call subject to prior supervisory approval	Yes



15	Optional call date, contingent call dates and redemption amount	27/06/2029
15A	Regulatory or fiscal events	Yes
15B	Liquidation price in advance	Nominal value plus coupons to the advance date
16	Subsequent call dates, if applicable	Any time before maturity date
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	IRUSD0Libor
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	Non-convertible
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Yes
32	If write-down, full or partial	7%.
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Non preferred subordinated debt
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	30 day default coupon, default on maturity date, bankruptcy

Ref	Feature	D2 BANOC21 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Group Financiero Banorte.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	USP1400MAC21
3	Governing law(s) of the instrument	New York
Regulatory treatment		
4	Transitional Basel III rules	Additional Tier 1
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/group/group&solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	U.S.\$500,000,000 (Five hundred million USD)
9	Par value of instrument	U.S. \$1,000.00 (One thousand USD)



9A	Currency of instrument	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Original date of issuance	14/07/2020
12	Perpetual or dated	Dated
13	Original maturity date	Perpetual
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	01/07/2030
15A	Regulatory or fiscal events	Yes
15B	Liquidation price in advance	Nominal value plus coupons to the advance date
16	Subsequent call dates, if applicable	Any time before maturity date
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	IRUSD0Libor
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	Non-convertible
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	Si
31	If write-down, write-down trigger(s)	Si
32	If write-down, full or partial	7%.
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Non preferred subordinated debt
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	30 day default coupon, default on maturity date, bankruptcy

Ref	Feature	D2 BANOB72 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Group Financiero Banorte.



2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	USP1401KAB72
3	Governing law(s) of the instrument	New York
Regulatory treatment		
4	Transitional Basel III rules	Additional Tier 1
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/group/group&solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	U.S.\$550,000,000 (Five hundred and fifty million USD)
9	Par value of instrument	U.S. \$1,000.00 (One thousand USD)
9A	Currency of instrument	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Original date of issuance	24/11/2021
12	Perpetual or dated	Dated
13	Original maturity date	Perpetual
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	24/01/2027
15A	Regulatory or fiscal events	Yes
15B	Liquidation price in advance	Nominal value plus coupons to the advance date
16	Subsequent call dates, if applicable	Any time before maturity date
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	IRUSD0Libor
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	Non-convertible
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Yes
32	If write-down, full or partial	7%.
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Non preferred subordinated debt
36	Non-compliant transitioned features	Yes



37	If yes, specify non-compliant features	30 day default coupon, default on maturity date, bankruptcy
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Ref	Feature	D2 BANO99 999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Group Financiero Banorte.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	USP1401KAA99
3	Governing law(s) of the instrument	NewYork
Regulatory treatment		
4	Transitional Basel III rules	Additional Tier 1 Capital
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/group/group&solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	U.S.\$500,000,000 (five hundred million USD)
9	Par value of instrument	U.S. \$1,000.00 (One thousand USD)
9A	Currency of instrument	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Original date of issuance	24/11/2021
12	Perpetual or dated	Dated
13	Original maturity date	Perpetual
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	Any time before maturity date
15A	Regulatory or fiscal events	Yes
15B	Liquidation price in advance	Nominal value plus coupons to the advance date
16	Subsequent call dates, if applicable	Any time before maturity date
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	IRUSD0Libor
19	Existence of a dividend stopper	Yes
20	Fully discretionary, partially discretionary or mandatory	Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	Non-convertible
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Yes



32	If write-down, full or partial	7%
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Non preferred subordinated debt
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	30 day default coupon, default on maturity date, bankruptcy

V. Capital Management

According to current regulations and the CNBV requirements, Banorte annually develops its Sufficient Capital Evaluation process, which considers inherent risks the bank is exposed to. As well as its main vulnerabilities in order to test the bank solvency through financial projections with negative macroeconomic scenarios. Additionally, a weekly analysis of all risk exposures, transactions and strategies is conducted in order to manage capital requirements of the different business units.

1. Identification, measurement, surveillance, control and mitigation of the bank's risk exposures.

The Sufficient Capital Evaluation acknowledges Credit, Market and Operational Risks in its capital requirements. It also analyses Liquidity and Solvency Risk evolution in its earnings results. It particularly addresses:

- **Credit Risk.** Total loan portfolio structure, market composition, stage three index, management, and applicable regulations.
- **Market Risk.** It acknowledges that financial investments (securities and derivatives) are bounded only to the the Risk Policy Committee's approved products, and their transactions are reduced by the UAIR's market risk limits that were agreed by the business units; according to the current regulations.

2. How the financial statements show and inform the risks mentioned above.

In the macroeconomic scenarios developed by an independent business unit and that are used in the Sufficient Capital Evaluation, Risk Credit evolution is incorporated through default probability and loss severity. Finally, the evolution of the Liquidity and Solvency Risk profile is incorporated for the time period, as well as a desired risk profile in the projection.

3. Identification, measurement, surveillance, control and mitigation of the bank's risk exposures versus stress scenarios that can compromise the bank's capital and liquidity sufficiency, considering balance and assets structures.

During the Sufficient Capital Evaluation development process, impact analysis on the Credit, Market, Operational, Liquidity and Solvency Risks are made:

- **Credit Risk.** Considering: (1) Default probability and loss severity effects in bank's provisions and risk cost, in each macroeconomic scenario; (2) Credit Risk capital requirement evolution in each escenario for every portfolio; (3) Comparisons between the capital requirements and loan portfolio growth in the 2008 economic crisis are made.
- **Market Risk.** Considering: (1) Loan's income statement market shock; (2) Balance evolution effect in each escenario with the Market Risk capital requirements; (3) Comparisons between the capital requirements and intermediation results in the 2008 economic crisis are made.
- **Operational Risk.** The impact of the Business indicator method in each macroeconomic scenario is taken into account.



- **Liquidity Risk.** Analyzed through the evolution of the Liquidity Coverage Ratio and the Net Stable Funding Ratio in each different scenario, vis a vis the authorized desired risk profile.
- **Solvency Risk.** Analyzed through: (1) Evolution of the total risk weighted assets, considering methodologies in each scenario. (2) The effect of each scenario in the bank's earnings result.

4. *Capacity to continue funding and operating in an adverse stress scenario, in which capital sufficiency complies with minimum requirements.*

Derived from the bank's solid capital and liquidity levels, the 2023-2025 Sufficient Capital Evaluation does not take into account any additional mitigation or capitalization actions. Nonetheless, Banorte has a Contingency Plan that contains a series of applicable actions in case the capital and liquidity levels are minimized. These actions include control and surveillance of the bank's regulatory indicators, communication with other business units and financial authorities, alternate funding strategies, assets sales, and non-productive assets sales. Each action taken is triggered according to the corresponding scenario.

Results and Conclusions of the 2023-2025 Sufficient Capital Evaluation

In the 2023-2025 Sufficient Capital Evaluation all minimum regulatory requirements of liquidity and solvency are met, in every scenario and every time period. Considering this, and derived from the bank's solid capital and liquidity levels, it does not take into account any additional mitigation or capitalization actions.

VI. Weighting factors involved in countercyclical buffer

Bank's countercyclical buffer requirement	
56.20 millions	
Country	Factor
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	0.00%
India	1.25%
Indonesia	0.00%
Italy	0.00%
Japan	0.00%
South Korea	0.00%
Luxembourg	0.00%
Mexico	0.00%
United Kingdom	0.00%
Russia	0.00%
Singapour	0.00%
South Africa	0.00%



Sweden	0.00%
Switzerland	2.00%
Turkey	0.00%
Others	0.00%

VII. Main indicators related to the Total Loss-Absorbing Capacity for Locally Systemic Important Bank.

Table VII.1

Reference	Concept	a	b	c	d	e
		T	T-1	T-2	T-3	T-4
1	Total Loss Absorbing Capacity (TLAC) available	34,172	34,459	33,135	15,762	15,761
1a	N/A					
2	Total RWA at the level of the resolution group	997,350	962,796	962,796	946,593	905,334
3	TLAC as a percentage of RWA (row1/row2) (%)	3.43%	3.49%	3.44%	1.67%	1.74%
3a	N/A					
4	Leverage exposure measure at the level of the resolution group	1,822,486	1,837,797	1,767,190	1,681,264	1,681,192
5	TLAC as a percentage of leverage exposure measure (row1/row4) (%)	1.88%	1.88%	1.88%	0.94%	0.94%
5a	N/A					
6a	As part of the TLAC, are there any capital instruments that are at the same payment level (i.e., pari passu), in relation to instruments that are excluded to be converted into ordinary shares or on whose amount would the remission or forgiveness of the debt and its accessories operate in favor of the institution, in a resolution process?	NO	NO	NO	NO	NO
6b	As part of the TLAC, are there any capital instruments that are at the same payment level (i.e., pari passu), in relation to instruments that as of the local regulation are excluded from being converted into ordinary shares or on the amount of which the remission or forgiveness of the debt and its accessories would operate in favor of the institution, in a resolution process?	NO	NO	NO	NO	NO
6c	If the assumption contained in row 6b is updated, what is the share (%) of the amount of capital instruments considered in the supplement to net capital, in relation to the amount of capital	N/A	N/A	N/A	N/A	N/A



	instruments issued that they comply with the priority of payments?					
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Table VII.2.1

		a
		Amounts
	Elements of the Total Loss-Absorbing Capacity and adjustments	
1	Common Equity Tier 1 capital (CET1)	138,340
2	Additional Tier 1 capital (AT1) before TLAC adjustments	58,516
3	Additional Tier 1 capital (AT1) not eligible for TLAC, issued by the institution held by a third party	-
4	Other adjustments	-
5	Additional Tier 1 instruments eligible for TLAC	51,199
6	Tier 2 capital before TLAC regulatory adjustments	2,211
7	Part of the amortized Tier 2 capital instruments where remaining maturity is above 1 year.	-
8	Tier 2 capital not eligible for TLAC, issued by the institution held by a third party	-
9	Other adjustments	718
10	Tier 2 instruments eligible for TLAC	1,493
11	TLAC	191,032
	Non regulatory Elements of the Total Loss-Absorbing Capacity	
12	External TLAC elements issued by the bank and subordinated to excluded liabilities.	-
13	External TLAC instruments issued by the bank and not subordinated to excluded liabilities, but that comply with all the requirements of the TLAC term sheet.	-
14	Of which: amount eligible for TLAC after the application of supervisory limits	-
15	External TLAC instruments issued by financial vehicles before January 1 st 2022.	-
16	Ex ante commitments to recapitalize a locally systemic important institution in resolution.	-
17	TLAC from non regulatory capital instruments before adjustments	-
	Non regulatory Elements of the Total Loss-Absorbing Capacity: Adjustments	
18	TLAC before deductions	191,032
19	Exposure deductions belonging to accounts eligible for TLAC (not applicable for locally systemic important bank with only one point of entry).	-
20	Deductions of investments in other liabilities eligible for TLAC	-
21	Other adjustments	-
22	TLAC after deductions	191,032
	Risk Weighted Assets and Exposure to Leverage for TLAC effects	
23	Total Risk Weighted Assets (TRWA) as the amount registered in line 60 of Table I.1 of the current appendix, adjusted as allowed under TLAC.	997,350
24	Total exposures related to the Leverage Ratio as line 21 of Table I.1 of Appendix 1-O Bis of the local regulation.	1,822,486
	TLAC and supplements	
25	TLAC (as percentage of TRWA as the amount registered in line 60 of Table I.1 of the current appendix, adjusted as allowed under TLAC.)	19.15%
26	TLAC (as percentage Total exposures related to the Leverage Ratio)	10.48%
27	CET1 (as percentage of TRWA) available after minimum capital and TLAC requirements.	5.97%



28	Specific capital buffer requirements for the bank (capital conservation buffer, contraclicical capital buffer and TLAC as percentage of TRWA)	5.93%
29	Of which: capital conservation buffer.	2.50%
30	Of which: contraclicical capital buffer	0%
31	Of which: TLAC	3.43%

Annex 1-O Bis (millions of pesos)

LEVERAGE RATIO DISCLOSURE REQUIREMENTS

I. Integration of the principal sources of Leverage

TABLE I.1

LEVERAGE RATIO COMMON DISCLOSURE TEMPLATE		
REFERENCE	CONCEPT	AMOUNT
On-Balance Sheet Exposure		
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	1,713,311
2	(Asset amounts deducted in determining Tier 1 capital)	(18,437)
3	Total on-balance sheet exposures (excluding derivatives and SFTs, sums of lines 1 & 2)	1,694,874
Derivatives Exposures		
4	Replacement cost associated with all derivative transactions (net of admissible cash variation margins)	10,972
5	Add-on amounts for potential future exposure associated with all derivative transactions	8,630
6	Increment for collaterals paid on derivative operations when such operations are written down from the balance according to the operative accounting standards.	Does Not Apply
7	(Deductions to the accounts receivables for cash variation margins on derivatives operations)	(5,027)
8	(Exempted central counterparty-leg of client cleared trade exposures)	Does Not Apply
9	Adjusted effective notional amount of written credit derivatives	Does Not Apply
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	Does Not Apply
11	Total derivative exposures (sum of lines 4 to 10)	14,575
Securities financing transaction exposures		
12	Gross SFT assets recognized for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	45,890
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(45,882)
14	Counterparty credit risk (CCR) exposure for SFTs	25,716
15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	25,724



Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	508,937
18	(Adjustments for conversion to credit equivalent amounts)	(421,625)
19	Off-balance sheet items (sum of lines 17 and 18)	87,312
Capital and Total Exposures		
20	Tier 1 capital	189,539
21	Total Exposures (sum of lines 3, 11, 16 and 19)	1,822,486
Leverage Ratio		
22	Basel III leverage ratio	10.40%

TABLE I.2
NOTES TO LEVERAGE RATIO COMMON DISCLOSURE TEMPLATE

REFERENCE	NOTES
1	On-balance sheet assets (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral).
2	Deductions from Basel III Tier 1 capital determined by paragraphs b) to r) of fraction I from Article 2 BIS 6 of the local regulation. Reported as a negative amount
3	Sum of lines 1 and 2
4	Replacement cost (RC) associated with all derivative transactions, according to annex 1-L of the local regulation, minus the partial cash liquidation (cash variation margin) received
5	Add-on amount for all derivatives exposure according to annex 1-L of the local regulation, on derivatives operations
6	Does not apply. Local accounting standards do not allow for written down assets handed as collateral
7	Cash variation margin handed on derivatives operations that comply with line 4 to deduct from the received cash variation margins. Reported as a negative amount.
8	Does not apply. Exempted trade exposures associated with the central counterparty-leg of derivative transactions resulting from client cleared transactions. Reported as a negative amount.
9	Does not apply. Adjusted effective notional amount (i.e. the effective notional amount reduced by any negative change in fair value) for written credit derivatives with 100 per cent coverage of the collateralized amount of the operation. This amount is included in line 5.
10	Does not apply. Adjusted effective notional offsets of written credit derivatives and deducted add-on amounts relating to written credit derivatives, reported as negative amounts. This amount is included in line 5
11	Sum of lines 4 to 10
12	Gross SFT assets recognized for accounting purposes with no recognition of any netting other than novation with qualifying central counterparties (QCCPs).
13	Cash payables and cash receivables of Gross SFT assets netted, reported as negative amounts.
14	Measure of counterparty credit risk for SFTs
15	Agent transaction exposure amount
16	Sum of lines 12 to 15
17	Total off-balance sheet exposure amounts on a gross notional basis, before any adjustment for credit conversion factors.



18	Reduction in gross amount of off-balance sheet exposures due to the application of credit conversion factors, with a minimum conversion factor por 10% (for those operations with a conversion factor of 0%). Reported as a negative amount.
19	Sum of lines 17 & 18
20	Tier 1 Capital as of local regulations
21	Sum of lines 3, 11, 16 & 19
22	Basel III leverage ratio as line 20 divided by line 21

II. Comparison and total assets and leverage ratio exposure

TABLE II.1

COMPARISON OF ACCOUNTING ASSETS VS. LEVERAGE RATIO EXPOSURE MEASURE

REFERENCE	CONCEPT	AMOUNT
1	Total Assets	1,779,459
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(18,437)
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	Does not Apply
4	Adjustments for derivative financial instruments	(5,682)
5	Adjustment for securities financing transactions (i.e. repo assets and similar secured lending) [1]	(20,164)
6	Adjustment for off balance-sheet items (i.e., credit equivalent amounts of off-balance sheet exposures)	87,311
7	Other adjustments	-
8	Leverage Ratio Exposure Measure	1,822,487

[1] Of which the value of the operation is the market value of the operation and generally are subject to margin agreements.

TABLA II.2

NOTES TO COMPARISON OF ACCOUNTING ASSETS VS. LEVERAGE RATIO EXPOSURE MEASURE

REFERENCE	DESCRIPTION
1	Total accounting assets without consolidation with subsidiaries
2	Tier 1 capital deductions as of paragraphs b), d), e), f), g), h), i), j) & l) of fraction I from article 2 bis 6 of the local regulations. Reported as a negative amount



3	Does not apply. The corresponding use does not include consolidation with subsidiaries.
4	Should show adjustments related to any fiduciary assets recognised on the balance sheet pursuant to the institution's operative accounting framework but excluded from the leverage ratio exposure measure
5	Amount reported in line 16 of Table I.1 and the amount shown for repo and other such transactions in the balance sheet.
6	Amount reported in line 19 of Table I.1. Reported as a positive value
7	Tier 1 capital deductions as of paragraphs b c), k), m), n), p), q) & r) of fraction I from article 2 bis 6 of the local regulations. Reported as a negative amount
8	Sum of lines 1 to 7. Should match line 21 of Table I.1

III. Conciliation between total assets and on balance sheet exposure

TABLA III.1

CONCILIATION BETWEEN TOTAL ASSETS AND ON BALANCE SHEET EXPOSURE

REFERENCE	CONCEPT	AMOUNT
1	Total assets	1,686,666
2	Derivate operations	(33,233)
3	Adjustment for securities financing transactions (i.e. repo assets and similar secured lending)	(80,102)
4	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	Does not Apply
5	On Balance Sheet Exposures	1,570,331

TABLA III.2

NOTES TO CONCILIATION BETWEEN TOTAL ASSETS AND ON BALANCE SHEET EXPOSURE

REFERENCE	DESCRIPTION
1	Total accounting assets without consolidation with subsidiaries
2	Amount of derivatives operations presented in the last financial statement. Reported as a negative amount.
3	Amount of securities financing transactions presented in the last financial statement. Reported as a negative amount.
4	Does not apply. The corresponding use does not include consolidation with subsidiaries.
5	Sum of lines 1 to 4, which must match line 1 of Table I.1



IV. Main changes in the leverage ratio elements

TABLE IV.1

MAIN CHANGES IN THE LEVERAGE RATIO ELEMENTS.

CONCEPT / QUARTER	JUNE '24	SEPTEMBER '24	CHANGE (%)
Tier 1 Capital	197,687	189,539	(4.087%)
Total Exposures	1,837,797	1,822,486	(0.883%)
Basel III Leverage Ratio	10.75%	10.40%	(3.281%)

22 - FOREIGN CURRENCY POSITION

As of September 30, 2024 (unaudited) and December 31, 2023, the Institution holds certain assets and liabilities in foreign currency, mainly US dollars, converted to the exchange rate issued by Banco de México Ps. 19.6921 and Ps. 16.9666, respectively, per USD 1.00, as shown below:

	Thousands of US dollars	
	September 30, 2024	December 31, 2023
Assets	21,612,318	21,555,684
Liabilities	21,489,414	21,447,076
Net liability position in US dollars	122,904	108,608
Net liability position in Mexican pesos	Ps. 2,420	Ps. 1,843

23 - POSITION IN UDIS

As of September 30, 2024 (unaudited) and December 31, 2023, the Institution holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps. 7.981602 and Ps 7.646804 per UDI, respectively, as shown below:

	Thousands of UDIS	
	September 30, 2024	December 31, 2023
Assets	1,902,568	814,763
Liabilities	1,529,268	762,044
Net asset position in UDIS	373,300	52,719
Net asset position in Mexican pesos	Ps. 3,079	Ps. 421

24 - EARNINGS PER SHARE

Earnings per share are the result of dividing the net income by the weighted average of the Institution's shares in circulation during the year.



Earnings per share for the nine months ended September 30, 2024 (unaudited) and September 30, 2023 (unaudited) are shown below:

	September 30, 2024			September 30, 2023
	Net Income	Weighted share average	Earnings per share	Earnings per share
EPS continuous operations	Ps. 33,960	144,199,022,252	Ps. 0.2355	Ps. 0.2198
EPS discontinued operations	-	-	-	-
Net income per share	Ps. 33,960	144,199,022,252	Ps. 0.2355	Ps. 0.2198

25 - 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 Institution 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 Institution 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.



Risk management at the Institution 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. COMPREHENSIVE RISK MANAGEMENT FRAMEWORK

A Comprehensive Risk Management Framework, consisting of objectives, guidelines, policies, and procedures, has the following main objectives:

- Provide clear rules to the different business areas, which help minimize risk and ensure compliance with the parameters established and approved by the Board of Directors and the Risk Policies Committee (CPR by its acronym in Spanish).
- Establish mechanisms to monitor risk-taking throughout GFNorte, through the use of robust systems and processes.
- Verify the observance of Risk Appetite.
- Estimate and control GFNorte's capital, under base and stressed scenarios, aiming to provide coverage for unexpected losses from market movements, credit bankruptcies, and operational risks.
- Implement identification, valuation, and management models for different types of risks.
- Establish procedures for portfolio's optimization and credit portfolio management.
- Update and monitor the Contingency Plan to restore capital and liquidity levels in case of adverse events.

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 Risk Policy Committee (CPR by its acronym in Spanish) as accountable for managing the risks to which GFNorte is exposed to, in order to ensure operations compliance with the 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 composed of 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 (CAE). The latter participates with voice but no vote.

Moreover, the Balance Sheet Management Committee (ALCO), analyze, monitor, and establish the guidelines regarding interest rate risks and foreign exchange risk 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) supervises the Risk Management and Credit Department (DGARC by its acronym in Spanish), and among its functions, is responsible for identifying, measuring, monitoring, limiting, controlling, reporting, and disclosing the different types of risk to which the GFNorte is exposed to.

The DGARC reports to the CPR, in compliance with regulation regarding its independence from the Business areas.



1.2. Main and emerging risks

The Comprehensive Risk Management Framework includes strategies to identify and regulate the main and emerging risks that pose as a potential threat to the business, clients, collaborators, and to GFNorte's strategy. The definition and classification of potential risks allows them to be better managed and mitigated, according to the nature of each type of risk.

GFNorte owns sound methodologies to manage quantifiable risks such as Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Concentration Risk and Counterparty Risk.

1. Credit Risk: revenue volatility due to constitution of provisions for impaired loans, and potential losses on borrower or counterparty defaults.
2. Market Risk: revenue volatility due to market changes, which affect the valuation of book positions for assets, liabilities, or contingent liabilities operations, such as: interest rates, spread over yields, exchange rates, price index, among others.
3. Balance and 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.
4. 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 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 caused by sanctions for noncompliance with laws as well as unfavorable administrative or judicial decisions related to GFNorte's operations.
5. Concentration Risk: potential loss by high and disproportional exposure to particular risk factors within a single category or among different risk categories.
6. Sustainability Risk: likelihood that dangerous environmental, social or governance events or conditions occur and generate adverse impacts on the institution and/or the environment and the community.

Likewise, regarding non-quantifiable risks, Risk Management's Manual in GFNorte establishes specific objectives for:

1. Reputational Risk: potential loss in the Institution's performance activities, due to an inappropriate or unethical perception of the different stakeholders, internal or external, on their solvency and viability. Likewise, the deterioration of the Institution's image due to internal or external events that go against corporate values.
2. Strategic Risk: potential loss due to failures or deficiencies in decision-making, in the implementation of procedures and actions to carry out the business model and strategies of the Institution as well as due to ignorance of the risks to which the business activity is exposed to, affecting the expected results of its strategic plan.
3. Business Risk: potential loss or impact on profitability attributable to the inherent characteristics of the business and changes in the economic cycle or market conditions in which the Institution operates.

Emerging Risks are new risks that arise from changes in economic, political, social, cultural, environmental, and even technological processes. They are characterized by a recent increase in the probability of occurrence and exposure to them, therefore, their prompt identification is necessary to be able to implement effective and timely measures. Its potential for damage or loss is not yet fully known, derived from a new or evolving hazard, which may result in significant new exposure for the Group.



1. **Epidemiological Risk:** The probability that a disease in a determined population escalates to the degree of epidemic or pandemic, generating adverse impacts on the Institution, financing, health, and the community. It's expressed through various epidemiological indicators whose analysis makes it possible to design preparation and response plans.
2. **Risk of New Technologies:** Risks associated with the implementation of new technologies that could materialize in economic losses for the institution. They arise from new vulnerabilities, technical threats, potential economic frauds, crimes against intellectual property, threats to the privacy of information, and cyberbullying, among others.

At GFNorte, the identification and tracking of new risks is a continuous task, and as a result, it strengthens and consolidates the Comprehensive Risk Management Framework, considering the Sustainability vision and new emerging risks.

1.3. Risk Management Culture at GFNorte

GFNorte's Risk Management Culture, holistically permeates all levels of the organization. The Group's decisions are based on maximizing the risk-return ratio, encouraging informed decision-making to achieve the strategic objectives of asset quality, profitability, liquidity, and solvency.

GFNorte's risk culture is based on the following principles:

- **We Are All Risk Managers:** Promote employees' proactive participation in risk identification, escalation, and management. The operational, technological, psychosocial, credit, market, and fraud risk reporting channels make it easier for all employees to fulfill their role as the first line of defense. For example, through the Governance, Risk, and Compliance (GRC) platform, all employees report their relevant identified risks, monitoring them until their mitigation. This feedback triggers process improvements by implementing control measures based on what is reported.
- **Risk Anticipation:** Monitor the economic and business environment to anticipate future risks and incorporate market trends into models, tools, processes, and policies to prevent and mitigate risks. It also covers the importance of close communication with clients to be able to identify their needs and problems, preventing potential breaches.
- **Prospective Vision:** Always maintaining a farsighted vision in line with the new business trends in the risk management strategy and the evaluation of policies and models. For a continuous improvement of products and processes, updating methodologies and tools following the best practices to estimate the future behavior of assets and create scenarios to make strategic decisions.
- **Multidisciplinary Participation:** Joint decision-making through multidisciplinary committees and teams strengthens GFNorte's perspective to identify and control risks. Risks are continuously monitored, and mitigation strategies or actions are planned and executed consensually with all the areas involved. Operating through a cell-based collaboration scheme, i.e., multidisciplinary teams assigned a specific task, such as improving a process or developing a new product. This collaboration scheme allows to react instantly to changing environments involving risks in operations and strategies or execute an existing credit prevention or mitigation plan.
- **Communication and Continuous Training:** The Board of Directors and Senior management members communicate the importance of robust risk culture. In this regard, the Group has reinforced internal training for risk management, including the content of risk management, prevention, and mitigation for all our staff.
- **Risk - Return-Based Compensation:** Risk management criteria is targeted into the employees' evaluation and compensation to maximize the risk-return ratio. To attain this, the risk indicators' formal measurement is linked with the performance evaluation process, promotion, and compensation of staff. The Remuneration System establishes these incentives, where the evaluation criteria is established mainly for



Senior management, consistent with reasonable risk-taking. Additionally, a performance evaluation system has been implemented, where employees and their immediate superiors set operational, safety, and career development goals. Performance is evaluated under specific metrics as well as professional skills and credentials, according to the profile of each position.

- **Innovation:** GFNorte is known for its fast development in risk management and for performing with the latest banking practices. Therefore, it is observed to remain at the forefront of new products, channels, technologies, and risk implications. Technological innovation is crucial to identify, measure, and control risks properly in the face of technological change and new products and segments of the digital market. These innovative products go through a formal project evaluation process, which includes identifying and measuring risks determined by the relevant areas.

1.3.1. Desired Risk Profile

General and specific guidelines are established throughout the Group to monitor the Desired Risk Profile; in addition, a formal escalation process is in place, in case of any deviation from the desired risk profile. Critical quantitative indicators by type of risk were developed, for the Group and its subsidiaries. Such indicators are sensitive to the material risks to which the Institutions are exposed to and can be used as critical financial health indicators. These indicators are reviewed and ratified once a year by the Board of Directors and serve as a guideline for the definition and implementation of strategies and objectives.

2. CREDIT RISK

Credit risk is the risk of clients, issuers or counterparties not fulfilling their payment obligations. Hence, proper management is essential to maintain loan quality of the portfolio.

The objectives of Credit Risk Management at the Company are:

- Comply with the Risk Appetite set 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 global best practices, such as, implementing models, methodologies, procedures, and systems.
- Measure Institution's vulnerability to extreme conditions and consider those results for decisions making.

The policies for managing, covering and mitigating Credit Risk in GFNorte 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 scenarios, as well as departments or officers responsible for carrying out such actions.
- Surveil 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 the Institution.



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, Nature, and Methodology

Risk management is supported by a framework of policies and manuals, which establish the implementation and monitoring process of Credit Risk limits, coverage, mitigation, and compensation strategies, the disclosure of the referred risk metrics, within the established limits. Within these policies are detailed, among others: the characteristics, capacity, legal aspects, instrumentation issues and degree of coverage that must be considered when compensating or mitigating risk. Likewise, the execution of guarantees is contemplated as a risk compensation mechanism whenever there is a breach that has not been corrected by the debtors.

The DGARC relies on various Credit Risk information and measurement systems, which comply with regulatory standards and are aligned with the best international practices in Risk Management. It is worth mentioning that the information contained in the risk systems as well as the reports generated by them are continuously backed up, following institutional procedures of institutional information security procedures.

As part of the strategies and processes to monitor the continuous effectiveness of the hedges or mitigants, there are limits for Credit Risk, which are continuously monitored, and there are procedures established so that excesses and their causes are documented as well as implementing the corresponding corrective actions to return to acceptable risk levels.

The key risk indicators are disclosed through monthly reports to the CPR and through a daily report to the main executives in the institution about credit defaults by customers that could potentiate Credit Risk.

2.1.1. Individual Credit Risk

GFNorte segments its 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).

The individual risk for wholesale loans is identified, measured, and controlled through Target Markets, Risk Acceptance Criteria, Early Warnings and GFNorte's New Internal Risk Rating (NCIR Banorte), which are tools that integrate 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 Banorte is interested in granting loans.

The Risk Acceptance Criteria are parameters that describe different types of risks by industry, 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 market conditions, 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 NCIR is a borrower's rating methodology which assesses quantitative and qualitative criteria to determine credit quality. NCIR 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 equal to or greater than 14 million UDIs (in case of being enterprises).

2.1.2. Portfolio Credit Risk

The Institution has developed a portfolio Credit Risk methodology, which considers the loan portfolio exposure directly from the balance of each loan, whereas the financial instruments' portfolio considers the present value of the instruments and their future cash flows. Since the exposure is sensible to market changes, it is possible to define sensitivity estimates under different economic scenarios.

This Credit Risk methodology provides current value of the entire loan's portfolio at the Institution, , 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.

Aside from loan exposure, the methodology takes into consideration the probability of default, the 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 the 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/her "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. 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 defaults or variations in debtors' credit quality. 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 for granting loans as well as for the diversification of the portfolio, in line with GFNorte's strategy. The individual risk identification tools and the portfolio Credit Risk methodology are periodically reviewed and updated to include the application of new techniques that may support or strengthen them.

2.1.3. Credit Risk of Financial Instruments

The Credit Risk Management of financial instruments is managed through a robust framework of policies for its 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 by using 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, which grants approval if it deems it appropriate. 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. The potential exposure for lines calculation methodology is then analyzed by the Credit Committee, and if approved, is monitored on a daily basis as well as reported monthly in the CPR, where analysis of guarantees behind Derivative transaction is held for both clients and financial counterparties.

The correspondent regional 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 on these transactions.

To determine adversely correlated lines (Wrong Way Risk "WWR") a potential exposure adjustment is taken into account.

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. Defined risk diversification policies exist for portfolios, for economic groups and internal groups. Additionally, the concentration of counterparty type or issuer, the size of the financial institutions, and the region in which it operates, are monitored in order to obtain an appropriate diversification and to avoid undesired concentrations.

Credit Risk is measured through a rating associated with the issuer, security, or counterparty which has a pre-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 regard 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 lower the loss given default and vice versa. In order 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 September 30th, 2024 the total amount of the exposure subject to the Standard Method and the Internal Models (Advanced Approach Internal Model for Credit Cards, Mortgages, Auto Loans and Business Enterprises Annual sales less than 14 million of UDIS, and Foundation Approach Internal Model for Business Enterprises Annual sales greater than or equal 14 million of UDIS) for the estimation of Capital Ratio is as follows:

Gross Exposures subject to the Standard Method and Internal Models* (Million pesos)	Banorte
States or Municipalities	79,413
Decentralized Federal Government Agencies and State Companies	43,144
Projects with own source of payment	107,788
Financial Institutions	55,875
Consumer Non-Revolving	84,390
Total Loans subject to the Standard Method	370,609
Commercial	227,757



YoY Revenues or Sales >= 14 MM UDIS	227,757
Federal, State and Municipal Government Decentralized Agencies, with annual income or Sales >= 14 MM UDIS	14,269
Total Loans subject to the Foundation Approach Internal Model	242,026
Commercial	86,790
YoY Revenues or Sales < 14 MM UDIS	86,790
Consumer Non-Revolving (Auto)	50,041
Credit Cards	61,540
Mortgage	268,808
Total Loans subject to Advanced Approach Internal Model	467,179
Deferred Items	3,005
BAP Portfolio	3,756
Total Loans with BAP and DI	1,086,575

* Exposure does not take into account Letters of Credit and includes 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. Exposure to Financial Instruments

As of 3Q24, exposure to Credit Risk for Securities Investments of Banco Mercantil del Norte was Ps 411.53 billion, of which 98.2% 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 19% of the Tier 1 Capital as of June 2024. Additionally, the exposure of investments with the same counterparty besides the Federal Government that represents a higher or equal concentration to 5% of the Net Capital as of June 2024 is rated as AAA(mex) and is comprised of (*weighted average term, amounts in pesos and weighted average return to annualized maturity*): market certificates of the state government portfolio securitized (BANORCB Trust 4907 or Bursa GEM) for 23 years and 3 months totaling Ps 26.74 billion at 11.1%.

For Derivatives operations, the exposure of the three main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 3% of the Tier 1 Capital as of June 2024.

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 and excludes settled transactions through central counterparties).

Position (Million Pesos)	3Q24	3Q24 Average
Forwards	(128)	(198)
FX Swaps	(453)	(347)
FX	(1)	(3)
Options	269	201
Swaps with Interest Rates (IRS)	1,391	(127)
Cross Currency Swap (CCIRS)	(5,738)	(5,733)
Credit Default Swaps (CDS)	(30)	(31)
Total	(4,691)	(6,270)
Positive Fair Value (Positive Market Value)	6,519	6,272
Netting Effect*	11,210	12,511



Delivered Guarantees(-) /Received(+)		
Cash	(2,911)	(2,911)
Securities	(0)	(0)
Total	(2,911)	(2,911)

* Difference between the positive market value (excluding 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 shows the current and potential levels of exposure at the end of the quarter and the average amount for the quarter for Banorte:

(Million Pesos)	Potential Risk		Current Risk	
Financial Counterparties	3Q24	3Q24 Average	3Q24	3Q24 Average
FWD				
FX SWAP	2,386	2,723	(473)	(413)
FX				
OPTIONS	2,935	3,693	438	550
INTEREST RATE SWAP	3,131	4,203	2,088	2,016
CCS	1,800	2,551	(5,601)	(5,582)
CDS	11	23	(30)	(31)
Total	1,836	2,654	(3,578)	(3,492)
Clients (Non-Financial)	3Q24	3Q24 Average	3Q24	3Q24 Average
FWD	38	23	(109)	(135)
OPTIONS	283	258	(169)	(349)
INTEREST RATE SWAP	2,547	1,964	(696)	(2,143)
CCS	317	321	(138)	(151)
Total	3,147	2,513	(1,113)	(2,779)

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 number of guarantees to be delivered, in case of a rating downgrade. It's worth noting that we have migrated to a zero threshold for most counterparties, thus, guarantees to be delivered are not dependent on credit rating but rather on market movements:

Net Cash Outflows (Million pesos)	3Q24	3Q24 Average
Cash Outflow with 1-notch Downgrade	0	0
Cash Outflow with 2-notch Downgrade	0	0
Cash Outflow with 3-notch Downgrade	0	0

In the following table, the derivatives' market value is detailed according to the counterparties' ratings.

Rating (Million pesos)	MtM 3Q24	3Q24 Average
----------------------------------	-----------------	---------------------



AAA/AA-	0	0
A+/A-	(4,472)	(4,164)
BBB+/BBB-	1,197	564
BB+/BB-	220	11
B+/B-	(140)	(218)
CCC/C	0	0
SC	(1,495)	(2,463)
Total	(4,691)	(6,270)

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 without 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 for monitoring and periodically making inspection visits to ensure the existence, legitimacy, value, and quality of the guarantees accepted as an alternative credit support. Furthermore, when the guarantees are a type securities, there are policies and procedures to monitor their market valuation; furthermore, additional guarantees may be required if needed.

The following table shows the covered loan portfolio by collateral type:

Collateral Type <i>(Million pesos)</i>	Banorte 3Q24
Total Loan Portfolio	1,107,904
Covered Loan Portfolio by type of collateral	
Real Financial Guarantees	62,787
Real Non-Financial Guarantees	617,624
Pari Passu	47,413
First Losses	4,021
Personal Guarantees	60,949
Total Loan Portfolio Covered	792,794

2.4. Expected Loss



As of 3Q24, Banco Mercantil del Norte's total portfolio was Ps 1,082.82 billion. The expected loss represents 1.6%, while the unexpected loss is 3.2% of the total portfolio. The average expected loss is 1.6%, for the period July - September 2024.

2.5. Internal Models

In October 2016, the Board of Directors approved the implementation plan for the Internal Models for estimating reserves and capital requirements, on all applicable portfolios, which was dispatched to CNBV in the same year. In accordance with this implementation plan, the models for the Credit Card, Commercial Loans and Auto Loans portfolios were certified.

At the end of 2018, the CNBV released the project to migrate Standard and Internal Methodologies under the IFRS9 approach, but it was until March 2020 that the definitive rule for Internal Methodologies of reserves based on NIF C-16 (IFRS9), effective as of January 2021, was published in the Federation Official Journal (DOF by its acronym in Spanish). However, due to the COVID-19 pandemic, the CNBV issued a press release in April 2020 indicating that the rule would be effective as of January 2022.

Therefore, GF Banorte complied the new regulation and adopted the Internal Reserve Methodologies based on NIF C-16, for which the Risk Policies Committee (CPR by its acronym in Spanish) and the Board of Directors were requested in April 2021 to approve the new Implementation Plan (Capital and Reserves), which was authorized by the CNBV in January 2022 through Document 111-2/852/2022.

Since January 2022, the NIF C16 (IFRS9¹) rule has been effective for the calculation of preventive reserves for credit risks, both in the Standard Approach and Internal Models. Consequently, for Internal Models, estimates for risk parameters will consider two approaches: IRB to compute capital requirements and IFRS9 to compute reserves:

- The capital approach will maintain long-term estimates ("Through the Cycle", TTC), under Annex 15 of the CUB².
- The reserves approach will consider current behaviors ("Point in Time", PIT) and with a prospective approach (future macroeconomic environment), under Annex 15 Bis of the CUB. In addition, the new methodology indicates that the portfolio must be classified into three risk stages, being necessary for stage 2 a reserve calculation for the remaining term (LifeTime).

Given the new guidelines of the CUB on Internal Models, the regulator (CNBV) will only issue a Document of approval for the use of methodology for Capital Estimation, for a maximum period of 18 months. The use of Internal Model for Reserve methodology is authorized by Banorte's Board of Directors and by the Board of Arrendadora y Factor Banorte, accordingly, with the support of the Technical Evaluation made by the Independent Evaluator which guarantees compliance with the Model under the standards established in Annex 15 Bis. It should be noted that the Technical Evaluation Report is sent to the CNBV for review, the validity of this model is also for a maximum period of 18 months.

2.5.1. Internal Advanced 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 calculation by credit risk with an Advanced Approach (Document 111-3/706/2017). As indicated by the regulation, Internal Models are periodically recalibrated. On July 4th, 2024, the CNBV granted authorization for the use of IM for the calculation of Capital Requirements for a period of 18 months (Document 111-2/1269/2024); additionally, the Board of Directors authorized the use of the Reserve methodology based on NIF C16 in its session on April 16, 2024.

The previously mentioned internal models improve overall credit risk management by estimating risk parameters from the bank's own experience. These risk parameters are described below:

¹ IFRS9 = International Financial Reporting Standards 9, IRB = Internal Rate Based Models

² Circular Única de Bancos



- Probability of Default (PD): Indicates the probability that a credit card customer defaults on its contractual obligations within the next twelve months starting 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 frame of twelve months starting after the month being rated

The next table shows the Credit Card portfolio subject to the Advanced Approach Internal Model, classified by degrees of Internal Model risk:

Consumer Revolving Credit Card Portfolio under Advanced Approach Internal Model												Million Pesos
Risk Level*	Account Balance	Exposure at Default (EAD)**			Loss Given Default			PD factored by EAD			Unused Credit Lines	EAD factored by Exposure
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3		
1	3,361	4,462	0.03	0	63.6%	62.1%		0.4%	0.4%		18,040	25%
2	5,490	7,193	0.17	0	64.7%	62.1%		0.8%	0.8%		23,256	24%
3	7,311	10,452	0.36	0	65.7%	63.3%		1.4%	1.4%		26,555	30%
4	7,957	10,244	0.16	0	67.0%	64.0%		2.0%	2.0%		20,522	22%
5	5,058	6,632	0.39	0	68.0%	63.1%		2.8%	2.8%		9,397	24%
6	5,894	7,522	1	0	69.2%	62.9%		3.9%	3.9%		7,461	22%
7	5,550	7,065	2	0	70.9%	65.1%		5.4%	5.4%		4,912	21%
8	6,959	8,663	6	0	72.4%	66.0%		8.0%	7.9%		4,859	20%
9	6,108	7,579	24	0	74.7%	68.5%		13.4%	13.4%		1,770	20%
10	6,122	6,643	772	0	76.5%	77.9%		36.8%	36.8%		473	17%
11	1,730	1	0	1,729	75.7%		83.4%	100.0%		100.0%	41	0%
Total Portfolio	61,540	76,456	806	1,729	69.2%	77.4%	83.4%	7.1%	35.7%	100.0%	117,286	22%

* Scale of Risk Level for the Advanced Approach Internal Model..

** 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 3Q23.

Backtesting



Portfolio	Expected Loss Internal Model *	Observed Loss*	Difference Ps (Observed Loss – Expected Loss)	% NCL Coverage
Credit Card	4,926	4,914	(12)	100%
Total Portfolio	4,926	4,914	(12)	100%

* Expected and Observed Loss is equal to the last twelve months average.

2.5.2. Internal Advanced Model for Auto Loans

On November 25, 2019, GFNorte received approval from the banking regulator (Comisión Nacional Bancaria y de Valores) to use Internal Models (IM) for Auto Loans for reserves and regulatory capital calculation by credit risk with an Advanced Approach (Document 111/678/2019). Periodically, as indicated by the regulation, Internal Models are recalibrated. On August 23, 2024, the CNBV (Document 111-2/1280/2024) granted authorization for the use of IM exclusively for the calculation of Capital Requirements for a period of 13 months; in addition, the Board of Directors authorized, in its meeting on January 17, 2024, the use of reserve methodology based on NIF-C16.

The previously mentioned internal models improve overall credit risk management by estimating risk parameters from the bank's own experience. These risk parameters are described below:

- Probability of Default (PD). Indicates the probability that an auto customer defaults on its contractual obligations within the next twelve months starting 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 debt at the time of default, considering a time frame of twelve months starting after the month being rated.

The next table shows the Auto portfolio subject to the Advanced Approach Internal Model, classified by degrees of Internal Model risk:

Consumer Revolving Auto Portfolio under Advanced Approach Internal Model										Million Pesos
Risk Level*	Accounting Balance			Exposure at Default (EAD)			Loss Given Default			PD factored by EAD
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
1	11,235	0	0	11,235	0	0	49.42%			0.21%
2	8,179	0.0	0	8,179	0.0	0	64.71%			0.35%
3	8,076	0.0	0	8,076	0.0	0	68.54%			0.53%
4	8,658	2.2	0	8,658	2.2	0	60.56%	59.92%		0.74%
5	5,187	0.3	0	5,187	0.3	0	62.41%	49.42%		1.01%
6	4,002	0.0	0	4,002	0.0	0	61.54%			1.73%
7	1,938	56	0	1,938	56	0	56.70%	58.24%		3.93%
8	2,087	348	0	2,087	348	0	55.45%	56.32%		18.25%
9	0	0	274	0	0	274			59.74%	100.00%
Total Portfolio	49,361	407	274	49,361	407	274	58.07%	56.58%	59.74%	2.15%

The next table shows the difference between expected loss and observed loss resulting from the Advance Approach Internal Model for Auto Loans from 3Q23.



Backtesting				
Portfolio	Expected Loss Internal Model *	Observed Loss*	Difference Ps (Observed Loss – Expected Loss)	% NCL Coverage
Auto Loans	571	525	(46)	109%
Total Portfolio	571	525	(46)	109%

* Data as of September 2023.

2.5.3. Advanced Approach Internal Model for Mortgages

On July 27, 2023, GFNorte received approval from the banking regulator (Comisión Nacional Bancaria y de Valores) to use Internal Models with an Advanced Approach for regulatory capital calculation on the Mortgage portfolio (Document 111-2/1628/2023), for a period of 18 months. In addition, the Board of Directors authorized, in its meeting on April 20, 2023, the use of reserve methodology based on NIF-C16.

The previously mentioned internal models improve overall credit risk management by estimating risk parameters from the bank's own experience. These risk parameters are described below:

- Probability of Default (PD). Indicates the probability that an auto customer defaults on its contractual obligations within the next twelve months starting 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 debt at the time of default, considering a time frame of twelve months starting after the month being rated.

The next table shows the Mortgage portfolio subject to the Advanced Approach Internal Model, classified by degrees of Internal Model risk:

Mortgage Portfolio under Advanced Approach Internal Model										Million Pesos
Risk Level*	Accounting Balance*			Exposure at Default (EAD)			Loss Given Default			PD factored by EAD
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
1	82,781	64	0	82,781	64	0	14.38%	13.40%		0.09%
2	76,243	0	0	76,243	0	0	16.43%			0.28%
3	62,164	0	0	62,164	0	0	17.19%			0.69%
4	18,523	0	0	18,523	0	0	18.44%			1.58%
5	12,055	3	0	12,055	3	0	16.96%	19.19%		3.39%
6	2,117	85	0	2,117	85	0	12.33%	12.37%		7.06%
7	3,904	295	0	3,904	295	0	17.64%	17.66%		11.48%
8	3,965	3,053	0	3,965	3,053	0	14.67%	14.80%		30.39%
9	0	0	1,695	0	0	1,695			16.26%	100.00%
Total Portfolio	261,752	3,501	1,695	261,752	3,501	1,695	15.79%	14.82%	16.26%	2.20%

*Accounting Balance excludes Joint Portfolio for Ps 2.1 billion

The next table shows the difference between expected loss and observed loss resulting from the Advance Approach Internal Model for Mortgage from 3Q23.



Backtesting				
Portfolio	Expected Loss Internal Model *	Observed Loss*	Difference Ps (Observed Loss – Expected Loss)	% NCL Coverage
Mortgage	1,225	1,150	(75)	107%
Total Portfolio	1,225	1,150	(75)	107%

* * Expected and Observed Loss is estimated as the Average for the last 12 months.

2.5.4. Basic Internal Model for Corporations

On November 30th, 2018, GFNorte received authorization from the banking regulator CNBV (Comisión Nacional Bancaria y de Valores) to use the Internal Model (IM) for Commercial Loans for the generation of reserves and regulatory capital requirements by credit risk with a Foundation Approach, as per (Document 111-3/1472/2018) in Banco Mercantil del Norte. As indicated by the regulation, Internal Models are periodically recalibrated. On July 04, 2024, the CNBV granted authorization for the use of IM only for the calculation of Capital Requirements for a period of 18 months for Banco Mercantil del Norte (Document 111-2/1267/2024). Likewise, the Board of Directors authorized the use of the Reserve methodology based on NIF C16 in its session on April 16, 2024 for Banco Mercantil del Norte..

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. The parameter authorized under the Foundation Approach Internal Model for Corporations is:

- Probability of Default (PD). Indicates the likelihood that a borrower will default on its contractual obligations within twelve months after the month being rated. Each borrower is assigned a score, which is in turn mapped against a master rating scale.

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
Institution	Accounting Balance	Exposure at Default (EAD)**	Expected Loss
Banco Mercantil del Norte	264,305	266,908	940
Total Loans*	264,305	266,908	940

* The balance includes Letters of Credit of Ps 22.3 billion and excludes accounting adjustments of Ps 6 million.

** EAD balances include both potential risk as well as used balance risk.

2.5.5. Foundation Approach Internal Model for Small and Midsize Enterprise (SME's)

On August 30th, 2024, GFNorte received authorization from the banking regulator CNBV (Comisión Nacional Bancaria y de Valores) to use the Internal Model (IM) for SME's Loans for the generation of reserves and regulatory capital requirements by credit risk with a Advanced Approach, as per (Document 111-2/1240/2024) in Banco Mercantil del Norte. Likewise, the Board of Directors authorized the use of the Reserve methodology based on NIF C16 in its session on January 17, 2024, for Banco Mercantil del Norte.

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 lower than 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. The parameters authorized under the Advanced Approach Internal Model for SME's are:

- Probability of Default (PD): Indicates the probability that a credit card customer defaults on its contractual obligations within the next twelve months starting 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 debt at the time of default, considering a time frame of twelve months starting after the month being rated.

A breakdown of risk exposure and expected loss by subsidiary is shown below:

Small and Midsize Enterprise (SME's Loans Portfolio subject to the Advanced Approach Internal Model			<i>(Million Pesos)</i>
Subsidiary	Accounting Balance	Exposure at Default (EAD)**	Expected Loss
Banco Mercantil del Norte	87,884	87,885	1,533
Total Portfolio*	87,884	87,885	1,533

* The balance includes Letters of Credit of Ps 0.3 billion.

** EAD balances include both potential risk as well as used balance risk

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"; institutions must also 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 these rules.

In compliance with risk diversification regulation on active and passive operations, **Banco Mercantil del Norte** presents the following information:

Tier 1 Capital as of June 30, 2024	197,616
<i>(Million pesos)</i>	
I. Large Exposures (Groups and Clients whose joint exposure represents more than 10% of Tier 1 Capital):	
Number of Groups and Clients	3
Total Exposure of Groups and Clients as a whole	97,418
% in relation to Tier 1	49%
II. Maximum amount of credit with the 4 largest debtors and common risk groups	98,215

3. MARKET RISK

GFNorte's Market Risk objectives are:

- Adhere to the Desired Profile Risk defined by the Group's Board of Directors.
- Ensure proper monitoring of Market Risk. Keep, in a timely manner, the Senior Management properly informed.
- Quantify the exposure to Market Risk through the use of various methodologies.
- Define the maximum risk levels the Institution is willing to maintain.
- Measure the Institution's vulnerability to extreme market conditions and consider such results in decision making.



GFNorte's Market Risk Policies are:

- New products subject to market risk must be evaluated and approved through 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 an independent area, which is separate from the one that develops and manages them.
- Market risk inputs and models will be valid in accordance with a properly approved policy by the CPR.

3.1 Scope, Methodologies and Reports for Market Risk

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*", Backtesting 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 replacing the calculation of VaR. In addition, the valuation of derivatives through RFRs curves and curves adjusted for collateral was implemented in accordance with international standards.

Risk management is supported by a framework of policies and manuals, which establish the implementation and monitoring of Market Risk limits, the disclosure of risk metrics and their monitoring with respect to the established limits. These policies detail, among other things, the characteristics, capacity, legal aspects, instrumentation issues and degree of coverage that must be considered when compensating or mitigating the risk.

Market Risk management is supported by various information and risk measurement systems, which comply with regulatory standards and are aligned with the international best practices in Risk Management. It is worth mentioning that the information contained in the risk systems as well as the reports generated by them, are continuously backed up following institutional information security procedures.

Key risk ratios are disclosed in monthly reports to the Risk Policy Committee and through a daily report to the Institution's senior executives, in relation to the Market risk-taking.

3.2. Market Risk Exposure

The Institution's financial portfolios' exposure 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 is based on a one-day horizon base and takes into account a non-parametric historical simulation with a 97.5% confidence level and 500 historical observations on risk factors, as well as an additional stress scenario. It also takes into account all positions (money market, treasury, equities, FX and derivatives) that are classified as trading assets, both on and off the balance sheet.

The average expected shortfall of the Bank's portfolio for 3Q24 was Ps 166.0 million (Ps 95.1 million higher than the average expected shortfall from the previous quarter).

The result shows that the Bank's expected shortfall, using a 97.5% confidence level, is an average of Ps 166.0 million, as shown in the following table.

Expected Shortfall (Million Pesos)	3Q24 Average
Total Expected Shortfall	166.0
Net Capital	191,750.3
Expected Shortfall/Net Capital	0.086%



Expected shortfall by risk factor behavior during the fourth quarter of the year is as follows:

Risk Factor (Million Pesos)	3Q24	3Q24 Average
Domestic Rates	145.9	127.9
Foreign Rates	61.7	60.4
Surcharges	55.1	61.1
FX	64.5	40.8
Others	51.8	84.5
Diversification Effect	(224.7)	(208.7)
Bank's Expected Shortfall	154.2	166.0

Expected shortfall for 3Q24 is an average of Ps 154.2 million. The contribution to the Bank's Expected shortfall for each risk factor is shown in the following table:

Risk Factor (Million Pesos)	3Q24	3Q24 Average
Domestic Rates	59.7	64.2
Foreign Rates	22.5	27.4
Surcharges	20.3	18.6
FX	31.2	33.6
Others	20.6	22.1
Bank's Expected Shortfall	154.2	166.0

Expected shortfall by risk factor is determined by simulating 500 historical scenarios and an additional stress scenario for each risk factor and assessing instruments by their main risk factor. It is important to note that all positions classified as trading were considered, while those 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	3Q24
Rates	55%
Surcharges	11%
FX	20%
Others	13%

3.3. Sensitivity Analysis and Stress Testing under extreme conditions

With the aim of complementing and reinforcing risk analysis, Banorte carries out tests under extreme conditions known as Stress Testing. The results of these tests are presented to the Risk Policy Committee on a monthly basis with the main objective of assessing the impact of extreme movements in risk factors on the Institution's positions.



3.4. Backtesting

In order to validate the effectiveness and accuracy of the expected shortfall, a monthly Backtesting analysis is presented to the Risk Policy Committee. Through this analysis, it is possible to compare losses and gains observed in relation to the estimated expected shortfall, and if necessary, make the required adjustments to the parameter.

4. BALANCE AND LIQUIDITY RISK

GFNorte's Balance and Liquidity Risk objectives are:

- Adhere to the Risk Appetite defined by the Group's Board of Directors.
- Ensure proper monitoring of Balance and Liquidity Risk.
- Assess, through the use of different methodologies, Balance and Liquidity Risk exposure.
- Measure the Institution's vulnerability to extreme market conditions and consider such results for decision making.
- Keep, in a timely manner, the Senior Management properly informed 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:

- Establish specific global limits of Balance and Liquidity Risk Management.
- Measure and monitor Balance and Liquidity Risk.
- Inform and disclose of Liquidity Risk to risk-taking areas, CPR, Board of Directors, Financial Authorities and public investors.

4.1. Scope, Methodologies and Report of Balance and Liquidity Risk

Balance and Liquidity risk is managed through a series of fundamental pillars, including the use of key indicators such as the Liquidity Coverage Ratio (LCR), re-price gaps and liquidity as well as stress testing. The latter is based on a framework of policies and manuals, including a funding contingency plan, and a contingency plan to preserve solvency and liquidity. It is also supported by monitoring limits and Risk Appetite metrics of Balance and Liquidity Risk. The disclosure of the metrics and indicators and their compliance with established limits and desired established risk profile is done through monthly reports to the CPR, weekly reports to the Balance Sheet Management Committee, and quarterly reports to the Board of Directors.

Balance and Liquidity Risk management is supported by various information and risk measurement systems, which comply with regulatory standards and are aligned with international best practices in Risk Management. It is worth noting that the information contained in the risk systems as well as the reports they generate, are continuously safeguarded in accordance with institutional information security procedures.

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)	2Q24	3Q24	Var vs. 2Q24
Demand Deposits			
Local Currency ⁽¹⁾	637,159	629,907	(1.1%)
Foreign Currency ⁽¹⁾	82,285	87,052	5.8%
Demand Deposits	719,444	716,960	(0.3%)



Time Deposits – Core			
Local Currency ⁽²⁾	297,835	307,402	3.2%
Foreign Currency ⁽²⁾	6,888	6,250	(9.3%)
Core Deposits	1,024,167	1,030,612	0.6%
Money Market			
Local Currency ⁽³⁾	46,221	62,544	35.3%
Foreign Currency ⁽³⁾	52,707	48,769	(7.5%)
Banking Sector Deposits	1,123,095	1,141,925	1.7%

1. Includes balance of the Global Deposits without Movement.
2. Includes eliminations among subsidiaries.
3. Money Market and Time Deposits

4.3. Liquidity Coverage Ratio (LCR)

The LCR measures Liquidity Risk through the relationship between Liquid Assets and Net Cash Outflows ratio 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, and under an extreme scenario, to use only high-quality liquid assets as source of funding.

The following tables shows the average evolution of LCR components in 3Q24.

LCR Components (Million Pesos)	Consolidated Entity	
	Unweighted amount (Average)	Weighted amount (Average)
COMPUTABLE LIQUID ASSETS		
1 Total Computable Liquid Assets	NA	179,616
CASH DISBURSEMENTS		
2 Unsecured retail financing	581,621	39,952
3 Stable financing	364,209	18,210
4 Less stable financing	217,411	21,741
5 Unsecured wholesale financing	397,595	101,803
6 Operational Deposits	368,585	85,502
7 Non-Operational Deposits	25,231	12,522
8 Unsecured debt	3,779	3,779
9 Secured wholesale financing	278,713	20,838
10 Additional Requirements:	530,120	42,158
11 Disbursements related to derivatives and other guarantee requirements	19,008	11,689
12 Disbursements related to losses from debt financing	-	-
13 Lines of credit and liquidity	511,113	30,469
14 Other contractual financing obligations	2,207	245
15 Other contingent financing liabilities	-	-
16 TOTAL CASH DISBURSEMENTS	NA	204,995
CASH INFLOWS		
17 Cash Inflows for secured operations	95,332	9,284



18	Cash Inflows for unsecured operations	108,499	74,448
19	Other Cash Inflows	5,952	5,952
20	TOTAL CASH INFLOWS	209,784	89,684
Adjusted amount			
21	TOTAL COMPUTABLE LIQUID ASSETS	NA	179,616
22	TOTAL NET CASH DISBURSEMENTS	NA	115,311
23	LIQUID COVERAGE RATIO	NA	156.34%

LCR Components		Bank Stand Alone	
(Million Pesos)		Unweighted amount (Average)	Weighted amount (Average)
COMPUTABLE LIQUID ASSETS			
1	Total Computable Liquid Assets	NA	179,616
CASH DISBURSEMENTS			
2	Unsecured retail financing	581,621	39,952
3	Stable financing	364,209	18,210
4	Less stable financing	217,411	21,741
5	Unsecured wholesale financing	392,610	99,742
6	Operational Deposits	368,585	85,502
7	Non-Operational Deposits	20,245	10,460
8	Unsecured debt	3,779	3,779
9	Secured wholesale financing	278,713	20,838
10	Additional Requirements:	477,052	39,413
11	Disbursements related to derivatives and other guarantee requirements	19,008	11,689
12	Disbursements related to losses from debt financing	-	-
13	Lines of credit and liquidity	458,044	27,725
14	Other contractual financing obligations	2,207	245
15	Other contingent financing liabilities	-	-
16	TOTAL CASH DISBURSEMENTS	NA	200,189
CASH INFLOWS			
17	Cash Inflows for secured operations	95,332	9,284
18	Cash Inflows for unsecured operations	110,565	80,431



19	Other Cash Inflows	5,952	5,952
20	TOTAL CASH INFLOWS	211,849	95,668
Adjusted amount			
21	TOTAL COMPUTABLE LIQUID ASSETS	NA	179,616
22	TOTAL NET CASH DISBURSEMENTS	NA	104,521
23	LIQUID COVERAGE RATIO	NA	172.66%

During 3Q24, the 92-day average LCR for the Consolidated Entity was 156.34% with a 92-day average for the Bank's Stand-Alone LCR of 172.66%, and at the end of 3Q24, the LCR for the Consolidated Entity was 141.78%, while the bank's Stand-Alone LCR for 3Q24 was 146.02%; 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 scenario³.

4.4. Evolution of LCR Components

The evolution of the LCR components comparing 2Q24 and 3Q24 is presented in the following table:

LCR Component <i>(Million pesos)</i>	2Q24	3Q24	Var vs. 2Q24
Liquid Assets	208,869	187,676	(10.1%)
Cash Inflows	73,569	73,082	(0.7%)
Cash Outflows	209,118	205,452	(1.8%)

The Liquid Assets that compute in the LCRs for the Bank and Sofomes between 2Q24 and 3Q24 are distributed as follows:

Type of Asset <i>(Million pesos)</i>	2Q24	3Q24	Var vs. 2Q24
Total	208,869	187,676	(10.1%)
Level I	201,977	179,697	(11.0%)
Level II	6,893	7,979	15.8%
Level II A	4,799	5,598	16.7%
Level II B	2,094	2,381	13.7%

4.5. Main Causes of LCR Results

The changes in the Liquidity Coverage Ratio between 2Q24 and 3Q24 are the result of the maturity from one Bank's issuance of 10,400 million pesos and the effect from the Bank's dividend payment to Grupo Financiero.

It is worth noting that Banorte has not used the Permanent Liquidity Facilities of Banco de México during 3Q24.

4.6. Exposure to Derivatives and possible Margin calls

Banorte applies the regulatory methodology to determine potential cash outflows for derivatives. At the end of 3Q24, the estimated outflows for derivatives were as follows:

Derivatives Cash Outflows	2Q24	3Q24	Var vs. 2Q24
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³ The Liquidity Coverage Ratio information is preliminary and is subject to Banco de Mexico's affirmation.



(Million Pesos)			
Net cash outflows at market value and for potential future exposure	6,962	6,962	0.0%
Cash outflows for a 3 notch credit rating downgrade	-	-	0.0%

The assessment shows that potential outflows for derivatives may represent a liquidity requirement of up to Ps 6.96 billion, stable when compared to 2Q24.

4.7. Net Stable Funding Ratio (NSFR)

The NSFR is an indicator that should be interpreted as the proportion between the Available Stable Financing, made up of internal and external resources that are considered reliable over a time horizon, and the Required Stable Financing, made up of liquidity, asset maturities and off-balance sheet positions.

The following tables present the average evolution of NSFR components in 3Q24:

NSFR		Consolidated Entity				
(Million Pesos)		Unweighted value by residual maturity				Weighted Value
		No Maturity	< 6 months	6 months to < 1 year	≥ 1 year	
Available Stable Funding Items						
1	Capital:	208,287	-	-	-	208,287
2	Regulatory Capital	208,287	-	-	-	208,287
3	Other capital instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:	-	650,656	1,947	196	607,568
5	Stable deposits.	-	400,575	6	0	380,552
6	Less Stable deposits	-	250,081	1,941	196	227,017
7	Wholesale funding:	-	717,652	5,574	107,310	442,674
8	Operational deposits	-	42,881	0	0	21,441
9	Other wholesale funding	-	674,771	5,574	107,310	421,234
10	Liabilities with matching interdependent assets	-	1,286	331	6,952	-
11	Other liabilities	28,134	25,079			12,093
12	NSFR derivative liabilities	NA	-			NA
13	All other liabilities and equity not included in the above categories	28,134	2,360	21,251	1,468	12,093
14	Total Available Stable Funding	NA	NA	NA	NA	1,270,623
Required Stable Funding Items						
15	Total NSFR high-quality liquid assets (HQLA)	NA	NA	NA	NA	86,225
16	Deposits held at other financial institutions for operational purposes	-	1,712	-	-	856
17	Performing loans and securities:	-	366,916	77,187	652,059	724,814



18	Performing loans to financial institutions secured by Level 1 HQLA	-	54,769	-	-	5,477
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	20,000	14,296	9,848	19,996
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	244,652	55,027	390,33-	469,938
21	With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	-	94,672	4,773	58,414	87,691
22	Performing residential mortgages, of which:	-	8,081	4,924	240,224	187,365
23	With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk.	-	2,994	1,900	116,639	78,263
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	39,414	2,939	11,657	42,038
25	Assets with matching interdependent liabilities	-	1,286	331	6,952	0
26	Other assets:	49,808		641,164		118,563
27	Physical traded commodities, including gold	3	NA	NA	NA	3
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	NA		-		-
29	NSFR derivative assets	NA		22,368		9,117
30	NSFR derivative liabilities before deduction of variation margin posted	NA		464,644		1,200
31	All other assets not included in the above categories	49,805	141,347	91	12,713	108,244
32	Off-balance sheet items	NA		551,698		27,585
33	Total Required Stable Funding	NA	NA	NA	NA	958,044
34	Net Stable Funding Ratio (%)	NA	NA	NA	NA	132.63%

		Stand-Alone				
(Million Pesos)		Unweighted value by residual maturity				Weighted Value
		No Maturity	No Maturity	No Maturity	No Maturity	
Available Stable Funding Items						
1	Capital:	208,287	-	-	-	208,287
2	Regulatory Capital	208,287	-	-	-	208,287
3	Other capital instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:	-	650,656	1,947	196	607,568
5	Stable deposits.	-	400,575	6	-	380,552
6	Less Stable deposits	-	250,081	1,941	196	227,017
7	Wholesale funding:	-	699,909	5,457	100,171	427,249
8	Operational deposits	-	42,881	-	-	21,441
9	Other wholesale funding	-	657,027	5,457	100,171	405,808
10	Liabilities with matching interdependent assets	-	1,286	331	6,952	-
11	Other liabilities	28,134	25,079			12,093
12	NSFR derivative liabilities	NA	-			NA
13	All other liabilities and equity not included in the above categories	28,134	2,360	21,251	1,468	12,093
14	Total Available Stable Funding	NA	NA	NA	NA	1,255,198



Required Stable Funding Items						
15	Total NSFR high-quality liquid assets (HQLA)	NA	NA	NA	NA	86,225
16	Deposits held at other financial institutions for operational purposes	-	1,712	-	-	856
17	Performing loans and securities:	-	336,777	76,050	657,368	712,085
18	Performing loans to financial institutions secured by Level 1 HQLA	-	54,769	-	-	5,477
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	27,843	14,854	17,459	29,063
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	206,670	53,333	388,028	448,142
21	With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	-	86,113	4,773	58,414	83,412
22	Performing residential mortgages, of which:	-	8,081	4,924	240,224	187,365
23	With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk.	-	2,994	1,900	116,639	78,263
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	39,414	2,939	11,657	42,038
25	Assets with matching interdependent liabilities	-	1,286	331	6,952	-
26	Other assets:	49,808		690,969		118,563
27	Physical traded commodities, including gold	3	NA	NA	NA	3
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	NA		-		-
29	NSFR derivative assets	NA		22,368		9,117
30	NSFR derivative liabilities before deduction of variation margin posted	NA		464,644		1,200
31	All other assets not included in the above categories	49,805	141,347	91	12,713	108,244
32	Off-balance sheet items	NA		502,903		25,145
33	Total Required Stable Funding	NA	NA	NA	NA	942,875
34	Net Stable Funding Ratio (%)	NA	NA	NA	NA	133.12%

During 3Q24, the NSFR for the Consolidated Entity had a 92-days quarterly average of 132.63%, while the bank's quarterly average stand-alone NSFR was 133.12%, with an end of quarter consolidated entity NSFR of 132.39%; forementioned levels are above the Risk Appetite and the regulatory minimum standards. Such levels show that Banorte has the stable funding required for its assets and off-balance sheet items.

4.8. Evolution of NSFR Components

The evolution of the components of the Net Stable Funding Ratio from 2Q24 to 3Q24 is shown in the following figure.

2Q24			3Q24			Change		
Available Stable Funding	Required Stable Funding	NSFR	Available Stable Funding	Required Stable Funding	NSFR	Available Stable Funding	Required Stable Funding	NSFR



< 6 months	1,138,312	285,738		1,151,558	317,297		1.2%	11.0%	
From 6 months to < 1 year	29,322	44,385		14,181	40,029		(51.6%)	(9.8%)	
>1 year	82,671	607,752	133.31 %	111,557	607,437	132.39 %	34.9%	(0.1%)	(0.69%)

4.9. Main Causes of NSFR Results

The solid levels of the Net Stable Funding Ratio are supported not only by the strength of Banorte's Tier 1 capital, reinforced by a strong long-term funding structure derived from the issuance of subordinated debt, but also, by the stability of customer deposits, which allow a natural coverage of asset balance, from high-quality liabilities.

4.10. Liquidity Risk in foreign currency

In order to quantify and monitor the liquidity risk, in the specific case of the foreign currency denominated portfolio, Banorte uses the criteria established by the 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.

4.11. Liquidity Gaps

As part of the Bank's liquidity analysis, 30-day liquidity gaps are analyzed for the institution's assets and liabilities (obligations). The results for the Bank at the end of 3Q24 are shown in the following table.

Concept (Million pesos)	2Q24	3Q24	Var vs. 2Q24
Cumulative 30 day Gap	15,278	(6,350)	(141.6%)
Liquid Assets	198,032	185,266	(6.4%)

The mismatch between inflows and outflows (gaps) for the next 30 days is covered by liquid assets. In addition, a more granular breakdown of the liquidity gaps is presented, remaining as follows for 3Q24:

Concept (Million pesos)	1 day	7 days	1 month	3 months	6 months	12 months
Natural Gap	(8,290)	(720)	2,660	33,420	38,450	76,954
Accumulated Gap	(8,290)	(9,011)	(6,350)	27,069	65,519	142,473

4.12. Stress Testing under liquidity extreme conditions

As part of its Liquidity Risk management, Banorte carries out tests under extreme liquidity circumstances with internal scenarios, in order to assess the Bank's liquidity adequacy under adverse conditions from the environment as well as from the bank's intrinsic conditions. A total of 9 scenarios are used, based on 3 sources of risk (systemic, idiosyncratic and combined) and 3 levels of severity (moderate, medium and severe).

4.13. Contingency Funding Plan

In order to comply with comprehensive liquidity management practices, and to ensure its operation in adverse Liquidity situations, 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.



4.14. 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 the 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 into 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.

4.14.1. Financial Margin Sensitivity

Financial Margin sensitivity is a static metric that considers a twelve-month period. Only the bands with a duration of less than 1 year are affected by stimulated interest rate fluctuations. Relevant considerations behind margin sensitivity calculations are:

- Consideration of repricing outcomes for all financial assets and liabilities on the balance sheet.
- Separate 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 over time. It does not take into account organic growth, interest rate structure, or product mix changes or strategies.

The following table shows Financial Margin Sensitivity for Banorte:

Margin Sensitivity (Million Pesos)	2Q24	3Q24	Var vs. 2Q24
Local Currency Balance	364	36	(90.1%)
Foreign Currency Balance	507	531	4.7%

At the end of 3Q24, the local currency balance sensitivity for a 100bps shift in reference rates, changed from Ps 364 million in 2Q24 to Ps 36 million. The foreign currency balance sensitivity for a 100bps shift in reference rates changed from Ps 507 million to Ps 531 million. The Available for Sale portfolio had a balance of Ps 177,44 billion at the end of 3Q24, with an average balance of Ps 180.24 billion.

4.14.2. Economic Value of Equity

The economic value of Equity (EVE) is a long-term economic measure that contrasts the difference in the present value of assets and the present value of liabilities, under different interest rate scenarios. This measure also considers all internal models impacts on the balance sheet behavior, which were previously mentioned for the sensitivity of the financial margin.

The following table shows the economic value of equity for Banco Banorte, in a parallel scenario of +100 bps.

Economic Value of Equity (Bsp)	3Q24
Generalized Increase +100Bsp	155

5. OPERATIONAL RISK

The Institution has a formal Operational Risk department that reports 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 to:

- a) Enable and support the organization in achieving its institutional objectives through prevention and management of operational risks.
- b) Ensure that the existing operational risks and the required controls are properly identified, assessed, and aligned with the organization's risk strategy.
- c) Ensure that operational risks are properly quantified in order to adequately allocate capital by Operational Risk.

1.1. Policies, Objectives and Guidelines

As part of the Institutional regulations, there are documented policies, objectives, guidelines, methodologies, and responsible areas in Operating Risk management for its administration, coverage, and mitigation.

The Operational Risk Management Directors maintain close communication and coordination with the Regulatory Comptrollership in order to facilitate effective Internal Control in which proper procedures and controls are established to mitigate Operational Risk between processes and are monitored by the Internal Audit Department.

The Regulatory Comptrollership, as part of the Internal Control System, carries out the following activities to mitigate risk:

- a) Validation of internal controls.
- b) Management and control of Institutional regulations.
- c) Monitoring of the 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.
- f) Analysis and assessment of the operating processes and projects with the participation of the responsible Directors for each process in order to ensure adequate internal control.

1.2. Quantitative and Qualitative Measuring Tools

5.2.1 Operational Losses Database

In order to record operational loss events, the Institution owns a system that enables the central information supplier areas to directly record online such events, which are classified by Type of Event in accordance with the following categories:

Type of Events	Description
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; unlawful appropriation of assets; or sidestep of laws, committed by a third party
Labor Relations and Workplace Safety	Losses caused by acts incompatible with the legislation or labor agreements regarding hygiene or safety, payment of personal damage claims, or cases related to diversity/discrimination
Customers, Products & Business Practices	Losses caused by involuntary noncompliance by neglect of a professional obligation to specific customers (including fiduciary and adjustment requirements), or due to the nature or design of a product.
External Events	Losses caused by damage or harm to material assets as a consequence of natural disasters or other events.
Business Incidences and Technological Failures	Losses caused by incidences in the business and systems failures



Process Delivery Management	Execution, and	Losses caused by errors in management or processing operations as well as relations with commercial counterparties and suppliers
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This historical Database provides the statistics on 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

An internal system called “Legal Risk Issues Monitoring System” (SMARL by its acronym in Spanish) has been developed to record and monitor legal, administrative and tax issues that may arise as a result of adverse ruling. This system enables the central data supplying areas to directly and online record such events, which are then classified by company, sector and legal issue, among others.

As part of the Institution’s Legal Risk Management, legal and fiscal contingencies are estimated by the attorneys that process the cases, who determine risk level based on an internal methodology. This allows the necessary reserves to be constituted in a specific term (according to lawsuit’s term) to face such Contingencies.

5.3. Risk Management Model

The Institution achieves its defined objectives, through various plans, programs and projects. Compliance with such objectives may be adversely affected due to operational risks, therefore it is imperative to provide a methodology for managing them within the organization. Consequently, Operational Risk Management is now an institutional policy defined and supported by senior management

To perform Operating Risk Management, each of the operational 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.

5.4. Required Capital Calculation

In accordance with the current Capitalization for Operational Risk Regulations, for Banorte, the Institution has adopted the Business Indicator Method, which is estimated and reported periodically to the authorities.

5.5. Information Systems, Measurement and Reporting of Operational Risk

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. The status of the main Operational Risk mitigation initiatives implemented by the various areas of the organization, is also being reported.

Operational Risk management is supported by various information and risk measurement systems, which comply with regulatory standards and are aligned with the best international practices in Risk Management. It is worth mentioning that the information contained in the risk systems as well as the reports generated by them, are continuously backed up following institutional information security procedures.

5.6. Operational Risk Disclosure

Regarding the disclosure of the Operational Risks to which the institution is exposed, it is reported that the operational losses accumulated in the last 12 months represent 0.8% of the Net Interest Margin (accumulated in the last 12 months).

5.7. Technology Risk



Technology Risk is defined as all potential losses from damage, interruption, alteration or failures derived from the use of, or reliance on, hardware, software, systems, applications, networks and any other information distribution channels in the rendering of banking services to the customers. This risk is an inherent part of Operational Risk, which is why its management is collectively overseen throughout the entire organization.

To address the Operational Risk associated with information integrity, an “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 Institution’s capital.

The functions established by the CNBV (Comisión Nacional Bancaria y de Valores) for Technology Risk Management are performed by the Institution under the 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.

5.8. Legal Risk

Legal Risk is defined as the potential loss resulting from non-compliance with the applicable legal and administrative provisions, the issuance of indisputable unfavorable court rulings, and the application of penalties related to the operations performed by the Institution

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 subsequently recorded in the database of operational events.

Based on the statistics of the current legal issues and real loss events, the Institution will be able to identify specific legal or operational 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 primary objective of the Group’s securitization operations, is to transfer risks and benefits of certain financial assets to third parties. Likewise, it represents an alternative funding source for the Group.

Banorte 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.
- On December 5th, 2023, Banorte held the irrevocable trust for the issuance of market certificates No. 4907, issuer code BANORCB. The issuance took place on December 21st, 2023, these are backed by loans to governments, states and municipalities, all originated and assigned by Banorte

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. However, with respect to the BANORCB 23 securitization, the risks assumed and retained by the trust are relevant given the participation in the market certificates.



The Institution is responsible for ensuring that each of the assigned loans meet the eligibility criteria at the time of their respective allocation. If the fiduciary, the common representative or 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 replaced or make the corresponding payment.

The Institution's Board of Directors does not have 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 associated with securitizations that may affect the trust's 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, as described in the 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. Similarly, in order to monitor the exposure to market risk, the value at risk is calculated for these instruments with a one-day time horizon and a 99% confidence level.

Banorte is the settlor and trustee of trusts for the conducted securitizations. Additionally, the Institution also performs the duties of administrator in each of the trusts.

On the other hand, Banorte also acts as an investor by acquiring securities certificates issued by the trusts established for the securitizations. As of September 30st, 2024, GFNorte has in its own position the following securities and amounts from those securitizations carried out by the Institution

Securitization (Million pesos)	Issued Securities	Banorte
91_BANORCB_23	270,000,000	26,744
97_FCASACB_06U	-	-

The following table shows the proportion of Securities held by Grupo Financiero Banorte, for each series as of September 30st, 2024 in its own position:

Securitization (Million pesos)	Issued Securities	Banorte
91_BANORCB_23	270,000,000	100.0%
97_FCASACB_06U	1,351,386	0.0%

The ratings assigned by each rating agency as of the end of the quarter for each market certificate issued by the aforementioned trusts are as follows:

Securitization n	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
91_BANORCB_23							HRAA A		AAA/ M					
97_FCASACB_06U	mxB B		CC C (me x)											



As of September 30st, 2024 the amounts of the underlying assets of the securitization were as follows:

Securitization (Million pesos)	Amount		
	Performing	Past-Due	Total
91_BANORCB_23	Ps 28,993	Ps 0	Ps 28,993
97_FCASACB_06U	Ps 44	Ps 92	Ps 136

Securitization exposure broken down by Credit Risk Weight is shown below:.

Securitization by Risk Level (Millon Pesos)	Exposure	Capital Requierements
Securitized with Risk Level 1	26,744	964
Securitized with Risk Level 2	-	-
Securitized with Risk Level 3	-	-
Securitized with Risk Level 4	-	-
Securitized with Risk Level 5.1 to 5.4	-	-
Securitized with Risk Level 5.5 to 5.9	-	-

No securitization position is registered in memorandum accounts and no maintained securitization position is deducted from Tier 1 Capital.

Trust 563 Securitization takes into account early amortization provisions, and Trust 4907 Securitization does not consider 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 conducted by the Institution were recognized in accordance with criterion C-14 *Transfer and Elimination of Financial Assets*. Despite retaining the contractual rights to receive cash flows from financial assets for the BORHIS Securitization, a contractual obligation is assumed to pay such cash flows to a third party. In addition, an analysis of the transfer of these assets indicates 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 43.1.1 of criterion C-14, which states:

- Eliminate transferred financial assets at the last book value.
- Recognition for the consideration received in the operation.
- 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.

Regarding the GEM Securitization, it was concluded that the entity did not effectively sold to a third party, as it does not transfer substantially all the risks and benefits inherent to the transferred assets. For this reason, these assets are not unsubscribed at a consolidated level.

Both Securitizations 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 are 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 and maintenance expenses, minus any increase in principal or interest reserve, 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. Likewise, the certificate related to securitization BANORCB 23 shows a fair market value of 3.86 billion



pesos, which is only recognized in the accounting notes of Banco Banorte (individual level). At the consolidated Banco Banorte balance level, this certificate is eliminated as part of the consolidation entries.

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 GEM certificates are the following:

- a) Default: Considers credit reserve of the securitized loans in accordance with the CNBV rating methodology in order to reflect the risk of default of principal and/or interest of the securitized portfolio.
- b) Prepayment: In the event of the existence of prepayments, the notional of the portfolio is adjusted to update the future cash flows to be discounted.
- c) Portfolio term: All contractual payments of principal and interest are considered on each payment date of each of the securitized assets.
- d) Portfolio interest rate: The contractual rates of each of the securitized assets are considered. In the case of variable interest rates, forward rates are estimated based on the TIIE28 curve at the valuation date.
- e) 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, interest and principal reserve account, in case of total payment of the stock certificates, these assets would be distributed to the certificate holders.

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 fiduciary, 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 therefore none of them are obligated to make payments to the certificate holders, except for the fiduciary, whose payments may be charged to the fiduciary's account in accordance with the trust agreement.

Note: The complimentary information regarding Risk Management in order to comply with Article 88 from the CUB, is available in the Risk Management Quarterly Report for Grupo Financiero Banorte.

27 - MEMORANDUM ACCOUNTS (unaudited)

	2024	2023
Contingent assets and liabilities	Ps. 62	Ps. 29
Credit commitments	515,900	403,623
Assets in trust or mandate	339,632	312,660
Managed assets in custody	708,520	658,836
Collateral received	190,756	215,655
Collateral received and sold or given as a pledge	45,888	83,105
Interest accrued but not charged of past due loans	422	391
Other registration accounts	625,103	599,532
	Ps. 2,426,283	Ps. 2,273,831

28 - CONTINGENCIES

As of September 30, 2024 (unaudited), there are lawsuits filed against the Institution in civil and labor court cases; however, the Institution's attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Institution's unaudited condensed consolidated interim financial



position. As of September 30, 2024 (unaudited), the Institution has recorded a reserve for contentious matters of Ps. 1,059 (Ps. 1,009 of December 31, 2023).



ISSUER

**Banco Mercantil del Norte, S.A., Institución de Banca Múltiple,
Grupo Financiero Banorte, acting through its Cayman Islands Branch**

Principal Office

Avenida Revolución 3000 Sur
Colonia Primavera
C.P. 64830
Monterrey, N.L., México

LEGAL ADVISORS

To the Issuer

As to Mexican law:

White & Case, S.C.

Torre del Bosque, P.H.
Blvd. Manuel Ávila Camacho No. 24
Col. Lomas de Chapultepec
11000 Ciudad de México
México

As to U.S. federal and New York law:

White & Case LLP

1221 Avenue of the Americas
New York, New York 10020-1095
United States of America

As to Cayman Islands law:

Maples and Calder (Cayman) LLP

P.O. Box 309
Ugland House
Grand Cayman KY1-1104,
Cayman Islands

To the Initial Purchasers

As to Mexican law:

Ritch, Mueller y Nicolau, S.C.

Torre Virreyes
Av. Pedregal 24
Piso 10
Col. Molino del Rey
11040 Ciudad de México
México

As to U.S. federal and New York law:

Cleary Gottlieb Steen & Hamilton LLP

One Liberty Plaza
New York, New York 10006-1470
United States of America

AUDITOR

Galaz, Yamazaki, Ruiz Urquiza, S.C.

Affiliated Member Firm of Deloitte Touche Tohmatsu Limited
Av. Juárez 1102
Piso 40
Col. Centro
64000, Monterrey, Nuevo León
México

TRUSTEE, PAYING AGENT, TRANSFER AGENT AND REGISTRAR FOR NC6.5 NOTES AND NC10.5 NOTES

The Bank of New York Mellon

240 Greenwich Street, Floor 7 East
New York, New York
10286



U.S.\$750,000,000 8.375% NC6.5 Notes
U.S.\$750,000,000 8.750% NC10.5 Notes

**Banco Mercantil del Norte, S.A.,
Institución de Banca Múltiple, Grupo Financiero Banorte,
acting through its Cayman Islands Branch**

8.375% Perpetual 6.5 -Year Callable Subordinated Non-Preferred
Non-Cumulative Tier 1 Capital Notes

8.750% Perpetual 10.5-Year Callable Subordinated Non-Preferred
Non-Cumulative Tier 1 Capital Notes

OFFERING MEMORANDUM

November 13, 2024

Global Coordinator and Joint Book-Running Managers

Barclays

Goldman Sachs & Co, LLC

Morgan Stanley

Book-Running Manager

MUFG