

**Banco Mercantil del Norte, S.A.,  
Institución de Banca Múltiple,  
Grupo Financiero Banorte and  
Subsidiaries**

Consolidated Financial Statements  
for the Year Ended December 31,  
2022, and Independent Auditors'  
Report Dated February 28, 2023

**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, 2022**

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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 statements of financial position as of December 31, 2022, 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 view, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Institution as of December 31, 2022, and their financial performance and their 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 Institution 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.

## ***Emphasis paragraph***

As mentioned in Note 3, the Commission has completed the project to update the accounting framework applicable to Credit Institutions, which has the objective of partially converging with certain Financial Information Standards and taking into account the latest changes in the international accounting regulations, therefore, the Holding Company adopted the new provisions as of January 1, 2022. Therefore, the criteria, accounting and information policies used by the Holding Company to prepare the financial information are not comparable with those presented on last year.

Our opinion has not been modified in relation to this matter.

## ***Other issues***

The accompanying consolidated financial statements, where required, present financial information not audited within its Notes, which is required in the Provisions established by the Commission.

## ***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 issues which should be communicated in our report.

- **Preventive estimates for credit risks (see Notes 4 and 11 to consolidated financial statements)**

The methodology for calculating preventive estimation for credit risks requires that the expected loss for the next twelve months be evaluated in accordance with the Accounting Standards issued by the National Banking and Securities Commission (the Commission). This expected loss considers 3 credit risk factors that are (i) the probability of default, (ii) the severity of the loss and (iii) the exposure to noncompliance. To carry out the above identification, these rules establish a method, which considers a number of qualitative and quantitative factors, such as: 1) in consumer credits: payment behavior, potential losses and credit risk; (2) in mortgage loans: periods of delinquency, possibility of non-payment and net potential losses of guarantees received; and (3) in commercial appropriations: assessment of the ability to repay credit, financial risk, payment history, as well as corresponding guarantees.

In addition, arising from the uncertainty surrounding credit risk and the global and national economic environment caused by the COVID-19 pandemic, the 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 issue 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 operational 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, in conjunction with our team of specialists, the reasonableness of the additional reserves recorded to recognize the loss of value of your future credit portfolio that is not yet covered by the STANDARD CNBV methodology, by testing the reasonableness of assumptions, verifying arithmetic calculations and their accounting record under the economic environment derived from COVID-19.

In addition, we validate the correct presentation and disclosure in the consolidated financial statements.

### ***Information Other than the Consolidated Financial Statements and the Auditors' Report***

The Administration 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 view of the consolidated financial statements will not cover the other information and we will not express any form of security about it.

In connection with our audit of the consolidated financial statements, our responsibility will be to read the Annual Report, when available, and when we do so, consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or appears to contain a material misstatement. If, based on the work we have performed, we conclude that the other information is materially misstated, we would be required to report that fact. When we read the Annual Report we will issue the legend on the reading of the annual report, required in Article 33 Section I, subparagraph b) number 1.2. of the aforementioned Provisions we have nothing to report on this matter.

### ***Responsibilities of the Administration 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's ability to continue as an on-going business, revealing as appropriate, business-related issues underway and using the basic business postulate underway, unless the administration intends to liquidate the Institution or cease operations, or there is no other realistic alternative.

The Institution's corporate governance officials are responsible for overseeing 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.

Among the issues that have been the subject of communications with those charged with corporate governance of the Parent Company, we determined that they have been of the greatest importance in the audit of the consolidated financial statements for fiscal year 2022 and that they are, consequently, the key audit issues. We describe those matters in this audit report, unless legal or regulatory provisions prohibit public disclosure of the matter or, in extremely rare circumstances, we determine that a matter should not be disclosed in our report because the adverse consequences of doing so would reasonably be expected to outweigh the benefits of the public interest of the same.

Galaz, Yamazaki, Ruiz Urquiza, S.C.  
Member of Deloitte Touche Tohmatsu Limited

C.P.C. Daniel Castellanos Cárdenas  
Monterrey, Nuevo León, México  
February 28, 2023

**BANCO MERCANTIL DEL NORTE, S.A.,**  
**INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2022**  
(In millions of Mexican pesos)

<b>ASSETS</b>	<b>2022</b>
<b>CASH AND CASH EQUIVALENTS</b>	<b>Ps. 107,581</b>
<b>MARGIN SECURITIES (DERIVATIVE FINANCIAL INSTRUMENTS)</b>	<b>5,478</b>
<b>INVESTMENTS IN SECURITIES</b>	
Trading Financial Instrument	134,685
Financial Instruments to Collect or Sell	114,771
Financial instruments to collect principal and interest	88,050
	<b>337,506</b>
<b>DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS</b>	<b>74,371</b>
<b>DERIVATIVE FINANCIAL INSTRUMENTS</b>	
For trading purposes	35,576
For hedging purposes	1,854
	<b>37,430</b>
<b>LOAN PORTAFOLIO WITH CREDIT RISK STAGE 1</b>	
Commercial loans	
Business loans	328,895
Financial institution's loans	29,690
Government loans	165,940
Consumer loans	142,071
Mortgage loans	
Medium and residential	221,771
Low-income housing	2
Loans acquired from INFONAVIT or FOVISSSTE	1,932
<b>TOTAL LOAN PORTAFOLIO WITH CREDIT RISK STAGE 1</b>	<b>890,301</b>
<b>LOAN PORTAFOLIO WITH CREDIT RISK STAGE 2</b>	
Commercial loans	
Business loans	966
Consumer loans	2,277
<b>Mortgage loans</b>	
Medium and residential	3,130
Loans acquired from INFONAVIT or FOVISSSTE	97
<b>TOTAL LOAN PORTAFOLIO WITH CREDIT RISK STAGE 2</b>	<b>6,470</b>
<b>LOAN PORTAFOLIO WITH CREDIT RISK STAGE 3</b>	
Commercial loans	
Business loans	3,750
Consumer loans	3,528
Mortgage loans	
Medium and residential	1,553
Loans acquired from INFONAVIT or FOVISSSTE	312
<b>TOTAL LOAN PORTAFOLIO WITH CREDIT RISK STAGE 3</b>	<b>9,143</b>
<b>LOAN PORTFOLIO</b>	<b>905,914</b>
(Plus/Minus) DEFERRED ITEMS	2,058
(Minus) ALLOWANCE FOR LOAN LOSSES	(16,961)
<b>LOAN PORTFOLIO, NET</b>	<b>891,011</b>
<b>ACQUIRED COLLECTION RIGHTS, net</b>	<b>654</b>
<b>TOTAL LOAN PORTFOLIO, net</b>	<b>891,665</b>
<b>OTHER ACCOUNTS RECEIVABLE, net</b>	<b>36,343</b>
<b>FORECLOSED ASSETS, net</b>	<b>2,844</b>
<b>ADVANCE PAYMENTS AND OTHER ASSETS, net</b>	<b>8,614</b>
<b>PROPERTY, FURNITURE AND EQUIPMENT, net</b>	<b>24,538</b>
<b>ASSETS FOR RIGHTS OF USE OF PROPERTY, FURNITURE AND EQUIPMENT, net</b>	<b>6,951</b>
<b>PERMANENT STOCK INVESTMENTS</b>	<b>1,461</b>
<b>DEFERRED INCOME TAX ASSETS</b>	<b>565</b>
<b>INTANGIBLE ASSETS, net</b>	<b>15,493</b>
<b>GOODWILL</b>	<b>1,413</b>
<b>TOTAL ASSETS</b>	<b>Ps. 1,552,253</b>

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>2022</b>
<b>DEPOSITS</b>	
Demand deposits	Ps. 619,559
Time deposits	
General public	274,201
Money market	4,954
Senior debt issued	17,002
Global account of deposits without movements	3,253
	<b>918,969</b>
<b>INTERBANK AND OTHER LOANS</b>	
Short-term loans	7,181
Long-term loans	7,641
	<b>14,822</b>
<b>CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS</b>	<b>218,928</b>
<b>COLLATERAL SOLD OR PLEDGED</b>	
Repurchase or resale agreements (creditor balance)	<b>72,429</b>
<b>DERIVATIVE FINANCIAL INSTRUMENTS</b>	
For trading purposes	29,116
For hedging purposes	3,956
	<b>33,072</b>
<b>LEASE LIABILITY</b>	<b>6,606</b>
<b>OTHER ACCOUNTS PAYABLES</b>	
Creditors from settlements of transactions	7,116
Creditors from collaterals received in cash	20,643
Contributions payable	1,025
Sundry creditors and other payables	30,685
	<b>59,469</b>
<b>FINANCIAL INSTRUMENTS THAT QUALIFY AS LIABILITY</b>	
Subordinated debentures	<b>65,981</b>
<b>INCOME TAX LIABILITIES</b>	<b>7,380</b>
<b>EMPLOYEE BENEFIT LIABILITY</b>	<b>8,797</b>
<b>DEFERRED CREDITS AND ADVANCED COLLECTIONS</b>	<b>1,123</b>
<b>TOTAL LIABILITIES</b>	<b>1,407,576</b>



<b>STOCKHOLDERS' EQUITY</b>	
<b>PAID-IN CAPITAL</b>	
Common stock	18,795
Additional paid-in capital	4,651
	<b>23,446</b>
<b>OTHER CAPITAL</b>	
Capital reserves	18,959
Retained earnings from prior years	108,126
Other comprehensive income	
Result from valuation of securities to collect or sell	(2,326)
Result from valuation of instruments for cash flow hedging	(1,572)
Defined remeasurements for employee benefits	(1,924)
Cumulative Translation Adjustment	(37)
	<b>121,226</b>
<b>CONTROLLING INTEREST</b>	<b>144,672</b>
<b>NON-CONTROLLING INTEREST</b>	<b>5</b>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>144,677</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>Ps. 1,552,253</b>

"These Consolidated Statement of Financial Position was 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 Statement of financial positions has 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, 2022 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  
Executive 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, 2022**  
(In millions of Mexican pesos)

		<b>2022</b>
Interest income		Ps. 226,642
Interest expense		(141,399)
<b>NET INTEREST INCOME</b>		<b>85,243</b>
Allowance for loan losses		(11,722)
<b>NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES</b>		<b>73,521</b>
Commission and fee income		31,163
Commission and fee expense		(14,975)
Brokerage revenues		2,931
Other operating income (expenses)		(4,831)
Non-interest expense		(40,942)
		<b>(26,654)</b>
<b>OPERATING INCOME</b>		<b>46,867</b>
Equity in earnings of unconsolidated subsidiaries and associated companies		168
<b>INCOME BEFORE INCOME TAX</b>		<b>47,035</b>
Current income tax		(12,486)
<b>INCOME BEFORE DISCONTINUED OPERATIONS</b>		<b>34,549</b>
<b>NET INCOME</b>		<b>Ps. 34,549</b>
<b>Other comprehensive income:</b>		
Financial instruments to collect or sell valuation	(4,045)	
Result from valuation of instruments for cash flow hedging	1,138	
Defined remeasurements for employee benefits	113	
Cumulative Translation Adjustment	(71)	<b>(2,865)</b>
<b>COMPREHENSIVE INCOME</b>		<b>Ps. 31,684</b>
<b>Attributable income to:</b>		
Controlling interest	Ps. 34,549	
Non-controlling interest	-	<b>Ps. 34,549</b>
<b>Attributable comprehensive income to:</b>		
Controlling interest	Ps. 31,684	
Non-controlling interest	-	<b>Ps. 31,684</b>
<b>Earnings per ordinary share</b>		<b>Ps. 0.240</b>

"These consolidated comprehensive income statement was 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.

This consolidated statement of comprehensive income was approved by the Board of Directors under the responsibility of the officers who sign it".

"The accompanying explanatory notes are an integral part of this consolidated financial statement."

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

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Executive Director – Accounting

**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, 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
<b>Balances, December 31, 2021</b>	<b>Ps. 18,795</b>	<b>Ps. 3,851</b>	<b>Ps. 18,959</b>	<b>Ps. 106,018</b>	<b>Ps. 1,719</b>	<b>(Ps. 2,710)</b>
<b>TRANSACTIONS APPROVED BY STOCKHOLDERS:</b>						
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)	-	-
<b>Total transactions approved by stockholders</b>	<b>-</b>	<b>800</b>	<b>-</b>	<b>(26,416)</b>	<b>-</b>	<b>-</b>
<b>OTHER STOCKHOLDERS' TRANSACTIONS:</b>						
Effect of subsidiaries, affiliates and mutual funds	-	-	-	(179)	-	-
Interest on subordinated obligations	-	-	-	(4,853)	-	-
Effect of adoption of changes in accounting criteria	-	-	-	(993)	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,025)</b>	<b>-</b>	<b>-</b>
<b>COMPREHENSIVE INCOME:</b>						
Comprehensive income	-	-	-	34,549	-	-
<b>OTHER COMPREHENSIVE INCOME:</b>						
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)	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,549</b>	<b>(4,045)</b>	<b>1,138</b>
Non-controlling interest	-	-	-	-	-	-
<b>Balances, December 31, 2022</b>	<b>Ps. 18,795</b>	<b>Ps. 4,651</b>	<b>Ps. 18,959</b>	<b>Ps. 108,126</b>	<b>(Ps. 2,326)</b>	<b>(Ps. 1,572)</b>

OTHER CAPITAL					
	Defined remeasureme nts for employee benefits	Cumulative foreign currency translation adjustment	Total Controlling interest	Total Non- controlling interest	Total stockholders' equity
<b>Balances, December 31, 2021</b>	<b>(Ps. 2,037)</b>	<b>Ps. 34</b>	<b>Ps. 144,629</b>	<b>Ps. 4</b>	<b>Ps. 144,633</b>
<b>TRANSACTIONS APPROVED BY STOCKHOLDERS:</b>					
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)
<b>Total transactions approved by stockholders</b>	<b>-</b>	<b>-</b>	<b>(25,616)</b>	<b>-</b>	<b>(25,616)</b>
<b>OTHER STOCKHOLDERS' TRANSACTIONS:</b>					
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)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>(6,025)</b>	<b>-</b>	<b>(6,025)</b>
<b>COMPREHENSIVE INCOME:</b>					
Comprehensive income	-	-	<b>34,549</b>	-	<b>34,549</b>
<b>OTHER COMPREHENSIVE INCOME:</b>					
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)
<b>Total</b>	<b>113</b>	<b>(71)</b>	<b>31,684</b>	<b>-</b>	<b>31,684</b>
Non-controlling interest	-	-	-	1	1
<b>Balances, December 31, 2022</b>	<b>(Ps. 1,924)</b>	<b>(Ps. 37)</b>	<b>Ps. 144,672</b>	<b>Ps. 5</b>	<b>Ps. 144,677</b>

"These statement of changes in consolidated stockholders' equity was 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.

"This statement of changes in consolidated stockholders' equity was approved by the board of directors under the responsibility of the executives who sign it."

"The accompanying explanatory notes are an integral part of this consolidated financial statement."

Act. José Marcos Ramírez Miguel  
CEO

Eng. Rafael Arana de la Garza  
Managing Director - COO, Administration and Finance

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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, 2022**  
(In millions of Mexican pesos)

	<b>2022</b>
<b>Operating activities</b>	
<b>Income before income tax</b>	<b>Ps. 47,035</b>
<b>Adjustments for items associated with investing activities</b>	
Depreciation of property, furniture and equipment	3,356
Amortization of intangible assets	609
Equity in earnings of unconsolidated subsidiaries and associated companies	(168)
<b>Adjustments for items associated with financing activities</b>	
Interest associated with interbank and other loans	946
Interest associated with financial instruments that qualify as liability	1,100
	<b>5,843</b>
<b>Changes in operating activities:</b>	
Changes in margin accounts (derivative financial instruments)	2,522
Changes in investments in securities (net)	(113,047)
Changes in debtor balances under repurchase and resale agreements (net)	187,164
Changes in derivative financial instruments (asset)	(8,672)
Change in loan portfolio (net)	(94,337)
Changes in acquired collection rights (net)	382
Changes in reinsurance and surety agencies (net)	(5,203)
Changes in merchandise inventory	(1,127)
Change in other accounts receivables	(3,643)
Change in foreclosed assets	112,755
Change in deposits	(7,685)
Change in interbank and other loans	110,337
Change in creditor balances under repurchase and sale agreements	(186,100)
Collateral sold or pledged	6,629
Change in liability position of derivative financial instruments	16
Change in hedging instruments related to operations	(2,276)
Change in assets / liabilities for employee benefits	1,421
Change in other account payable	23,801
Income tax payment	(7,247)
<b>Net cash flows provided by operating activity</b>	<b>68,568</b>
<b>INVESTING ACTIVITIES:</b>	
Payments for acquisition of property, furniture and equipment	(10,665)
Proceeds on disposal of property, furniture and equipment	695
Payment on acquisitions of subsidiaries and associated companies	(914)
Proceeds for cash dividends	42
<b>Net cash flows in investment activity</b>	<b>(10,842)</b>
<b>FINANCING ACTIVITIES:</b>	
Lease liability paid	(1,033)
Payments associated with financial instruments that qualify as equity	(4,853)
Dividends paid	(26,416)
Payments associated with financial instruments that qualify as liability	(15,694)
Interest of leasing paid	(396)
<b>Net cash flow by financing activity</b>	<b>(48,392)</b>
Net increase in cash and cash equivalents	9,334
Effects from changes in the value of cash and cash equivalents	(55)
Cash and cash equivalents at the beginning of the year	98,302
<b>Cash and cash equivalents at the end of the year</b>	<b>Ps. 107,581</b>

"These consolidated statement of cash flows was 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.

His consolidated cash flow statement was approved by the board of directors under the responsibility of the executives who sign it."

"The accompanying explanatory notes are an integral part of this consolidated financial statement"

Act. José Marcos Ramírez Miguel  
CEO

Eng. Rafael Arana de la Garza  
Managing Director - COO, Administration and Finance

C.P. Isaías Velázquez González  
Managing Director – Audit

Lic. Jorge Eduardo Vega Camargo  
Deputy Managing Director – Controller

C.P.C. Mayra Nelly López López  
Executive Director – Accounting

**BANCO MERCANTIL DEL NORTE, S.A.,  
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**  
(In millions of Mexican pesos, except exchange rates and Note 33)

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## **1 – ACTIVITY AND REGULATORY ENVIRONMENT**

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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, 2022.

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 19, 2023 meeting in accordance with the responsibility assigned to them.

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## **2 – SIGNIFICANT EVENTS DURING THE YEAR**

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### **Early amortization of BANOC36 stock certificates**

On May 16, 2022, the Institution carried out the early amortization of 68.93% of the preferred subordinated obligations not susceptible to conversion into BANOC36 shares, issued on October 4, 2016 with maturity on October 4, 2031 at a price equal to its face value, the amortization amount was USD \$203 million.

### **Early amortization of BANOD 19 stock certificates**

On July 6, 2022, the Institution exercised its right to fully amortize the perpetual subordinated obligations, non-preferred and not convertible into shares, with a coupon of 6.875% BANOD19, placed on July 6, 2017, for an amount of USD \$350 million.

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## **3 – BASIS OF PRESENTATION**

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### **Presentation of consolidated financial statements**

The consolidated financial statements as of December 31, 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, 2022 include balances and transactions in millions of Mexican pesos of purchasing power of such dates.

As of December 31, 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 2022 was 14.16%. Therefore, the Mexican economy is considered as non-inflationary. However, assets, liabilities and stockholders' equity as of December 31, 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, 2022 was 19.50%.

The Mexican inflation rate for the year ended December 31, 2022 was 7.58%.

### **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, 2022, the Institution's consolidated subsidiaries and its equity ownership is as follows:

	<b>December 31, 2022</b>
Administradora de Servicios Profesionales Especializados, S.A. de C.V.	99.99%
Casa Servicios Administrativos, S.A. de C.V.	99.60%
Bonds Finance Company Limited*	100.00%
Fideicomiso BONY 469	100.00%
Estrategia en Finanzas & Infraestructura, S.A. de C.V.	99.99%
Fideicomiso de coinversión FCICK16-1	97.50%
Banorte Financial Services, INC.	100.00%

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 (19.5089 for 2022), historical rate for non-monetary assets and liabilities as well as stockholders' equity, and the weighted average

rate of the period for income, costs and expenses (20.1128 for 2022). 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.

### **Comparability of figures**

The Commission updated the accounting framework applicable to credit institutions that has the objective of partially converging with certain Financial Reporting Standards and adopt the latest changes in international accounting regulations. The Institution adopted these new provisions as of January 1, 2022, therefore, the criteria, accounting and information policies used to prepare the financial information for 2022 differ from those applied in the previous year. Derived from this situation, the Commission established that the consolidated financial statements corresponding to the period ended December 31, 2022, should not be presented in comparison with the period ended December 31, 2021.

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## **4 – CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES FOR THE ESTIMATION OF UNCERTAINTIES**

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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.

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**5 – SIGNIFICANT ACCOUNTING POLICIES**

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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, 2022**

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.

19.5089 per one U.S. dollar on December 31, 2022, 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.

## Accounting changes

Implementation of the new Annex 33 of the general provisions through which partially adopt certain MFRS, in accordance with the Resolution.

The Commission determined as a methodology for adopting these MFRS, the partial prospective application in accordance with the provisions issued by the Commission, affecting the financial impacts originated in the initial adoption in the retained earnings from prior years within stockholders' equity.

As of January 1, 2022, the Institution adopted the following new MFRS:

- MFRS B-5, "Segment information".
- MFRS B-12, "Offsetting of financial assets and liabilities".
- MFRS B-17, "Determination of fair value".
- MFRS C-2, "Investments in securities".
- MFRS C-3, "Accounts receivable".
- MFRS C-9, "Provisions, contingencies and commitments".
- MFRS C-10, "Derivative financial instruments and hedging".
- MFRS C-14, "Transfer and derecognition of financial assets".
- MFRS C-16, "Impairment of financial instruments receivable".
- MFRS C-19, "Financial instruments to be paid".
- MFRS C-20, "Financial instruments to collect principal and interest".
- MFRS C-22, "Cryptocurrencies".
- MFRS D-1, "Revenue from contracts with customers".
- MFRS D-2, "Customer contract costs".
- MFRS D-5, "Leases".

MFRS B-17 "Determination of fair value" (MFRS B-17). Establishes the rules for determining fair value and its disclosure. It mentions that fair value must use assumptions that market participants would use when setting the price of an asset or a liability under current market conditions at a given date. It is established that the particular asset or liability that is being valued must be considered, if it is monetary and if it is used in combination with other assets or on an independent basis, the market in which the exchange of the asset or liability would take place; and the appropriate valuation technique or techniques for determining its fair value, as well as maximizing the use of relevant observable input data and minimizing unobservable input data.

This MFRS requires disclosure of the level of the fair value hierarchy within which all fair value measurements are classified (Level 1, 2 or 3), as follows:

Level 1: fair value measurements are those derived from listed (unadjusted) prices in active markets, for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than listed prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Other disclosures required in the adoption of MFRS B-17 "Fair value measurement" are as follows:

- Valuation techniques and inputs used to develop fair value determinations for assets and liabilities after initial recognition.
- The effect on net income or loss or other comprehensive income for the period of recurring fair value determinations using significant and relevant unobservable inputs (Level 3).
- The fair value at the end of the reporting period.
- Whether there have been any transfers between levels of the hierarchy of liabilities, as well as the amounts, reasons, and motives for such transfers.
- Description of valuation techniques used (Level 2 and Level 3).
- Inputs used in the determination of fair value (Level 2 and Level 3).
- If there has been a change in valuation technique.

MFRS C-2 "Investments in Financial Instruments" (MFRS C-2). Establishes the standards for valuation, representation and disclosure of investments in financial instruments. It eliminates the concept of "intent to acquire" and use of an investment in a debt or equity financial instrument to determine its classification and eliminates the categories of held-to-maturity and available-for-sale instruments. Adopts the concept of "investment management business model" in financial instruments.

The exception to irrevocably designate, upon initial recognition, a financial instrument to be collected or sold, to be subsequently valued at fair value with effects on net income referred to in paragraph 32.6 of MFRS C-2 is not applicable to entities.

MFRS C-10 "Derivative financial instruments and hedging relationships" (MFRS C-10). a) Hedging relationships must be aligned with the risk management strategy for them to qualify as hedging relationships. Otherwise, they would not qualify as such and could not be recognized as hedging relationships; b) the specific measures are eliminated (between 80% and 125% with respect to the variations of the hedged item) to determine if a hedge is effective and any ineffectiveness is recognized immediately in results; c) the restriction on establishing a hedging relationship for assets and liabilities valued at fair value was eliminated; d) the hedging relationship is only discontinued if the hedging instrument or hedged item ceases to exist or if the risk management strategy changes, which would be unusual and rare; e) it is required to rebalance the hedge ratio if there is ineffectiveness, either by increasing or decreasing the hedged item or the hedging instrument; f) It is not allowed to separate the embedded derivative financial instruments that exist when the host instrument is a financial asset; and g) it is permitted to designate a net income and expense position as a hedged item, as long as that designation reflects the entity's risk management strategy.

MFRS C-16 "Impairment of financial instruments receivable" (MFRS C-16). Establishes the standards for valuation, accounting recognition, presentation and disclosure of losses due to impairment of financial instruments receivable.

It is important to mention that the Commission has worked on special accounting rules for calculating the impairment of credits that Credit Institutions maintain under the business model of maintaining to collect principal and interest.

MFRS C-19 "Financial instruments to be paid" (MFRS C-19). Establishes the valuation, presentation, and disclosure standards for the initial and subsequent recognition of accounts payable, loans and other financial liabilities in the financial statements of an economic entity. The concepts of amortized cost are introduced to measure financial liabilities through the use of the effective interest method, which is based on the effective interest rate, to carry out said valuation. Both discounts and issuance costs of a financial liability are deducted from the liability.

MFRS C-20 "Financial instruments to collect principal and interest" (MFRS C-20). Establishes the valuation, presentation and disclosure standards for the initial and subsequent recognition of financing instruments to collect principal and interest in the financial statements of an economic entity that carries out financing activities. It

eliminates the concept of intention to acquire and hold financial instruments in assets to determine their classification. It adopts the concept of "Administration business model".

Loan portfolio -

Adoption of the Effective Interest Method – For the measurement of the amortized cost of financial assets that are within the business model to 'Collect Principal and Interest' and comply with the tests to verify that the cash flows of the contract correspond only to payments of principal and interest, the effective interest method will be used, except for those credits where the interest rate is modified periodically, in which the effective interest rate calculated at the beginning of the period will be the one that will be used throughout the life of the credit.

In the recognition and disclosure of the effects of the initial application of the effective interest method and the effective interest rate carried out in the year 2023, the provisions of MFRS B-1 "Accounting changes and error corrections", applicable to credit institutions by virtue of the provisions of criterion A-2 "Application of particular standards", contained in the Accounting Criteria.

Through out the answer document No. DGDR-15556/2021 dated September 30, 2021, the Commission informed that, in adopting the effective interest method and effective interest rate in the credit portfolio, which requires detailed historical information of the credits to apply the retrospective or partial retrospective method in its adoption in accordance with MFRS B-1, there could be Institutions that conclude that it is impractical to obtain such information, therefore its adoption would be prospective.

Changes in the category of stages for the Portfolio classification: –

- a) Stage 1- Financial assets whose credit risk has not changed significantly since its granting (less than 30 days of default or less than or equal to a "delay" for non-revolving consumer and mortgage portfolios or less than or equal to a "default" for consumer portfolio of credit cards and other revolving loans).
- b) Stage 2- Financial assets with a significant increase in credit risk since their initial recognition (between 30 and 89 days of default or greater than one, but less than or equal to three months of delay or defaults).
- c) Stage 3- Financial assets with objective evidence of impairment (90 days or more of default or more than three months of delay or non-payments and/or in accordance with criteria B-6 Loan Portfolio for transfer to non-performing portfolio).

MFRS D-5 "Leases" (MFRS D-5). Establishes changes to the previous Bulletin D-5 "Leases" mainly with respect to the lessee, eliminating the concept of operating or financial leases (capitalizable) and require the lessee to recognize an asset for his Right to Control its Use (RCU) and a liability for lease at present value for its obligation to make the payments thereof, unless the lease is short-term or of low value.

#### ***Accounting criteria issued by the Commission:***

The main changes in the Accounting Criteria issued by the Commission that entered into force on January 1, 2022 are the following:

- The Following criteria were repealed: Accounting Criteria B-2 Investments in securities, B-5 Derivatives and hedging operations, B-11 Collection rights, C-1 Recognition and derecognition of financial assets, C-3 Related parties and C-4 Information by segments entering into force the corresponding MFRS, which were described above
- Names are modified and the Accounting Criteria is adapted, D-1 Statement of financial position (formerly "Statement of financial position"), D-2 Statement of Comprehensive Income (formerly "Statement of Income") and D-3 Statement of changes in the Stockholders' Equity (formerly "Statement of Changes in Stockholders' Equity") and D-4 Statement of Cash Flows.

#### Accounting Criteria B-1 Cash and cash equivalents

- The name of the Accounting Criteria is modified. It was called "Availability".
- The definitions of: Cash, Cash equivalents and highly liquid financial instruments are incorporated.
- Deposits in financial institutions represented or invested in securities, which do not meet the assumptions set forth in this Accounting Criterion will be subject to MFRS C-2
- Cash must be recognized initially, which is its nominal value, while all cash equivalents, in their initial recognition, must be evaluated at their fair value. The yields generated by cash and cash equivalents will be recognized in the results of the year as they are accrued.
- Cash must be valued at its nominal value, while cash equivalents must be valued at their fair value.
- Highly liquid financial instruments must be evaluated based on what is established in the regulations on financial instruments, in accordance with the business model that corresponds to each type of instrument.

#### Accounting Criterion B-3 Repurchase agreements

- The definition of: Financial asset, Amortized cost, Effective interest method, Effective interest rate and Fair value is modified.
- The definition of equity instruments is eliminated, incorporating the definition of equity financial instruments.
- For purposes of compensation between financial assets and liabilities, the entity acting as seller of securities, the provisions of MFRS B-12 must be followed.

The requirement to disclose the agreed rate in relevant operations is incorporated.

#### Criteria B-6 *Loan portfolio*

- The collection rights acquired by the entity that are in the cases provided for in this criterion will be subject to MFRS C-20.
- The definition of: write-offs, Amortized Cost, Credit, Commercial Credits, Line of Credit and Unpaid Balance is modified.
- The definitions of: Portfolio with stage 1, stage 2 and stage 3 credit risk, Transaction costs, Collection rights, Effective interest method, Effective interest rate and Unguaranteed residual value are added
- The definitions of Troubled Loan Portfolio, Current Loan Portfolio, Past Due Loan Portfolio, Commission for the granting of credit and Purchase Option at a reduced price are eliminated
- A section related to the business model similar to that contained in IFRS 9 is incorporated. The business model refers to how the entity administers or manages the loan portfolio to generate cash flows. That is, the entity's business model determines whether the cash flows will come from obtaining contractual cash flows, from the sale of the loan portfolio, or from both.

- The loan portfolio must be recognized in terms of this criterion, if the objective of the business model is to preserve the loan portfolio to collect the contractual cash flows and the terms of the contract provide for cash flows on pre-established dates, which correspond only to principal and interest payments on the principal amount outstanding. If the above is not met, it must be treated in accordance with the provisions of MFRS C-2.
- The Institution must document the tests it performs to determine that a loan or portfolio of loans complies with the assumption that the cash flows of the contract correspond solely to payments of principal and interest, or else that, due to its characteristics, it must be evaluated at fair value.
- The Institution must periodically evaluate, in accordance with its policies established for such purposes, the characteristics of its business model to classify the loan portfolio based on its objective. The previously disclosed policies must be duly documented
- In the initial recognition, the price of the transaction must be quantified, which corresponds to the net amount financed.
- The net amount financed is the one that results from adding or subtracting from the original amount of the credit, the insurance that may have been financed, transaction costs, commissions, interest and other items collected in advance.
- The transaction price corresponds to the fair value of loan portfolio at initial recognition and will be the basis for applying the effective interest rate with the effective interest rate, that is, it is the basis for calculating the amortized cost of the credit portfolio for subsequent recognition
- The balance in loan portfolio is the amount actually granted to the borrower, which will be recorded independently of transaction costs and items collected in advance.
- Transaction costs and items collected in advance will be recognized as a deferred charge or credit, as appropriate, which will be amortized against the results during the life of the credit according to the effective interest rate. Previously, they were recorded as a deferred loan, which was amortized against results under the straight-line lease over the life of the loan.
- The commissions collected and transaction costs related to the granting of credit cards must be recognized directly in results at the time of granting the credit, instead of being amortized in results over a period of 12 months.
- The commissions collected and transaction costs originating from a line of credit will be recognized as a credit or a deferred charge, as appropriate, which will be amortized against the results for the period corresponding to the term granted in the line of credit. Previously, they were amortized against the results of the year under the straight-line method over a 12-month period.
- A section is included in which the steps to determine the effective interest rate are explained.
- Credit portfolio acquisitions must be recognized at their fair value (transaction price) plus transaction costs on the date of agreement. Previously, they were recognized on the acquisition date at their contractual value, adjusting the difference with respect to the acquisition price.

- Acquired portfolio is recorded independently of the transaction costs, which are recognized as a deferred charge or credit, as appropriate, which are amortized against the results of the year during the life of the credit, in accordance with the effective interest rate.
- The methodology for accounting recognition in financial leasing operations is modified when the entity acts as lessor in which it will recognize at the beginning of the contract within the credit portfolio, the contractual value of the leasing operation plus the unguaranteed residual value that accumulates for the benefit of the lessor, against the cash paid, and the financial income to be accrued will be recognized based on the unpaid balance of the credit against the results of the year, in "Interest income" in accordance with MFRS D-5.
- In financial factoring, discount and assignment of credit rights operations, financial income to be accrued will be recognized in the statement of comprehensive income based on the effective interest rate, instead of under the straight-line method during the life of the loan.
- In its subsequent recognition, loan portfolio must be evaluated at its amortized cost, which must include the increases due to the effective interest accrued, the decreases due to the amortization of transaction costs and of the items collected in advance, as well as the decreases for principal and interest collections and for the preventive allowance for credit risks.
- The increase due to the adjustment in the revaluation of the unpaid balance of the credits denominated in General Minimum Wage (VSM in spanish) or in the Measurement and Update Unit (UMA in spanish) is recognized as part of the amortized cost as interest income against results. Previously, the adjustment was recognized as a deferred credit that was amortized in profit or loss as interest income over a 12-month period.
- The concept of current portfolio and past-due portfolio is modified in order to have a methodology to qualify the loan portfolio of the credit institutions that incorporate the best international practices.
- The classification of loan portfolio in stages 1, 2 or 3 is required, including its transfer between these different stages, which makes it possible to better control the credit risk to which credit institutions are subject and to establish consistently to those risks, allowances for loan losses.
- If the entity restructures a loan with stage 1 and 2 credit risk, or partially liquidates it through a renewal, it calculates the profit or loss in the renegotiation as follows:
  - a. determines the book value of the loan without considering the allowance;
  - b. determines the new future cash flows on the restructured or partially renewed amount, discounted at the original effective interest rate, and
  - c. recognize the difference between the book value and the cash flows determined in subparagraph b above as a deferred charge or credit against the profit or loss from loan portfolio renegotiation in the statement of comprehensive income.
- The amount of the restructured or partially renewed loan will serve as the basis for applying the original effective interest rate, which should only be adjusted, if applicable, to include transaction costs, commissions and other items collected in advance generated in the renegotiation.
- Deferred items pending amortization (transaction costs and items collected in advance), as well as those originating from the renegotiation, will be amortized during the new credit term based on the effective

interest rate. Previously, the commissions charged for restructuring or renewing credits were added to the commissions charged for the granting as a deferred credit, which was amortized against the results of the year under the straight-line method during the new credit term.

- The determination of profit or loss from renegotiation is not applicable to credit cards, lines of credit, or credits with stage 3 credit risk.
- If the Institution renews a loan, it will be considered that there is a new loan, so the previous loan must be canceled in the event of a total renewal.
- Indicates the classification and transfers of the renegotiated loan portfolio according to its categorization by level of credit risk.
- It incorporates certain precisions in relation to the item of sustained payment.
- Clarifies to stop the accrual of interest at the time the unpaid balance of the credit is considered as stage 3 credit risk. Likewise, the balance pending amortization of transaction costs, as well as items collected in advance and if any, the effect of the profit or loss in renegotiation pending amortization, are recognized against the results of the year.
- The obligation to record the allowance for an amount equivalent to the total accrued interest or financial income not collected at the time of the transfer of the credit as a stage 3 portfolio is eliminated.
- As long as the credit remains in the portfolio with stage 3 credit risk, interest control will be kept in memorandum accounts. In the event that the interests recorded in memorandum accounts are forgiven or written off, they must be canceled from memorandum accounts without affecting the item of the preventive allowance for credit risks.
- As long as the loan remains in the portfolio with stage 3 credit risk, interest control will be in the memorandum accounts. In the event that the interests recorded in memorandum accounts are forgiven or written off, they must be canceled from memorandum accounts without affecting the item of the preventive allowance for credit risks.
- The estimate of expected credit losses corresponding to items directly related to loan portfolio, such as legal expenses, as well as the undrawn balance of credit lines must be recorded in accordance with the provisions.
- It must be periodically evaluated whether a credit with stage 3 credit risk should remain in the statement of financial position, or be written off. In any case, there must be evidence of the formal collection procedures that have been carried out, as well as the elements that prove the practical impossibility of recovering the loan in accordance with the internal policies of the entity established in its credit manual.
- The costs and expenses incurred for the recovery of the loan portfolio must be recognized as an expense within "Other income (expenses) from the operation" of the income statement.
- The sales of loan portfolio will comply with the provisions of MFRS C-14.

Repeal of criteria included in Annex 33 of the Provisions.

With the adoption of the MFRS listed above and some others already in existence, the following criteria included in Annex 33 of the Provisions are repealed:



Accounting criteria	Adopted MFRS
A-3 Application of general rules – Rules of Compensation	MFRS B-12 Offsetting of financial assets and liabilities
B-2 Investments in securities	MFRS C-2 Investments in securities
B-5 Derivative financial instruments and hedging	MFRS C-10 Derivative financial instruments and hedging
B-11 Acquired collection rights	MFRS C-20 Financial instruments to collect principal and interest
C-1 Transfer and derecognition of financial assets	MFRS C-14 Transfer and derecognition of financial assets
C-3 Related parties	MFRS C-13 Related parties
C-4 Segment information	MFRS B-5 Segment information

Effects from the initial application of MFRS and changes in Accounting Criteria.

The detail of the impacts by the initial application of the MFRS and by the changes in the Accounting Criteria issued by the Commission mentioned above correspond to an increase (decrease) in "Results from previous years" within stockholders' equity for Ps. 993, net of deferred taxes as of January 1, 2022, as follows:

Concept	Amount
Allowance for loan losses derived from the credit portfolio rating	Ps. 848
Cancellation of allowance related to past due interests	(186)
Expected credit losses from financial instruments to collect principal and interest	675
Valuation of derivative financial instruments (FVA)	498
Valuation of derivative financial instruments (DVA)	(544)
Acquired collection rights impairment	(46)
Commissions and costs of credit card	173
<b>Effect before deferred tax</b>	<b>1,420</b>
Deferred tax	425
<b>Efect after deferred tax</b>	<b>Ps. 993</b>

### 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, 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.

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 (IFRS9), 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 MFRS 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 (IFRS9) 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, 2022, cash and cash equivalents are as follows:

	2022
Cash	Ps. 25,928
Banks	81,626
Other cash equivalents	27
	<b>Ps. 107,581</b>

"Banks" is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de México of Ps. 19.5089 as of December 31, 2022, and is made up as follows:

	Mexican pesos	USD	Total
	2022	2022	2022
Call money	Ps. 13,404	Ps. -	Ps. 13,404
Deposits with foreign credit institutions	-	25,375	25,375
Domestic banks	96	-	96
Banco de México	42,751	-	42,751
	<b>Ps. 56,251</b>	<b>Ps. 25,375</b>	<b>Ps. 81,626</b>

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, 2022, the Institution had made monetary regulation deposits of Ps. 25,967.

As of December 31, 2022, the total sum of restricted cash and cash equivalents is de Ps. 39,371. 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. 868.62 y Ps. 524.66, per unit, respectively, in 2022.

As of December 31, 2022, "Other cash equivalents" includes:

	2022
Minted metals in gold and silver	Ps. 10
Cashable checks received, pending payment at a 3-day term	15
Remittances	2
	<b>Ps. 27</b>

## 7 - INVESTMENTS IN SECURITIES

### a. Trading financial instruments

As of December 31, 2022, trading securities are as follows:

	2022			
	Adquisición cost	Accrued interest	Increase (decrease) by valuation	Book value
<b>Government securities</b>	<b>Ps. 126,183</b>	<b>Ps. 1,393</b>	<b>Ps. 5</b>	<b>Ps. 127,581</b>
<b>Not restricted</b>	<b>(1,444)</b>	-	<b>1</b>	<b>(1,443)</b>
Bondes F	(1,297)	-	1	(1,296)
M Bonds	(89)	-	-	(89)
BPA	(58)	-	-	(58)
<b>Restricted</b>	<b>127,627</b>	<b>1,393</b>	<b>4</b>	<b>129,024</b>
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
<b>Bank securities</b>	<b>5,290</b>	<b>11</b>	<b>2</b>	<b>5,303</b>
<b>Restricted</b>	<b>5,290</b>	<b>11</b>	<b>2</b>	<b>5,303</b>
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
<b>Private securities</b>	<b>1,218</b>	<b>13</b>	<b>570</b>	<b>1,801</b>
<b>Not restricted</b>	<b>1,218</b>	<b>13</b>	<b>570</b>	<b>1,801</b>
Shares	467	-	601	1,068
CEBUR – corporate	14	-	(8)	6
Eurobonds	737	13	(23)	727
	<b>Ps. 132,691</b>	<b>Ps. 1,417</b>	<b>Ps. 577</b>	<b>Ps. 134,685</b>

During 2022, the Institution recognized under “Brokerage revenues” a loss of (Ps.177), for the fair value valuation of these instruments.

As of December 31, 2022, there are Ps. 134,326, in restricted trading securities associated mainly with repurchase operations.

## b. Financial Instruments to Collect or Sell

As of December 31, 2022, Financial Instruments to Collect or Sell are as follows:

	2022			
	Adquisición cost	Accrued interest	Increase (decrease) by valuation	Book value
<b>Government securities</b>	<b>Ps. 88,611</b>	<b>Ps. 1,086</b>	<b>(Ps. 2,456)</b>	<b>Ps. 87,241</b>
<b>Not restricted</b>	<b>18,562</b>	<b>203</b>	<b>(817)</b>	<b>17,948</b>
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
<b>Restricted</b>	<b>70,049</b>	<b>883</b>	<b>(1,639)</b>	<b>69,293</b>
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
<b>Bank securities</b>	<b>11,136</b>	<b>56</b>	<b>(328)</b>	<b>10,864</b>
<b>Not restricted</b>	<b>7,623</b>	<b>35</b>	<b>(327)</b>	<b>7,331</b>
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
<b>Restricted</b>	<b>3,513</b>	<b>21</b>	<b>(1)</b>	<b>3,533</b>
CEBUR – development bank	2,033	14	(1)	2,046
CEBUR – bank	1,480	7	-	1,487
<b>Private securities</b>	<b>17,383</b>	<b>325</b>	<b>(1,042)</b>	<b>16,666</b>
<b>Not restricted</b>	<b>15,435</b>	<b>285</b>	<b>(863)</b>	<b>14,857</b>
CEBUR – corporate	6,834	35	(452)	6,417
Eurobonds	8,601	250	(411)	8,440
<b>Restricted</b>	<b>1,948</b>	<b>40</b>	<b>(179)</b>	<b>1,809</b>
CEBUR – corporate	470	1	-	471
Eurobonds	1,478	39	(179)	1,338
	<b>Ps. 117,130</b>	<b>Ps. 1,467</b>	<b>(Ps. 3,826)</b>	<b>Ps. 114,771</b>

As of December 31, 2022, there are Ps. 74,663, in restricted securities to collect and sell, mainly associated with securities repurchasing transactions.



As of December 31, 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 8.

### c. Financial instruments to collect principal and interest

As of December 31, 2022, financial instruments to collect principal and interest are as follows:

#### Medium and long-term debt securities:

2022			
	Adquisición cost	Accrued interest	Book value
<b>Government securities</b>	<b>Ps. 77,497</b>	<b>Ps. 631</b>	<b>Ps. 78,128</b>
<b>Not restricted</b>	<b>57,800</b>	<b>495</b>	<b>58,295</b>
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
<b>Restricted</b>	<b>19,697</b>	<b>136</b>	<b>19,833</b>
M Bonds	15,515	112	15,627
CEBUR – Municipality	2,876	14	2,890
Eurobonds – Government	1,306	10	1,316
<b>Bank securities</b>	<b>111</b>	<b>-</b>	<b>111</b>
<b>Not restricted</b>	<b>111</b>	<b>-</b>	<b>111</b>
CEBUR – Bank	27	-	27
Structured notes	84	-	84
<b>Private securities</b>	<b>9,763</b>	<b>48</b>	<b>9,811</b>
<b>Not restricted</b>	<b>9,763</b>	<b>48</b>	<b>9,811</b>
CEBUR – BORHIS	2	-	2
EUROBONOS	8,700	48	8,748
Other private securities	1,061	-	1,061
	<b>Ps. 87,371</b>	<b>Ps. 679</b>	<b>Ps. 88,050</b>

As of December 31, 2022, there are Ps. 19,832, in restricted financial instruments to collect principal and interest associated mainly with repurchasing operations.

As of December 31, 2022, 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
<b>Government securities</b>	<b>Ps. 38,430</b>	<b>Ps. 24,523</b>	<b>Ps. 15,174</b>	<b>Ps. 78,127</b>
<b>Not restricted</b>	<b>26,858</b>	<b>17,353</b>	<b>12,284</b>	<b>58,295</b>
F Bonds	2,010	-	-	2,010
M Bonds	202	732	-	934
CEBUR – Government	-	-	200	200
Cetes	5,454	-	-	5,454
CETES – Specials	449	-	-	449
Eurobonds – Government	20,543	16,622	12,084	49,248
<b>Restricted</b>	<b>9,772</b>	<b>7,170</b>	<b>2,890</b>	<b>19,832</b>
M Bonds	9,772	5,855	-	15,627
CEBUR – Municipality	-	-	2,890	2,890
Eurobonds – Government	-	1,315	-	1,315
<b>Bank securities</b>	<b>111</b>	<b>-</b>	<b>-</b>	<b>111</b>
<b>Not restricted</b>	<b>111</b>	<b>-</b>	<b>-</b>	<b>111</b>
CEBUR – Bank	27	-	-	27
Structured notes	84	-	-	84
<b>Private securities</b>	<b>8,031</b>	<b>717</b>	<b>1,064</b>	<b>9,812</b>
<b>Not restricted</b>	<b>8,031</b>	<b>717</b>	<b>1,064</b>	<b>9,812</b>
CEBUR – BORHIS	-	0	2	2
EUROBONOS	8,031	717	-	8,748
Other private securities	-	-	1,062	1,062
	<b>Ps. 46,572</b>	<b>Ps. 25,241</b>	<b>Ps. 16,238</b>	<b>Ps. 88,050</b>

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, 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>		Total
	Financial Instruments to Collect or Sell	Financial instruments to collect principal and interest	Financial Instruments to Collect or Sell	Financial instruments to collect principal and interest	
<b>Adoption as of January 1, 2022</b>	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)
<b>Balances as of December 31, 2022</b>	<b>Ps. 43</b>	<b>Ps. -</b>	<b>Ps. 302</b>	<b>Ps. 205</b>	<b>Ps. 550</b>

#### d. Collateral

The fair value of the collateral given in derivative transactions as of December 31, 2022, is as follows:

2022			
Fair value in millions			
Type of collateral:	Pesos	USD	EUR
Cash	Ps. 1,252	Ps. 811	Ps. 38
	<b>Ps. 1,252</b>	<b>Ps. 811</b>	<b>Ps.38</b>

The fair value of the collaterals received in derivative operations as of December 31, 2022, is made up as follows:

2022			
Fair value in millions			
Type of collateral:	Pesos	USD	EUR
Cash	Ps. 12,671	Ps. 409	Ps. -
	<b>Ps. 12,671</b>	<b>Ps. 409</b>	<b>Ps. -</b>

As of December 2022, interest income is as follows:

Concept	2022
Trading Financial Instrument	Ps. 5,489
Financial Instruments to Collect or Sell	8,198
Financial instruments to collect principal and interest	3,608
	<b>Ps. 17,295</b>

## 8 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

As of December 31, 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
CETES	Ps. 1,000	Ps. 1,000
CEBUR – Government	7,405	7,379
CEBUR – Development Bank	502	502
UMS (Fix) Bonds - Government	1,916	-
IPAB Bonds 28	-	-
IPAB Bonds 91	11,172	11,172
IPAB Bonds 182	26,494	26,494
F Bonds	7,102	7,102
M Bonds	975	975
D Bonds	9,418	9,418
<b>Government securities</b>	<b>65,984</b>	<b>64,042</b>
CEBUR – Bank	2,936	2,936
CEDES (Fix)	3,512	3,512
<b>Bank securities</b>	<b>6,448</b>	<b>6,448</b>
CEBUR Municipality	28	28
CEBUR Udis	1,500	1,500
CEBUR corporate	411	411
<b>Private securities</b>	<b>1,939</b>	<b>1,939</b>
	<b>Ps. 74,371</b>	<b>Ps. 72,429</b>

With the Institution acting as the vendor, accrued interest were charged to the results of operations as of December 31, 2022 for Ps. 14,849 which is presented in the “Interest Expenses heading.”

During 2022, 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, 2022, the amount of the delivered and received securities as collateral in repurchase transactions that represent a transfer of ownership, amount to Ps. 182,756 and Ps. 72,400, respectively.

#### Acting as securities purchaser

<b>Instrument</b>	<b>2022</b>
CETES	Ps. 367
CEBUR	526
CEBUR – Development Bank	4,168
UMS (Fix) Bondes - Government	20,301
UMS (Fix) Bondes - Government	16,913
IPAB Bonds 28	92,016
IPAB Bonds 91	14,090
Bonds	32,794
Government Bonds	17,392
Udibonds	5,288
Monetary Regulation Bonds	7,002
<b>Government securities</b>	<b>210,857</b>
CEBUR – Bank	1,518
Multilateral Financial Organizations	491
CEDES	2,667
<b>Bank securities</b>	<b>4,676</b>
CEBUR Municipality	2,919
CEBUR corporate	476
<b>Private securities</b>	<b>3,395</b>
	<b>Ps. 218,928</b>

With the Institution acting as the purchaser, accrued interest charged to the results of operations as of December 31, 2022 were Ps. 24,163, which is presented in the “Interest Income” Heading.

During 2022, 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, 2022, positions in derivative financial instruments are as follows:

<b>Asset position</b>	<b>2022</b>
<b>Forwards</b>	
Foreign currency forwards	Ps. 125
<b>Options</b>	
Interest rate options	1,154
Shares options	142
Foreign currency options	50
<b>Swaps</b>	
Interest rate swaps	30,255
Foreign currency swaps	3,709
Credit swaps	141
<b>Total trading</b>	<b>35,576</b>
<b>Options</b>	
Interest rate options	-

<b>Asset position</b>	<b>2022</b>
<b>Swaps</b>	
Foreign currency swaps	1,854
Interest rate swaps	
<b>Total hedging</b>	<b>1,854</b>
<b>Total position</b>	<b>Ps. 37,430</b>
<b>Liability position</b>	<b>2022</b>
<b>Forwards</b>	
Foreign currency forwards	Ps. 162
<b>Options</b>	
Interest rate options	1,211
Foreign currency options	143
Share options	35
<b>Swaps</b>	
Interest rate swaps	23,237
Foreign currency swaps	4,318
Credit swaps	10
<b>Total trading</b>	<b>29,116</b>
<b>Swaps</b>	
Interest rate swaps	1,177
Foreign currency swaps	2,769
<b>Total hedging</b>	<b>3,956</b>
<b>Total position</b>	<b>Ps. 33,072</b>

Trading instruments:

As of December 31, 2022, the trading derivative financial instruments are classified by fair value and the result of the period.

<b>Trading</b>	<b>Book value</b>	<b>Valuation</b>
Forward	(Ps. 40)	(Ps. 500)
Options	(43)	(27)
Foreign Currency Swaps	7,143	987
Interest Rate Swaps	(609)	858
Credit Swaps	130	43

The effect of credit risk of the derivatives portfolio in the 2022 period amounts to Ps. 264

An analysis of undiscounted trading cash flows as of December 31, 2022 is broken down below.

<b>Instrument</b>	<b>Currency</b>	<b>1 year</b>	<b>1 to 5 years</b>	<b>5 to 10 years</b>	<b>More than 10 years</b>
Interest Rate Swap	MXN	(Ps. 9,156)	(Ps. 12,864)	(Ps. 3,873)	(Ps. 68)
Interest Rate Swap	USD	(5)	(34)	3	2
Foreign Currency Swap	MXN	3,097	1,077	836	52
Foreign Currency Swap	USD	(45)	(64)	(17)	3
Foreign Currency Swap	EUR	(3)	(34)	(10)	-
Foreign Currency Swap	CHF	1	-	-	-

As of December 31, 2022, the items hedged by type of coverage and risk are detailed.

<b>Book value</b>
-------------------

Instrument	Asset	Liability	Item
Interest Rate Swaps (Forecast Fund)	Ps. 936	Ps. 1	Liability
Interest Rate Swaps (DRM)	-	2,113	Asset
Foreign Currency Swap (UDI Liability)	169	-	Liability
Foreign Currency Swap (Debentures)	406	-	Liability
Foreign Currency Swap (EUR Assets)	939	1,015	Asset
Foreign Currency Swap (GBP Assets)	58	375	Asset
Foreign Currency Swap (USD Assets)	282	1,389	Asset

As of December 31, 2022, ORI movements to results from cash flow hedges are detailed.

Instrument	Balance pending to recycle other comprehensive income
Interest Rate Swaps (Forecast Fund)	Ps. 656
Interest Rate Swaps (DRM)	(1,490)
Foreign Currency Swap (UDI Liability)	-
Foreign Currency Swap (Debentures)	283
Foreign Currency Swap (ME Asset)	(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 2023 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, 2022, the collateral was comprised mainly of cash. Their fair value is shown in Note 6 d).

During 2022, the net earnings from the valuation and realization of derivative financial instruments were Ps. 697.

The net amount of estimated gains or losses originated by transactions or events recorded in "Comprehensive income" to date in the consolidated financial statements and that are expected to be reclassified to earnings within the next 12 months total (Ps. 247).

As of December 31, 2022, 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, 2022, there are 93 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, 2022, expected to occur and affect earnings:

<b>Concept</b>	<b>Up to 3 months</b>	<b>More than 3 months and up to 1 year</b>	<b>More than 1 and up to 5 years</b>	<b>More than 5 years</b>
Forecast funding	Ps. 1	Ps. 3	Ps. 8	Ps. 3
Monetary regulation deposits	1	1	4	1
Assets denominated in USD	-	1	1	-
	<b>Ps. 2</b>	<b>Ps. 5</b>	<b>Ps. 13</b>	<b>Ps. 4</b>

The fair value of the instruments designated as cash flows hedging, recognized in overall earnings in stockholders' equity as of December 31, 2022 (Ps. 931). Furthermore, (Ps. 300) were reclassified from stockholders' equity to results.

Trading derivatives and hedging derivatives: the loan risk is minimized through means of contractual compensation agreements, in which asset and liability derivatives with the same counterparty are settled for their net balance. Similarly, there may be other types of collateral such as credit lines, depending on the counterparty's solvency and the nature of the transaction.



The following table shows the cash flows hedging valuation balance:

Balance	Valuation of cash flows hedging instruments	Net change in period	Reclassified to income
Balance, December 31, 2018	(Ps. 5,001)	Ps. 223	Ps. 107
Balance, December 31, 2019	(Ps. 1,275)	Ps. 3,726	(Ps. 71)
Balance, December 31, 2020	Ps. 448	Ps. 1,723	(Ps. 266)
Balance, December 31, 2021	(Ps. 2,257)	(Ps. 2,705)	(Ps. 193)
Balance, December 31, 2022	(Ps. 931)	Ps. 1,325	(Ps. 300)

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	It is considered that there is a clear economic relationship between the hedged item and the hedging instrument since: 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	It is considered that there is a clear economic relationship between the hedged item and the hedging instrument since: 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. 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.	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.	It is considered that there is a clear economic relationship between the hedged item and the hedging instrument since: 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%

## 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, 2022, there is the following exposure by instrument:

<b>As of December 31, 2022</b>						
Classification		Stage 1		Stage 2		Stage 3
Government	Ps.	78,127	Ps.	-	Ps.	-
Bank		111		-		-
Private		8,748		1,062		2
<b>Total</b>	<b>Ps.</b>	<b>86,986</b>	<b>Ps.</b>	<b>1,062</b>	<b>Ps.</b>	<b>2</b>

The expected credit loss classified by stages as of December 31, 2022 is as follows:

#### **Stage 1**

Classification	As of December 31, 2022
Government	Ps. -
Bank	-
Private	-
<b>Total</b>	<b>Ps. -</b>

#### **Stage 2**

Classification	As of December 31, 2022
Government	Ps. -
Bank	-
Private	204
<b>Total</b>	<b>Ps. 204</b>

#### **Stage 3**

Classification	As of December 31, 2022
Government	Ps. -
Bank	-

Private	1
<b>Total</b>	<b>Ps. 1</b>

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
<b>Total</b>	<b>Ps. 1</b>

As of December 31, 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, 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. 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
<b>Total loan portfolio</b>	<b>Ps. 890,301</b>	<b>Ps. 6,470</b>	<b>Ps. 9,143</b>	<b>Ps. 905,914</b>

## Restructured loans

The restructured loans on December 31, 2022 that modified their terms and rates are shown below:

	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
	<b>Ps. 35,862</b>	<b>Ps. 368</b>	<b>Ps. 398</b>

As of December 31, 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. 1,189	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
	<b>Ps. 4,765</b>	<b>Ps. 2,560</b>	<b>Ps. 1,138</b>	<b>Ps. 680</b>	<b>Ps. 9,143</b>

Past-due loan movements for the years ended on December 31, 2022 are shown below:

	2022
Balance at the beginning of the year	Ps. 7,836
Liquidations	(4,936)
Write-offs*	(12,216)
Renewals	(311)
Discounts	(353)
Transfers to portfolio stage 1 and 2	(5,000)
Transfers from portfolio stage 1 and 2	24,042
Fluctuation from foreign exchange rate	81
<b>Year-end balance</b>	<b>Ps. 9,143</b>

\* Corresponds to 100% hedged loans.

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, 2022, the balance of written off loans that had been fully reserved as past due was Ps. 12,854.

On December 31, 2022, revenues from recoveries of previously written-off loan portfolios were Ps. 3,309.

The loans granted per economic sectors as of December 31, 2022 is shown below:

	2022	
	Amount	Concentration percentage
Private (companies and individuals)	Ps. 333,611	36.83%
Financial institutions	29,690	3.28%
Credit card and consumer	147,876	16.32%
Mortgage	228,797	25.26%
Government loans	165,940	18.31%
	<b>Ps. 905,914</b>	<b>100.00%</b>

### 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, 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. 450 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:

Risk category	2022						
	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	-	-	-	-	-	-
	<b>Ps. 937,377</b>	<b>Ps. 3,912</b>	<b>Ps. 804</b>	<b>Ps. 73</b>	<b>Ps. 10,437</b>	<b>Ps. 1,035</b>	<b>Ps. 16,261</b>
<b>Recorded allowance</b>	-	-	-	-	-	-	<b>16,961</b>
<b>Supplement</b>	-	-	-	-	-	-	<b>Ps. 700</b>

The reserve complement of \$700 corresponds to the additional reserves that were originally set up for COVID-19, which were requested to the Commission to cover risks that are not provided for in the portfolio rating methodologies and to deal with the possible deterioration of the credit portfolio due to new variants of COVID-19.

As of December 31, 2022, the amount of the rating base credit portfolio includes \$29,407, for Guarantees Granted and Credit Commitments, which are recorded in memorandum accounts. Additionally, it includes \$16,961 for loans to related parties consolidated by the Parent Company.

As of December 31, 2022, the estimated allowance for loan losses is determined based on portfolio balances at those dates.

As of December 31, 2022, the allowance for loan losses represents 186% of the portfolio stage 3.

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, 2022.

According to the current regulation, as of December 31, 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. 431,578	2.5%	36.1%
Mortgage	Ps. 228,797	2.8%	15.9%
Non-revolving consumer	Ps. 101,644	8.2%	69.7%
Revolving Consumer loan	Ps. 59,874	9.2%	84.9%

\* 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:

	2022
Balance at the beginning of the year	Ps. 15,744
Increase charged to results	14,655
Increase registered in Results of previous years	662
Discounts and write-offs	(14,043)
Rebates granted to housing debtors	(15)
Others	(42)
<b>Year-end balance</b>	<b>Ps. 16,961</b>



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**14 - ACQUIRED COLLECTION RIGHTS, NET**

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The balance of acquired collection rights (net) as of December 31, 2022 was \$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 \$674 and amortization to \$357.

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.

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**15 - OTHER ACCOUNTS RECEIVABLE, NET**

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This item is made up as follows:

	<b>2022</b>
Loans to officers and employee	Ps. 3,167
Debtors from liquidation settlements	15,721
Debtors from cash collateral	12,396
Real estate property portfolios	102
Sundry debtors in Mexican pesos	4,356
Sundry debtors in foreign currency	986
Others	11
	36,739
Allowance for doubtful accounts	(396)
	<b>Ps. 36,343</b>

Loans to officers and employee mature within 3 to 30 years and accrue an interest rate from TIIE +0.6% to TIIE +1 %.

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**16 - FORECLOSED ASSETS, NET**

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As of December 31, 2022, the foreclosed assets balance is as follows:

	<b>2022</b>
Moveable property	Ps. 354
Real estate property	4,153
Goods pledged for sale	13
	<b>4,520</b>
Allowance for losses on foreclosed assets	(267)
Allowance for losses on foreclosed real estate assets	(1,362)
Allowance for losses on assets pledged for sale	(47)
	<b>(1,676)</b>
	<b>Ps. 2,844</b>

## **17 - PROPERTY, FURNITURE AND EQUIPMENT, NET**

As of December 31, 2022, the property, furniture and equipment balance is as follows:

	<b>2022</b>
Furniture and equipment	Ps. 15,568
Property intended for offices	17,141
Installation costs	10,217
	<b>42,926</b>
Less - Accumulated depreciation and amortization	(18,388)
	<b>Ps. 24,538</b>

Depreciation recorded in the results of 2022 was Ps. 3,356.

The average estimated useful lives of the Institution's assets subject to depreciation are listed below:

	<b>Useful Life</b>
Furniture and equipment	From 4 to 10 years
Property intended for offices	From 4 to 99 years
Installation costs	10 years

## **18 – ASSETS FOR RIGHTS OF USE OF PROPERTY, FURNITURE AND EQUIPMENT, NET**

The Institution leases computer equipment, furniture and equipment and real estate, agreed upon in previous years. Prior to January 1, 2022, these leases were classified at the time as operating leases under Bulletin D-5, in accordance with the new regulations (MFRS D-5) they are recognized as financial leases (capitalizable).

The asset balance of the right-of-use as of December 31, 2022 is as follows

	<b>2022</b>
Computer equipment	Ps. 287
Real estate	6,664
	<b>Ps. 6,951</b>

As of December 31, 2022, the lease liability is made up as follows:

Analysis of Maturity - Undiscounted Contractual Cash Flows

	<b>2022</b>
From zero to five years	Ps. 1,169
From more than five to ten	1,831
ten years and more	3,605
	<b>Ps. 6,605</b>

The depreciation expense of asset right-of-use recognized in results as of December 31, 2022, was Ps. 985.

The interest expense of the lease liability recognized in results as of December 31, 2022, was Ps. 397.

Lease payments made in 2022 were Ps. 1,227.

## 19 - PERMANENT STOCK INVESTMENTS

Investments in non-consolidated companies and associated companies are valued according to the equity method, as detailed below:

	Share %	2022
McN Investments Ltd.	4.64%	Ps. 914
Controladora PROSA, S. A. de C. V.	19.73%	410
Fondo Chiapas, S.A. de C.V.	12.09%	21
Otras	Divers	116
		<b>Ps. 1,461</b>

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, 2022, the Institution has recognized a net deferred tax for \$565 and it is made up as follows:

	2022	
	Temporary Differences	Deferred Effect ISR
<u>Temporary Differences - Assets</u>		
Allowance for loan losses	Ps. 16,961	Ps. 5,088
Excess of tax over book value of foreclosed and fixed assets	1,805	560
PTU	1,415	425
Fees collected in advance	3,666	1,100
Accounting provisions	3,240	972
Other assets	38	10
<b>Total assets</b>	<b>27,125</b>	<b>8,155</b>
<u>Temporary Differences - Liabilities</u>		
Advance contributions to the pension fund	Ps. 24	Ps. 7
Adquisition of Portafolios	654	196
Capitalizable projects' expenses	23,827	7,148
Financial instruments valuation	781	234
Other liabilities	17	5
<b>Total Liabilities</b>	<b>25,303</b>	<b>7,590</b>
<b>Deferred tax, net</b>		<b>Ps. 565</b>

As explained in Note 29, the applicable income tax rate is 30% for 2022 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, 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, 2022 is as follows:

	<b>2022</b>
Payments to amortize	Ps. 512
Various taxes	1,140
advances to suppliers	5,981
Other assets	981
	<b>Ps. 8,614</b>

## **22 – GOODWILL**

As of December 31, 2022 goodwill is as follows:

	<b>2022</b>
Originated by the merger with Banorte-lxe Tarjetas, S.A. de C.V., SOFOM, ER	Ps. 1,005
Originated by the merger with Uniteller Financial Services	408
	<b>Ps. 1,413</b>

\* 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, 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 such regime, during 2022, the Institution generated a liquidity requirement of USD 843,156 thousand, and held investments in liquid assets of USD 4,359,178 thousand, representing a surplus of USD 3,517,694 thousand.

### **Deposits**

The liabilities derived from core deposits are made up as follows:

	<b>2022</b>
<b>Demand deposits</b>	
<b>Non-interest bearing checking accounts:</b>	
Cash deposits	Ps. 394,775
Checking accounts in US dollars for individual residents on the Mexican border	4,740
Demand deposits accounts	12,604
<b>Interest bearing checking accounts:</b>	
Other bank checking deposit	181,919
Checking accounts in US dollars for individual residents on the Mexican border	2,505

Demand deposits accounts	23,016
	<b>619,559</b>
<b>Time deposits</b>	
<b>General public:</b>	
Fixed-term deposits	26,666
Retail time deposits	246,089
Promissory note with interest payable at maturity PRLV primary market for individuals	118
Promissory note with interest payable at maturity PRLV primary market for institutions	195
Provision for interest	1,133
	<b>274,201</b>
<b>Money market:</b>	
Over the counter promissory notes	4,954
	<b>4,954</b>
	<b>279,155</b>
<b>Senior debt</b>	<b>17,002</b>
<b>Global account of deposits without movement</b>	<b>3,253</b>
	<b>Ps. 918,969</b>

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:**

	<b>2022</b>			
<b>Foreign exchange</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>
Mexican pesos and UDIS	1.08%	1.47%	1.85%	1.90%
Foreign currency	0.04%	0.09%	0.19%	0.43%

**Time deposits:**

	<b>2022</b>			
<b>Foreign exchange</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>
<u>General public</u>				
Mexican pesos and UDIS	4.10%	4.71%	5.58%	6.59%
Foreign currency	0.26%	0.28%	0.26%	0.28%
Money market	0.00%	9.02%	9.66%	8.49%

As of December 31, 2022, the terms set for these deposits are as follows:

	2022			Total
	From 1 to 179 days	From 6 to 12 months	More than 1 year	
<b>General public</b>				
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
	<b>260,400</b>	<b>9,883</b>	<b>3,918</b>	<b>274,201</b>
<b>Money market:</b>				
Over the counter promissory notes	-	-	4,954	4,954
	-	-	<b>4,954</b>	<b>4,954</b>
	<b>Ps. 260,400</b>	<b>Ps. 9,883</b>	<b>Ps. 8,872</b>	<b>Ps. 279,155</b>

## 24 - INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2022 is as follows:

	MXN	Valued USD	TOTAL
<b>Short-term:</b>			
Development banking	Ps. 2,706	Ps. -	Ps. 2,706
Public trusts	3,885	540	4,425
Provision for interest	33	17	50
	<b>6,624</b>	<b>557</b>	<b>7,181</b>
<b>Long-term:</b>			
Commercial banking	-	2,439	2,439
Public trusts	4,600	602	5,202
	<b>4,600</b>	<b>3,041</b>	<b>7,641</b>
	<b>Ps. 9,658</b>	<b>Ps. 3,545</b>	<b>Ps. 14,822</b>

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	2022			
	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	7.10%	6.92%	8.27%	10.25%
Foreign currency	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:

	2022
Cashier and certified checks and other negotiable instruments	Ps. 3,283
Provisions for other obligations	9,795
Others	17,607
	<b>Ps. 30,685</b>

## 26 - EMPLOYEE RETIREMENT OBLIGATIONS

The Holding recognizes the liabilities for pension plans and seniority premiums using the "Projected Unit Credit Method", which considers the benefits accrued at the date of the Consolidated Statement of Financial Positions and the benefits generated during the year.

The amount of current and projected benefits as of December 31, 2022, related to the Defined Benefit Pension Plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

	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
<b>Funded status</b>	<b>(1,196)</b>	<b>(\$1,082)</b>	<b>(604)</b>	<b>(2,882)</b>
Unrecognized prior service cost	-	-	-	-
Unrecognized actuarial losses	-	-	-	-
<b>Net projected asset</b>	<b>(Ps. 1,196)</b>	<b>(Ps. 1,082)</b>	<b>(Ps. 604)</b>	<b>(Ps. 2,882)</b>

As of December 31, 2022, a separate fund amounting to 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:

	2022
Service cost	Ps. 22
Interest cost	512
Expected return on plan assets	(264)
<b>Amortizations of unrecognized items:</b>	
Profits (actuarial losses)	117
<b>Net periodic pension cost</b>	<b>Ps. 387</b>

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2022, are shown below:

Concept	2022 Nominal
Discount rate	10.50%
Rate of wage increase	4.50%
Long-term inflation rate	3.50%
Expected long-term rate of return on plan assets	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	2022
Defined and projected benefit obligations	(Ps. 352)
<b>Net projected liability</b>	<b>(Ps. 352)</b>

The net periodic pension cost is as follows:

Concept	2022
Service cost	Ps. 42
Interest cost	8
<b>Net periodic pension cost</b>	<b>Ps. 50</b>

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 \$176 in 2022.

The balance of the employee retirement obligations presented in this Note refers to the Holding'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, 2022, equivalent to Ps. 127, which is recorded under "Other assets" and is equivalent to the recorded plan liability.

As of December 31, 2022, the PTU provision was Ps. 1,209.

## 27 - SUBORDINATED DEBENTURES

As of December 31, 2022, the subordinated debentures in circulation are as follows:

	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. 10,730
Preferred subordinated obligations not susceptible to be converted into share capital BANO36 311004 with maturity in October 2031, denominated in USD, with an interest rate of 5.75% payable semiannually and amortizing the capital at maturity.	1,712
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%**	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%**	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%.	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%.	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%.	10,730
Accrued interest.	61
Issuance and placement expenses.	(338)
	<b>Ps. 65,981</b>



\*\* 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 \$23 in 2022.

## 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, 2022 are made up as follows:

<b>Institution</b>	<b>Revenues</b>	<b>Accounts receivable</b>
Arrendadora Banorte, S.A. de C.V.	Ps. 907	Ps. 11,548
Almacén Banorte, S.A. de C.V.	33	839
Seguros Banorte, S.A. de C.V.	1,217	98
Pensiones Banorte S.A. de C.V.	20	-
Casa de Bolsa Banorte, S.A. de C.V.	8,897	55,482
Operadora de Fondos Banorte, S.A. de C.V.	939	94
<b>Total</b>	<b>Ps. 12,013</b>	<b>Ps. 68,061</b>

<b>Institution</b>	<b>Expenses</b>	<b>Accounts payable</b>
Grupo Financiero Banorte, S.A.B. de C.V.	Ps. 1,712	Ps. 15,971
Arrendadora y Factor Banorte, S.A. de C.V.	11	232
Almacén Banorte, S.A. de C.V.	-	1
Seguros Banorte, S.A. de C.V.	474	1,935
Pensiones Banorte, S.A. de C.V.	2	4
Casa de Bolsa Banorte, S.A. de C.V.	370	3,304
Operadora de Fondos Banorte, S.A. de C.V.	25	83
Ixe Servicios, S.A. de C.V.	21	630
Banorte Ahorro y Previsión, S.A. de C.V.	4	48
<b>Total</b>	<b>Ps. 2,619</b>	<b>Ps. 22,208</b>

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, 2022, the amount of the loans granted to related parties were as follows:

<b>Institution granting the loan</b>	<b>2022</b>	<b>% over the limit</b>
Banco Mercantil del Norte, S.A.	Ps. 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:

	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
<b>Total</b>	<b>Ps. 225,166</b>	<b>Ps. 1,476</b>	<b>Ps. 226,642</b>

b. The composition of interest expense, segmented by type of deposit, is as follows:

	2022		
	MXP	F.E.	Total
<b>Immediately Due and Payable Deposits:</b>			
Checking accounts	Ps. 7,849	Ps. -	Ps. 7,849
Savings accounts	632	-	632
	8,481	-	8,481
<b>Time Deposits:</b>			
General public	13,201	-	13,201
Money market	23	-	23
	13,224	-	13,224
<b>Total</b>	<b>Ps. 21,705</b>	<b>Ps. -</b>	<b>Ps. 21,705</b>

c. The composition of interest and commission expense, segmented by type of loan, is as follows:

	2022		
	MXP	F.E.	Total
Call money	Ps. 84	Ps. -	Ps. 84
Banco de México	-	-	-
Commercial banks	44	-	44
Development banking	811	-	811
Provision for interest	7	-	7
<b>Total</b>	<b>Ps. 946</b>	<b>Ps. -</b>	<b>Ps. 946</b>

d. The Intermediation income are as follows:

	2022
<b>Intermediation income:</b>	
Spot foreign currency	(Ps. 1,598)
Derivative financial instruments	1,570
Investments in securities	(144)
<b>Valuation</b>	<b>(172)</b>
<b>Purchase-sales result, net</b>	
Spot foreign currency	4,524
Derivative financial instruments	(909)
Investments in securities	(512)
<b>Total Intermediation income</b>	<b>3,103</b>
<b>Total Intermediation income</b>	<b>Ps. 2,931</b>

e. The stage 1 and 2 loan portfolio, grouped by economic sector and geographical location, is as follows

	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
<b>Stage 1 and 2 loan portfolio</b>	<b>Ps.166,310</b>	<b>Ps. 263,991</b>	<b>Ps. 35,936</b>	<b>Ps. 59,251</b>	<b>Ps. 896,771</b>

f. The past-due loan portfolio, grouped by economic sector and geographical location, is summarized as follows

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
<b>Past-due loan portfolio</b>	<b>Ps. 1,223</b>	<b>Ps. 1,909</b>	<b>Ps. 82</b>	<b>Ps. 535</b>	<b>Ps. 9,143</b>

g. The assigned loan portfolio by responsibilities is made up as follows:

	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
<b>Total performing loan portfolio</b>	<b>759,766</b>	<b>137,005</b>	<b>896,771</b>
Commercial	3,352	398	3,750
Consumer loans	3,528	-	3,528
Housing mortgage loans	1,865	-	1,865
<b>Total past-due loan portfolio</b>	<b>8,745</b>	<b>398</b>	<b>9,143</b>
<b>Total loan portfolio</b>	<b>2,058</b>	<b>-</b>	<b>2,058</b>
Allowance for loan losses	770,569	137,403	907,972
<b>Loan portfolio, net</b>	<b>(16,961)</b>	<b>-</b>	<b>(16,961)</b>
Acquired collection rights	654	-	654
<b>Total loan portfolio, net</b>	<b>Ps. 754,262</b>	<b>Ps. 137,403</b>	<b>Ps. 891,665</b>

h. Deposit accounts grouped by product and geographical location are as follows:

Producto	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
<b>Total Deposits</b>	<b>Ps. 222,029</b>	<b>Ps. 358,948</b>	<b>Ps. 78,389</b>	<b>Ps. 112,411</b>	<b>Ps. 120,043</b>	<b>Ps. 24,160</b>	<b>Ps. 2,989</b>	<b>Ps. 918,969</b>

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## 30 - INCOME TAXES

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The Institution is subject to Income Tax (ISR).

### ISR

Pursuant to the ISR Law the rate for 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:

	2022
Legal rate	30%
Tax inflation	(4%)
Non-tax accounting write-offs	2%
Interest on subordinated	(4%)
Other items	3%
<b>Effective rate</b>	<b>27%</b>

## 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, 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, 2022		Level 1		Level 2		Level 3	
<b>Derivatives – Trading</b>								
Forwards	Ps.	125	Ps.	-	Ps.	125	\$	-
Options		1,320		-		1,320		-
Swaps		34,131		-		34,131		-
<b>Derivatives – Hedge</b>								
Swaps	Ps.	1,854	Ps.	-	Ps.	1,854	\$	-
<b>Investment in securities</b>								
Trading financial instrument	Ps.	134,685	Ps.	33,532	Ps.	100,520	\$	633
Financial Instruments to Collect or Sell		114,771		59,752		54,791		228
<b>Total</b>	<b>Ps.</b>	<b>286,886</b>	<b>Ps.</b>	<b>93,284</b>	<b>Ps.</b>	<b>192,741</b>	<b>Ps.</b>	<b>861</b>

  

Liability	As of December 31, 2022		Level 1		Level 2		Level 3	
<b>Derivados - Negociación</b>								
Forwards	Ps.	165	Ps.	-	Ps.	165	\$	-
Options		1,363		-		1,363		-
Swaps		27,588		-		27,588		-
<b>Derivados - Cobertura</b>								
Swaps	Ps.	3,956	Ps.	-	Ps.	3,956	\$	-
<b>Total</b>	<b>Ps.</b>	<b>33,072</b>	<b>Ps.</b>	<b>-</b>	<b>Ps.</b>	<b>33,072</b>	<b>Ps.</b>	<b>-</b>

### - 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, 2022:

## Asset

As of December 31, 2022

Concept	Level 2	Level 3	Valuation methodology	Observable input data	Non-observable input data
<b>Derivatives – Trading</b>	<b>Ps.</b>	<b>35,715 Ps.</b>	-		
Forwards	125	-	- Net present value	<u>Net present value:</u> - Spot exchange rate - Forward points - Market interest rates	
Currency	125	-			
Options	1,331	-	Black Model	<u>Black Normal/Lognormal model:</u> - Market interest rates - Embedded volatility	
Interest rate	1,139	-	Normal/Lognormal		
			Black-Scholes Model	<u>Black-Scholes model:</u> - Spot exchange rate - Market interest rates - Embedded volatility - Dividends	
Index	50	-			
			Black-Scholes Model	<u>Black-Scholes model:</u> - Spot exchange rate - Market interest rates - Forward points - Embedded volatility FX	
Currency	142	-			
Swaps	34,259	-			
Interest rate	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	3,722	-			
			Default Intensity Model	<u>Default intensity model:</u> - Market interest rates - Market credit spread - Recovery rate	
Credit	144	-			
<b>Derivatives – Hedge</b>	<b>Ps.</b>	<b>1,858 Ps.</b>	-		
Swaps	1,858	-			
Interest rate	-	-	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	1,858	-			

As of December 31, 2022

Concept	Level 2	Level 3	Valuation methodology	Observable input data	Non-observable input data
<b>XVA</b>	<b>Ps.</b>	<b>(143) Ps.</b>	-		
Forwards	-	-	<u>Probability of Default:</u> - Default Intensity Model	- Market credit spread - Market loss severity - Interest rate volatility - Market interest rates	- Synthetic credit spread - Historical values - Correlations between market variables
Options	(12)	-	<u>Synthetic credit spread:</u> - Global CDS data regression model	- Spot exchange rate - Forward points - Embedded volatility	
Swaps – Trading	(127)	-	<u>Exposiciones:</u> - Hull-White Model - Black-Scholes Model - CIR Model		
Swaps – Hedge	(4)	-			
<b>Investment in securities</b>	<b>Ps.</b>	<b>155,311 Ps.</b>	<b>861</b>		
Trading financial instrument	100,520	633			
Bank	4,783	-	Net present value	<u>Net Present Value:</u> - Market rate on the valuation day - Weighted bank funding rate - Exchange rate	
Government	95,737	-	Net present value	<u>Net Present Value:</u> - Market rate on the valuation day - Exchange rate	

Private	-	633		<u>Net Present Value:</u> - Market rate on the valuation day - Exchange rate	<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
			Net Present Value		
			Indicative Net Asset Value	<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	
			Basket price of financial assets and liabilities		<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
			Last observable price	<u>Last Observed Price:</u> - Last share price	
			Value in books	<u>Value in books:</u> - Valuation to the millionth	
			Comparable Multiples Method	<u>Comparable multiples method:</u> - Exchange rate - Market value	<u>Comparable multiples method:</u> - Control premium - Liquidity discount - Company value
			Value relative to similar issues	<u>Value with respect to similar emissions:</u> - Price of the similar instrument	

As of December 31, 2022

Concept	Level 2	Level 3	Valuation methodology	Observable input data	Non-observable input data
Financial Instruments to Collect or Sell	54,791	228			
Bank	9,146	-	Net present value	<u>Net Present Value:</u> - Market rate on the valuation day - Weighted bank funding rate - Exchange rate	
Government	38,117	-	Net present value	<u>Net Present Value:</u> - Market rate on the valuation day - Exchange rate	
Private	7,528	228	Net present value Reiner-Rubinstein Cash or Nothing  Prepayment method	<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	
<b>Total</b>	<b>Ps. 191,705</b>	<b>Ps. 861</b>			

## Liabilities

As of December 31, 2022

Concept	Level 2	Level 3	Valuation methodology	Observable input data	Non-observable input data
<b>Derivatives – Trading</b>	<b>Ps. 29,612</b>	<b>Ps. -</b>			
Forwards	165	-			
Currency	165	-	Net present value	<u>Net Present Value:</u> - Spot exchange rate - forward points - Market interest rates	
Options	1,401	-			
Interest rate	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	143	-	Black-Scholes Model	<u>Black-Scholes model:</u> - Spot exchange rate - Market interest rates - Forward Points - Implied FX Volatility	



31 de diciembre de 2022					
Concept		Level 2	Level 3	Valuation methodology	Observable input data
Swaps		28,046	-		
Interest rate		23,698	-	Net Present Value	<u>Net Present Value:</u> - Market interest rates
Currency		4,338	-	Net Present Value	<u>Net Present Value:</u> - Market interest rates - Spot exchange rate - Forward Points
Credit		10	-	Default intensity model	<u>Default intensity model:</u> - Market interest rates - Market Credit Spread - Recovery rate
<b>Derivatives – Hedge</b>	<b>Ps.</b>	<b>3,910</b>	<b>Ps.</b>	-	
Swaps		3,910	-		
Interest rate		1,177	-	Net Present Value	<u>Net Present Value:</u> - Market interest rates
Currency		2,733	-	Net Present Value	<u>Net Present Value:</u> - Market interest rates - Spot exchange rate - Forward Points
<b>XVA</b>	<b>Ps.</b>	<b>(449)</b>	<b>Ps.</b>	-	
Forwards		-	-	<u>Probability of default:</u> - Default intensity model	
Options		(38)	-	<u>Synthetic credit spread:</u> - Global CDS data regression model	- Market credit spread - Severity of market loss - Volatility of interest rates
Swaps – Trading		(457)	-	<u>Exhibitions:</u> - Hull-White model - Black-Scholes model	- Market interest rates - Spot exchange rate - forward points - Implied volatility
Swaps – Hedge		46	-	- IRC model	- Synthetic credit spread - Historical values - Correlations between market variables
<b>Total</b>	<b>Ps.</b>	<b>33,073</b>	<b>Ps.</b>	-	

## - 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, 2022, 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, 2022, 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, 2022 are disclosed:

Concepts	Asset
Initial balance	Ps. -
Change in profit and loss recognized in the income statement	633
Change in profit and loss recognized in OCI	228
Transfers to/from Level 3	-
Final balance	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
	2022
"O" Series	144,197,415,428

  

Paid-in Capital	Historical Amounts
	2022
"O" Series	Ps. 14,420
Restatement in Mexican pesos through December 2007	4,375
	<b>Ps. 18,795</b>

### 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, 2021, the legal reserve is Ps. 18,796, and represents 100% and 91% of paid-in capital.

### Share-based payments

During 2022, the Institution recorded Ps. 799 in Non-interest expense compensation for share-based payments against the paid-in capital.

As of December 31, 2022, the Institution has 25,382,036 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. \$81.1441.

During 2022, 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 capitalization rules for financial institutions establish requirements for specific levels of net capital, as a percentage of assets subject to both market and credit risk.

The information submitted for review by Banco de México regarding December 31, 2022 is presented below. In 2021 Banorte was confirmed as a Grade II Multiple Banking Institution of Local Systemic Importance for which it must maintain a capital conservation supplement of 0.90pp. With the above, the minimum Capitalization Ratio required for Banorte amounts to 11.40% as of December 2019.

The Institution's capitalization ratio as of December 31, 2022 was recorded at 22.86% total risk (market, credit and operational) and 30.97% credit risk, which in both cases exceeds current regulatory requirements. The above classifying the institution in level I of capitalization required by the Commission.

## 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	Ps. 23,445
2	Retained earnings from prior years	73,577
3	Other elements of comprehensive income (and other allowances)	47,687
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	144,709
	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)	10,814
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	(1,572)
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	(1,924)
16 (conservative)	Investments in own shares	-
17 (conservative)	Reciprocal Investments in the ordinary capital	-
18 (conservative)	Investments in ordinary shares of banks, financial institutions and insurance companies outside the scope of regulatory consolidation, net of the short positions eligible, where the Institution does not holds more than 10% of the issued share capital (amount that exceeds the threshold of 10%)	-
19 (conservative)	Significant investments in ordinary shares of banks, financial institutions and insurance companies outside the scope of regulatory consolidation, net of the short positions eligible, where the Institution holds more than 10% of the issued share capital (amount that exceeds the threshold of 10%)	2,599
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	-
23	Of which: significant investments where the institution has more than 10% in common shares of financial institutions	-
24	Of which: mortgage service rights	-

25	Of which: recoverable deferred income taxes from temporary differences	-
26	Before regulatory national adjustments	-
A	of which: Other elements of comprehensive income (and other allowance)	-
J	of which: Deferred Charges and advance payments	3,988
J	Of which: Positions in First Loss Schemes	-
J	Of which: Employee Sharing in Deferred Profits	-
J	Of which: Relevant Related Persons	-
J	Of which: Defined benefit pension plan	-
J	Repealed	-
27	Regulatory adjustments that apply to common equity Tier 1 capital due to insufficient additional Tier 1 capital and Tier 2 capital to cover deductions	-
28	<b>Total regulatory adjustments to common equity level 1</b>	15,564
29	<b>Common equity level 1 (CET1)</b>	129,145
	Additional equity level 1: instruments	
30	Instruments issued directly that qualify as additional equity of level 1, plus premium	62,428
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	64,428
	Additional equity: regulatory adjustments	
37 (conservative)	Investments in additional equity instruments of Level 1 (amount allowed in the additional level 1)	N.A.
38 (conservative)	Equity investments in Tier 1 additional capital instruments	N.A.
39 (conservative)	Investments in the equity of banks, financial institutions and insurers beyond the scope of regulatory consolidation, net of eligible short positions, where the Institution has no more than 10% of the share capital issued (amount exceeding the threshold of 10%)	N.A.
40 (conservative)	Significant Investments in the equity of banks, financial institutions and insurers beyond the scope of regulatory consolidation, net of eligible short positions, where the Institution owns more than 10% of the share capital issued	N.A.
41	National regulatory adjustments	-
42	Regulatory Adjustments applied to Tier-1 additional capital due to inadequacy of Tier 2 capital to cover deductions	N.A.
43	<b>Total Adjustment to additional capital of level 1</b>	-
44	<b>Additional Capital of Level 1 (AT1)</b>	64,428
45	Equity level 1 (T1 = CET1 + AT1)	191,574
	Equity level 2: instruments and allowances	
46	Instruments issued directly that qualify as equity of level 2, plus premium	1,712
47	Instruments issued directly subject to gradual elimination of additional equity level 2	-

48	Tier 2 equity instruments and Tier 1 equity instruments and Tier 1 additional capital that have not been included in lines 5 or 34, which have been issued by subsidiaries in third-party ownership (amount allowed in the supplementary capital D E Level 2)	N.A.
49	of which: Instruments issued by subsidiaries subject to gradual elimination	N.A.
50	Allowances	1,638
51	<b>Equity level 2 before regulatory adjustments</b>	3,349
	<b>Equity level 2: regulatory adjustments</b>	
52 (conservative)	Investments in own shares level 2	N.A.
53 (conservative)	Reciprocal Investments in the ordinary capital level 2	N.A.
54 (conservative)	Investments in ordinary shares of banks, financial institutions and insurance companies outside the scope of regulatory consolidation, net of the short positions eligible, where the Institution does not holds more than 10% of the issued share capital (amount that exceeds the threshold of 10%)	N.A.
55 (conservative)	Significant Investments in the equity of banks, financial institutions and insurers beyond the scope of regulatory consolidation, net of eligible short positions, where the Institution owns more than 10% of the share capital issued	N.A.
56	National regulatory adjustments	-
57	Total regulatory adjustments in common equity level 2	-
58	Equity nivel 2 (T2)	3,349
59	Total Equity (TC = T1 + T2)	194,923
60	Total risk weighted assets	852,616
	<b>Equity ratios and supplements</b>	
61	Common equity level 1 (as a percentage of weighted assets for total risk)	15.15%
62	Equity level 1 (as a percentage of weighted assets for total risk)	22.47%
63	Total equity (as a percentage of weighted assets for total risk)	22.86%
64	Institutional specific supplement (at least must consist of: the requirement of Level 1 common equity plus the capital conservation mattress plus the countercyclical mattress plus the G-SIB mattress; expressed as a percentage of weighted assets for total risk)	7%
65	Of which: Equity preservation supplement	2.50%
66	Of which: countercyclical specific bank supplement	No aplica
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.
	<b>Amounts below the thresholds for deduction (before risk weighting)</b>	
72	Non-significant investments in the capital of other financial institutions	N.A.
73	Significant investments in common shares of financial institutions	N.A.

74	Rights for mortgage services (net of tax deferred earnings in charge)	N.A.
75	Deferred tax asset due to temporary differences (net of deferred tax liability)	5,234
	<b>Limits applicable to the inclusion of reserves in the capital of Level 2</b>	
76	Reserves eligible for inclusion in level 2 capital with respect to exposures subject to standardized methodology (prior to the application of the limit)	1479
77	Limit on the inclusion of provisions in Level 2 capital under standardized methodology	5,175
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)	159
79	Limit on the inclusion of reserves in the capital of level 2 under the methodology of internal qualifications	1,032
	<b>Equity instruments subject to gradual elimination (applicable only between 1 January 2018 and 1 January 2022)</b>	
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	-
85	Amount excluded from T2 due to limit (excess over the limit after amortizations and maturities)	-

## I. Relation of net capital with the Consolidated Statement of Financial Position

**Table II.1**  
**Consolidated Statement of Financial Position figures**

Reference of Consolidated Statement of Financial Position items	Consolidated Statement of Financial Position figures	Amount presented in the statement of financial position
	<b>Assets</b>	<b>1,549,671</b>
BG1	Cash and cash equivalents	105,252
BG2	Margin securities	5,478
BG3	Investments in securities	337,667
BG4	Debtor balances under repurchase en resale agreements	74,371
BG5	Securities lending	0
BG6	Derivative financial instruments	37,430
BG7	Valuation adjustments for asset hedging	-
BG8	Loan portfolio, net	891,665
BG9	Receivables generated by securitization	-
BG10	Other accounts receivables	35,753
BG11	Foreclosed assets	2,844
BG12	Property, furniture and equipment	24,309
BG13	Permanent stock investment	3,427
BG14	Long-term assets available for sale	597

Reference of Consolidated Statement of Financial Position items	Consolidated Statement of Financial Position figures	Amount presented in the statement of financial position
BG15	Deferred taxes	597
BG16	Other assets	30,281
	<b>Liabilities</b>	<b>1,391,223</b>
BG17	Deposits	915,358
BG18	Interbank and other loans	14,822
BG19	Creditor balances under repurchase and resale agreements	221,916
BG20	Securities lending	-
BG21	Colaterales vendidos o dados en garantía	72,429
BG22	Derivative financial instruments	33,072
BG23	Valuation adjustments for financial liabilities coverage	-
BG24	Obligations in securitization operations	-
BG25	Other accounts payable	57,727
BG26	Subordinated debentures	65,981
BG27	Deferred taxes	8,793
BG28	Deferred credits and advance collections	1,123
	<b>Stockholders' equity</b>	<b>144,673</b>
BG29	Paid-in capital	23,445
BG30	Other capital	121,227
	<b>Memorandum accounts</b>	<b>2,001,061</b>
BG31	Guarantees granted	357
BG32	Contingent assets and liabilities	32
BG33	Credit commitments	347,355
BG34	Assets in trust or under mandate	308,800
BG35	Financial agent of the federal government	0
BG36	Managed assets in custody	546,061
BG37	Collateral received	182,756
BG38	Collateral received and sold or given as a pledge	72,400
BG39	Investment banking transactions on account of third parties, (net)	-
BG40	Interest accrued but not charged of past due loans	412
BG41	Other registration accounts	542,887

**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 statement of financial position and amount related to the regulatory concept considered for the calculation of the net capital coming from the mentioned reference.
	<b>Asset</b>			
1	Goodwill	8	1,005	BG16: 1,005 (Goodwill)
2	Other intangibles	9	10,814	BG16: 10,814 (Other intangibles)
3	Deferred income tax (recoverable) from tax losses and credits	10	-	
4	Receivables generated by securitization	13	-	BG9: 110 (Receivables generated by securitization)
5	Investments of the pension plan for benefits defined without restricted access and unlimited	15	-	
6	Investments in its own shares	16	-	
7	Mutual Investments in ordinary capital	17	-	
8	Direct Investments in the equity of financial institutions where the Institution has no more than 10% of the shares issued	18	-	
9	Indirect investments in the equity of financial institutions where the Institution has no more than 10% of the shares issued	18	-	
10	Direct investments in the 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 institutions where the Institution owns more than 10% of the shares issued	19	2,599	BG13: 2,599 (Permanent stock investment)
12	Indirect investments in the capital of financial institutions where the Institution owns more than 10% of the share capital issued	21	N/A	
13	Deferred income tax (recoverable) from temporary	50	1,638	BG16: 1,638 Reserves)

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 statement of financial position and amount related to the regulatory concept considered for the calculation of the net capital coming from the mentioned reference.
	differences			
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	-	
22	Workers ' participation in deferred earnings (net)	26 - N	-	
23	Investments of the pension plan for defined benefits	26 - P	-	
	<b>Libiality</b>			
24	Deferred tax (liability) associated to goodwill	8	1,005	BG16: 1,005 (Goodwill)
25	Deferred tax (liability) associated to other intangible	9	10,814	BG16: 10,814 (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	46	-	

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 statement of financial position and amount related to the regulatory concept considered for the calculation of the net capital coming from the mentioned reference.
	Annex 1-S			
32	Subordinated debentures subject to transitory computing as complementary capital	47		BG26: - (Subordinated debentures)
33	Deferred income tax (in charge) associated with deferred charges and advance payments	26 - J	-	
	<b>Stockholders' equity</b>			
34	Contributed capital that complies with annex 1-Q	1	23,245	BG29; 23,245 (Contributed capital)
35	Retained earnings from prior years	2	73,577	BG30; 73,577 (earned capital)
36	Result from valuation of instruments for cash flow hedging of items accounted at fair value	3	(1,572)	BG30; -1,572 (earned capital)
37	Other elements of capital earned other than previous	3	49,259	BG30; 49,259 (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	1,572	BG30; 1,572 (earned capital)
41	Result from conversions	3, 26 - A		BG30; - (earned capital)
42	Income from non-monetary assets	3, 26 - A	-	
	<b>Memorandum accounts</b>			
43	Positions in First-Loss Schemes	26 - K	-	
	<b>Regulatory Concepts not considered in the statement of financial position</b>			
44	Reserves pending to constitute	12	-	
45	Profit or increase the value of the assets by acquisition of positions of securitizations (Originating Institutions)	26 - C	-	

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 statement of financial position and amount related to the regulatory concept considered for the calculation of the net capital coming from the mentioned reference.
46	Operations that violate the dispositions	26 - I	-	
47	Operations with Relevant Related People	26 - M	-	
48	Abrogated	26 - O, 41, 56	-	

## II. 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	118,125	9,450
Transactions in local currency with securities in local currency with surcharge and a rate reviewable	5,235	419
Transactions in local currency with real rate or denominated in UDI's	2,260	181
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	56	4
Positions in local currency with performance rate referred to the growth of the General Minimum Wage	-	-
Operations in foreign currency with nominal rate	12,215	977
Positions in foreign currency or with yield indexed to a exchange rate	1,591	127
Positions in capital instruments or with yield indexed at the cost of a capital instruments group	3,236	259
Positions in goods	-	-

**Table III.2**  
**Weighted Assets subject to credit risk by risk group**

Concept	Risk Weighted Assets	Capital requirement
Grupo IOA (weighted al 0%)	-	-
Grupo IOA (weighted al 10%)	-	-
Grupo IOA (weighted al 20%)	-	-
Grupo IOB (weighted al 20%)	403	32
Grupo II (weighted al 100%)	-	-

<b>Concept</b>	<b>Risk Weighted Assets</b>	<b>Capital requirement</b>
Grupo III (weighted al 20%)	12,714	1,017
Grupo III (weighted al 23%)	-	-
Grupo III (weighted al 50%)	-	-
Grupo III (weighted al 57.5%)	3,216	257
Grupo III (weighted al 100%)	-	-
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%)	12,641	1,011
Grupo IV (weighted al 20%)	-	-
Grupo V (weighted al 10%)	17,980	1,438
Grupo V (weighted al 20%)	5,256	420
Grupo V (weighted al 50%)	526	42
Grupo V (weighted al 115%)	16,433	1,315
Grupo V (weighted al 150%)	4,982	399
Grupo VI (weighted al 20%)	31,395	2,512
Grupo VI (weighted al 50%)	79,333	6,347
Grupo VI (weighted al 75%)	155,633	12,451
Grupo VI (weighted al 100%)	-	-
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%)	5,769	462
Grupo VII_A (weighted al 20%)	-	-
Grupo VII_A (weighted al 23%)	283	23
Grupo VII_A (weighted al 50%)	-	-
Grupo VII_A (weighted al 57.5%)	93,462	7,477
Grupo VII_A (weighted al 100%)	-	-
Grupo VII_A (weighted al 115%)	-	-
Grupo VII_A (weighted al 120%)	-	-
Grupo VII_A (weighted al 138%)	1	0
Grupo VII_A (weighted al 150%)	-	-
Grupo VII_A (weighted al 172.5%)	-	-
Grupo VII_B (weighted al 0%)	5,155	412
Grupo VII_B (weighted al 20%)	-	-
Grupo VII_B (weighted al 23%)	839	67
Grupo VII_B (weighted al 50%)	-	-
Grupo VII_B (weighted al 57.5%)	81,689	6,535

Concept	Risk Weighted Assets	Capital requirement
Grupo VII_B (weighted al 100%)	-	-
Grupo VII_B (weighted al 115%)	-	-
Grupo VII_B (weighted al 120%)	-	-
Grupo VII_B (weighted al 138%)	-	-
Grupo VII_B (weighted al 150%)	-	-
Grupo VII_B (weighted al 172.5%)	828	66
Grupo VIII (weighted al 115%)	1,338	107
Grupo VIII (weighted al 150%)	23,186	1,855
Grupo IX (weighted al 10%)	-	-
Grupo IX (weighted al 50%)	-	-
Grupo IX (weighted al 100%)	2,640	211
Grupo IX (weighted al 115%)	868	69
Grupo X (weighted al 1250%)	886	71
Securitizations with a Risk Degree 1 (weighted al 20%)	-	-
Securitizations with a Risk Degree 2 (weighted al 50%)	105	8
Securitizations with a Risk Degree 3 (weighted al 100%)	-	-
Securitizations with a Risk Degree 4 (weighted al 350%)	-	-
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	80,369	6,430
<b>Average requirement for market and credit risk in the past 36 months</b>	<b>Average of the annual positive net income of last 36 months</b>	
62,805	90,786	

### III. 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
<b>Regulatory treatment</b>		
4	Level of capital with transience	Complementary Capital
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating

Reference	Characteristics	Q BANORTE 08U
		subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	276,936,300 (Two hundred and seventy-six million, nine hundred and thirty six thousand and three hundred) UDIs, respective to Ps. 1,772,120,368.55 1,962,998,835.09 (One billion seven hundred and seventy-two million one hundred and twenty thousand and three hundred and sixty-five pesos 55/100 M.N.).
9	Nominal value	100 (One hundred) UDIs
9A	Currency	UDI
10	Accounting classification	Liability at amortized cost
11	Date of issuance	11/03/2008
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
<b>Yields / dividends</b>		
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	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		

Reference	Characteristic	D2 BANOE91 999999
4	Level of capital with transience	Basic Capital 2
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
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.
35	Position of subordination in the event of liquidation	Non-Preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

Reference	Characteristic	D2 BANOC36 311004
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP14008AC36
3	Legal framework	New York Law



Reference	Characteristic	D2 BANOC36 311004
<b>Regulatory treatment</b>		
4	Level of capital with transience	Complementary capital
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.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
<b>Yields / dividends</b>		
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	Characteristics	D2 BANO64 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.

Reference	Characteristics	D2 BANO64 0999999
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 institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.\$600,000,000 (Six hundred million dollars 00/100 USD)
9	Nominal value	U.S. \$1,000.00 (One thousand dollar 00/100 USD)
9A	Currency	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Date of issuance	27/06/2019
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Yes
15	First date of advance payment	27/09/2024
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
Yields / dividends		
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0LIBOR
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	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

Reference	Characteristics	D2 BANO64 0999999
		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 institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.\$500,000,000 (Five hundred million dollar 00/100 USD)
9	Nominal value	U.S. \$1,000.00 (One thousand 00/100 USD)
9A	Currency	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Date of issuance	27/06/2019
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Yes
15	First date of advance payment	27/06/2029
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
Yields / dividends		
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0LIBOR
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	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.

Reference	Characteristic	D2 BANO48 0999999
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

Reference	Characteristic	D2 BANOC21 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP1400MAC21
3	Legal framework	New York Laws
Regulatory treatment		
4	Level of capital with transience	Complementary capital
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.\$500,000,000 (Five hundred million dollar 00/100 USD)
9	Nominal value	U.S. \$1,000.00 (One thousand 00/100 USD)
9A	Currency	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Date of issuance	14/07/2020
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Yes
15	First date of advance payment	01/07/2030
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
Yields / dividends		
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0Libor
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	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.

Reference	Characteristic	D2 BANOC21 0999999
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.

#### IV. Management

Pursuant to the regulations in effect and the requirements of the Commission, the Institution is developing its Capital Sufficiency Assessment which will consider the risks the Institution is exposed to as well as its major vulnerabilities in order to prove the Institution's solvency by means of financial forecasts with adverse macro-economic scenarios.

In order to manage capital, a weekly follow-up analysis is conducted on the requirements derived from the risk position, as well as supporting through strategy or transactions' simulations of the various areas of business operation in order to determine their consumption.

Additionally, with the purpose of managing the capital, weekly is carried out an analysis of follow-up to the requirements of the risk positions, in addition to supporting in simulations of operations or strategies to the different business areas in order to know their consumption.

#### V. Weights involved in calculating the countercyclical Capital supplement of the institutions.

Countercyclical Capital supplement of the institution	
11.76 million	
Jurisdiction	Weighting
Hong Kong	1.25%
UK	0.50%
Sweden	2.00%

#### 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 statement of financial position (excluding derivative financial instruments and securities lending operations-SFT for its acronym in English- but including collateral received and recorded in the statement of financial position)	1,438,073
2	(amounts of assets deducted to determine level 1 capital of Basel III)	(15,563)
3	Exhibitions within the statement of financial position (Net) (excluding financial derivatives and SFT, sum of lines 1 and 2)	1,422,510
<b>Exposures to derivative financial instruments</b>		
4	Current cost of replacement associated with all operations with financial derivative instruments (net of margin of variation in cash admissible)	21,090
5	amounts of additional factors for potential future exposure, associated with all operations with derivative financial instruments	10,586
6	Increase in collateral provided in transactions with derivative financial instruments when such collaterals are discharged from the statement of financial position 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)	(11,255)
8	(Exposure by transactions in financial instruments derived by client accounts, in which the liquidating partner does not grant its guarantee in case of non-fulfilment of the obligations of the Central Counterpart)	N/A
9	Adjusted effective notional Amount of credit-derived financial instruments subscribed	N/A
10	(Compensations made to the notional adjusted cash of the financial instruments derived from credit subscribed and deductions of the additional factors by the credit derivative financial instruments subscribed)	N/A
11	Total exposures to derivative financial instruments (sum of lines 4 to 10)	20,241
<b>Exhibitions by financing operations with values</b>		
12	Assets SFT gross (without recognition of compensation), after adjustments for accounting transactions for sales	74,371.00
13	(Accounts payable and for charging of compensated SFT)	(57,235)
14	Exposure of counterparty risk by SFT	7,031
15	Exposure by SFT acting on behalf of third parties	-
16	Total exposures for financing operations with securities (sum of lines 12 to 15)	24,167
<b>Other exposures out of balance sheet</b>		
17	Exposure out of balance (gross notional amount)	347,355
18	(Conversion adjustments to credit equivalents)	(307,444)
19	Off-statement of financial position items (sum of the lines 17 and 18)	39,911
<b>Capital and total exposure</b>		
20	Equity level 1	191,573
21	Total exposures (Sum of lines 3, 11, 16 and 19)	1,507,008
<b>Leverage ratio</b>		
22	Leverage ratio of Basilea III	<b>12.71%</b>

**TABLE I.2**  
**Notes to standardized disclosure format for leverage ratio**

REFERENCE	EXPLANATION
1	Total assets of the institution without consolidate subsidiaries or entities of specific purpose (less the assets presented in the above mentioned balance for: 1) operations with derivative financial instruments, 2) repurchase agreements and 3) securities.
2	Amount of deductions from the core capital laid down in subparagraphs (b) to (r) of the fraction I of article 2 Bis 6 of the present provisions. The amount must be registered with a negative sign.
3	Sum of lines 1 and 2
4	Current Cost of replacement (RC) of transactions with derivative financial instruments, in accordance with those laid down in annex 1-L of these provisions, minus the partial cash settlements (cash variation margin) received, provided that The following conditions are fulfilled: a) In the case of counterparts other than the clearing houses referred to in the second subparagraph of article 2 Bis 12 (a), the cash received shall be available to the institution. b) The valuation at market of the operation is carried out daily and the received cash is exchanged with the same frequency. c) The cash received as well as the operation with the derivative instrument, are denominated in the same currency. d) The amount exchanged from the cash variation margin is at least the amount necessary to cover the market value considering the threshold and the minimum amount transferred agreed in the corresponding framework contract. e) The amount exchanged from the cash variation margin is at least the amount necessary to cover the market value considering the threshold and the minimum amount transferred agreed in the corresponding framework contract. In any case, the maximum amount of cash variation margins received that may be considered will correspond to the positive value of the current replacement cost of each counterpart.
5	Additional Factor in accordance with annex 1-L of these provisions, of operations with derivative financial instruments. In addition, in the case of credit-derived financial instruments which provide credit protection, the conversion value must be included at the credit risk in accordance with article 2 Bis 22 of these provisions. In no case may they be used the real guarantees financial that the institution has received to reduce the amount of the additional factor reported in this line.
6	Not applicable. The accounting framework does not allow the cancel of assets given as collateral.
7	Total of margins of change in cash delivered in operations with derivative financial instruments that fulfill with the conditions indicated in the line 4 to reduce the in cash received change margins. The total must 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 statement of financial position (accounts receivable recorded) of operations of reported and securities lending. The amount shall not consider any

REFERENCE	EXPLANATION
	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>
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	<p>In the case of operations of reported and securities lending for the account of third parties, in which the institution granted warranty with their clients before the breach of the counterpart, the amount that should be 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.</p> <p>Additionally, if the institution can have the collateral delivered by their clients, for their own account, the amount equivalent to the value of the securities and/or cash delivered by the customer of the Institution.</p>
16	Sum of lines 12 to 15
17	Amounts of credit commitments recognized in memorandum accounts according to accounting criteria.
18	<p>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 %).</p> <p>The amount must be registered with a negative sign.</p>
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	1,549,874
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	(15,563)
3	Adjustment for investments in the capital of banks, financial, insurance or commercial entities that are	No Aplica



	consolidated for accounting purposes, but are outside the scope of regulatory consolidation	
4	Adjustment for derivative financial instruments	(17,008)
5	Adjustment for repurchase agreements and securities lending operations [1]	(50,202)
6	Adjustment for items recognized in memorandum accounts	39,910
7	Other adjustments	-
8	Leverage coefficient exposure	1,507,011

[1] In which the value of the operation is the valuation at market of operations and are generally subject to margins agreements.

**TABLE II.2**  
**NOTES TO THE COMPARATIVE OF TOTAL ASSETS AND ASSETS ADJUSTED**

REFERENCE	DESCRIPTION
1	Total assets of the institution without consolidate subsidiaries or entities of specific purpose
2	Total of the deductions of the basic capital contained in the interjections b), d), e), f), g), h), i), j) and l) of the fraction I, of the Article 2 Bis 6 of dispositions. The amount must be registered with a negative sign.
3	Not applicable. The scope is on the institution 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 statement of financial position. 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 statement of financial position. 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	1,549,874
2	Operations in derivative financial instruments	(37,430)
3	Operations in repurchase agreements and lending of securities	

		(74,370)
4	Trust assets recognized in the statement of financial position under the accounting framework, but excluded from the measure of the leverage ratio exposure	No Aplica
5	Exposure inside balance	1,438,074

**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 Institution 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/ QUARTER	SEPTEMBER '22	DECEMBER '22	VARIATION (%)
Basic capital	185,190	191,574	3.447%
Adjusted assets	1,525,369	1,507,009	(1.204%)
Leverage ratio	12.14%	12.71%	4.713%

**33 - FOREIGN CURRENCY POSITION**

As of December 31, 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. 19.5089 per USD 1.00, as shown below:

	<b>Thousands of US dollars</b>
	<b>2022</b>
Assets	18,534,553
Liabilities	18,527,854
<b>Net liability position in US dollars</b>	<b>6,699</b>
<b>Net liability position in Mexican pesos</b>	<b>Ps. 131</b>

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#### 34 - POSITION IN UDIS

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As of December 31, 2022, the Institution holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps 7.646804 per UDI, as shown below:

	Thousands of UDIS
	2022
Assets	1,178,283
Liabilities	760,217
<b>Net asset position in UDIS</b>	<b>418,066</b>
<b>Net asset position in Mexican pesos</b>	<b>Ps. 3,197</b>

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#### 35 - EARNINGS PER SHARE

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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, 2022 are shown below:

	2022		
	Net Income	Weighted share average	Earnings per share
EPS continuous operations	Ps. 34,549	144,197,415,428	Ps. 0.2396
EPS discontinued operations			
<b>Net income per share</b>	<b>-</b>	<b>-</b>	<b>Ps. 0.2396</b>

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#### 36 - RISK MANAGEMENT (unaudited)

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##### 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.

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## **37 - COMPREHENSIVE RISK MANAGEMENT UNIT (UAIR) (unaudited)**

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Risk management at the Institution is a key element in determining and implementing the Group's strategic planning. The Group's risk management and policies comply with regulations and market's best practices.

### **1. OBJECTIVES, SCOPE AND RISK MANAGEMENT FUNCTIONS**

GFNorte's Risk Management main objectives are:

- To provide clear rules to different business areas, that contribute to minimizing risk and ensuring compliance with the parameters established and approved by the Board of Directors and the Risk Policies Committee (CPR by its acronym in Spanish).
- To establish mechanisms to monitor risk-taking across GFNorte, through the use of robust systems and processes.
- To verify the observance of Risk Appetite.
- To estimate and control GFNorte's capital, under regular and stressed scenarios, aiming to provide coverage for unexpected losses from market movements, credit bankruptcies, and operational risks.
- To implement pricing models for different types of risks.
- To establish procedures for portfolio's optimization and credit portfolio management.
- To update and monitor Contingency Plan in order to restore capital and liquidity levels in case of adverse events.

Moreover, GFNorte owns sound methodologies to manage quantifiable risks such as Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Concentration Risk and Counterparty Risk.

Credit Risk: revenue volatility due to constitution of provisions for impaired loans, and potential losses on borrower or counterparty defaults.

Market Risk: revenue volatility due to market changes, which affect the valuation of book positions for active, liabilities or contingent liabilities operations, such as: interest rates, spread over yields, exchange rates, price indices, etc.

Liquidity Risk: potential loss by the impossibility of renewing liabilities or securing resources in normal conditions, and by early or forced sale of assets at unusual discounts to meet their obligations.

Operational Risk: loss resulting from inadequate or failed internal processes, employees, internal systems or external events. This definition includes Technology Risk and Legal Risk. Technology Risk, groups all those potential losses from damage, interruption, disruption or failures resulting from use of or reliance on hardware, software, systems, applications, networks and any other information distribution channel, while the Legal Risk involves the potential loss by sanctions for noncompliance with laws and administrative or judicial decisions unfavorable related to GFNorte's operations.

Concentration Risk: potential loss by high and disproportional exposure to particular risk factors within a single category or among different risk categories.

Likewise, regarding unquantifiable risks, Risk Management's Manual in GFNorte establish specific objectives for:

Reputational Risk: potential loss in the performance of Institution's activities, due to an inappropriate or unethical perception of the different stakeholders, internal or external, on their solvency and viability.

### **1.1. Risk Management – Structure and Corporate Governance**

Regarding the structure and organization for a comprehensive Risk Management, the Board of Directors is responsible for authorizing policies and overall strategies such as:

- GFNorte's Risk Appetite.
- Comprehensive Risk Management Framework.
- Risk exposure limits, Risk Tolerance levels and mechanisms for Corrective Actions.
- Contingency Plan and the Contingency Funding Plan.
- The outcome of the internal and regulatory capital adequacy scenarios.

The Board of Directors designates the CPR (Risk Policy Committee by its acronym in Spanish) as accountable for managing the risks that GFNorte is exposed to, in order to ensure that operations comply with objectives, policies and procedures established by Risk Management.

The CPR also monitors the overall limits of risk exposure approved by the Board of Directors, in addition to approving specific limits for exposure to different types of risk.

The CPR is integrated by members and deputies of the Board, the CEO, the Managing Directors of the Group's Entities, the Risk and Credit Managing Director and the Audit Managing Director, the latter participates with voice but no vote.

Moreover, the Assets and Liabilities Committee (ALCO) and the Capital and Liquidity Group, analyze, monitors, and decide regarding interest rate risks in the balance sheet, the financial margin, liquidity and net capital of the Institution.

The Unit for the Comprehensive Risk Management (UAIR by its acronym in Spanish) is in charge of the Risk and Credit Management Department (DGARC by its acronym in Spanish), and among its functions, is responsible to identify measure, monitor, limit, control, report and disclose the different types of risk to which the GFNorte is exposed to.

The DGARC reports to CPR, in compliance with the regulation related to its independence from the Business areas.

### **1.2. Scope and Nature of GFNorte's Risk Management**

The Risk Management function extends to all subsidiaries that comprise GFNorte. Depending on the line of business of each of the Businesses, Credit, Concentration, Market, Liquidity and Operational Risks are measured, managed and controlled.

For this purpose, DGARC relies on different information and risk measurement systems, which comply with regulatory standards and align with the best international practices in Risk Management's matters. It's worth mentioning that information and reports contained and produced in the risk systems are constantly backed up following institutional procedures in IT security matters. Furthermore, Risk systems enclose transactions susceptible to Credit, Market, Liquidity and Operational Risks, processed through revised models and methodologies, thus generating periodic reports for each one of these risks.

At GFNorte, there are policies and procedures for hedging, risk mitigation and compensation strategies for each type of risk in and off balance, all of them enclosed in models, methodologies and procedures for Risk Management. Within these policies, there are certain variables that must be considered for risk mitigation, such as: general features, loan to value, legal terms, instrumentation and hedging level. These policies and procedures also consider collateral execution as a risk compensation mechanism in the case of non-fulfillment by debtors. As part of the strategies and processes for monitoring the coverage or mitigation effectiveness for each type of risk, there are limits for each one of them (Credit, Market, Liquidity and Operational Risks), which are continuously monitored, as well as established procedures for the documentation of excesses and its causes, and the corrective actions implemented to return to acceptable risk levels.

## **2. CREDIT RISK**

Credit risk is the risk of clients, issuers or counterparties not fulfilling their payment obligations. Therefore, proper management is essential to maintain loan quality of the portfolio.

The objectives of Credit Risk Management at the Company 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.

Company'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 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 identifies expected and unexpected losses at specific confidence levels.
- Inform and disclose Credit Risks to risk taking areas, CPR, Board of Directors, Financial Authorities and Investors.
- Define faculties for Credit Risks taking at Institution.

In order to comply with objectives and policies, a series of strategies and procedures have been defined including origination, analysis, approval, management, monitoring, recovery and collections.

## **2.1. Credit Risk Scope and Methodology**

### **2.1.1. Individual Credit Risk**

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).

Individual risk for Wholesale loans is identified, measured and controlled through Target Markets, Risk Acceptance Criteria, Early Warnings and Banorte's Internal Risk Rating (CIR Banorte).

The Target Markets, Risk Acceptance Criteria and Early Warnings are tools that, together with the Internal Risk Rating, are part of Banorte'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, in order to estimate the risk taking when granting loans to customers based on their economic activity. The types of risk observed in the Risk Acceptance Criteria are: Financial, Operation, Market, and Enterprise's life cycle, Legal and Regulatory Risks, besides credit experience and management quality.

Early Warnings are a set of criteria based on borrower's information and indicators, as well as their environment, as a mechanism for timely prevention and identification of a probable deterioration in the loan portfolio, thereby enabling the Institution to take prompt preventive actions to mitigate Credit Risk.

Banorte's CIR is a borrower's rating methodology which assesses quantitative and qualitative criteria in order to determine credit quality. CIR applies to commercial loans equal to or greater than the equivalent of four million investment units (UDIS) in Mexican pesos equivalent on the qualification date, or borrowers whose annual sales or income are the 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 act to improve diversification, which will maximize profitability with the lowest risk.

The model considers the loan portfolio exposure directly to the balance of each loan, whereas for the financial instruments' portfolio, considers the present value of the instruments and their future cash flows. This exposure is sensible to changes in the market, thereby facilitating estimations under different economic scenarios.

The methodology, besides loan exposure, takes into consideration the probability of default, recovery level associated to each client and the classification of the debtor based on the Merton model. The probability of default is the probability that the debtor will not fulfill his/her debt obligation with the institution according to the originally agreed terms and conditions. The probability of default is based on transition matrixes estimated by the Institution based on the migration of the debtors through different risk rating levels. The recovery rate is the percentage of total exposure that is expected to be recovered if the debtor defaults. The classification of the debtor, based on the Merton model, associates the debtor's future behavior to credit and market factors on which his "credit health" depends, as determined by statistical techniques.

The results of this methodology are risk measures such as the expected and unexpected loss at a one-year horizon. The expected loss is the mean of the credit portfolio's loss distribution, which is used to measure the following year's expected loss due to default or variations in debtors' credit quality. The unexpected loss is an indicator of the loss in extreme scenarios and is measured as the difference between the maximum loss given the loss distribution, at a specific confidence level which for Institutions as of June 2021 is 99.85%, based on Expected Shortfall (previously it was 99.95% based on VaR), and expected loss.

These results are used as a tool for better decision-making in granting loans and in the diversification of the portfolio, according to Banorte's strategy. The individual risk identification tools and the portfolio Credit Risk methodology are periodically reviewed and updated in order to include the application of new techniques that may support or strengthen them.

### **2.1.3. Credit Risk of Financial Instruments**

Credit Risk Management of financial instruments is managed through a series of key pillars with a robust framework of policies for origination, analysis, authorization and management.

Origination policies define the types of eligible negotiable financial instruments, as well as the methodology for assessing credit quality of different types of issuers and counterparties. Credit quality is allocated through: a rating obtained with an internal methodology, evaluations of external rating agencies or a combination of both. Maximum parameters of operation are also defined based on the type of issuer or counterparty, rating and type of operation.

The Loan Committee authorizes operation lines with financial instruments for clients and counterparties in accordance with authorization policies. The authorization request is submitted by the business area and other areas involved in the operation, with all the relevant information for analysis by the Committee who, if considered appropriate, issues its authorization. Nevertheless, 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 estimating potential exposure to lines is used, which are analyzed and approved within the Credit Committee and are monitored on daily basis and reported monthly in the CPR, where guarantee analysis for derivative transaction is held both for clients and financial counterparties.

The correspondent Credit Committee holds the minimum faculty to approve derivative lines for clients (when applicable, a fast track process has been approved by the CPR). For these transactions, the use of derivatives lines with margin calls shall be privileged in order to mitigate the risk of potential exposure to these transactions.

To determine adversely correlated lines (Wrong Way Risk "WWR") a potential exposure adjustment is considered.

On an individual level, the risk concentration on financial instruments is managed on a continuous basis, establishing and monitoring maximum parameters of operation for each counterparty or issuer depending on the rating and type of operation. There are defined risk diversification policies for portfolios, for economic groups and internal groups. Additionally, the concentration of counterparty type or issuer, size of financial institutions and the region in which it operates, are monitored so that an appropriate diversification is obtained and undesired concentrations are avoided.

Credit Risk is measured through a rating associated with the issuer, security or counterparty which has a previously assigned risk level based on two fundamentals:

- 1) The probability of default of the issuer, security or counterparty, which is expressed as a percentage between 0% and 100% where the better the rating or lower rate differential vs. the instrument of an equivalent government bond, the lower the probability of default and vice versa.
- 2) The loss given default that could be experienced with respect of the total of the operation in the event of non-fulfillment, is expressed as a percentage between 0% and 100% where the better the guarantees or credit structures, the smaller the loss given default and vice versa. To mitigate Credit Risk and to reduce the loss given default in the event of non-fulfillment, the counterparties have signed ISDA contracts and agreements to net out, in which credit lines and the use of collateral to mitigate loss in the event of non-fulfillment are implemented.

## 2.2. Credit Risk Exposure

As of December 31th, 2022 the total amount of the exposure subject to the Standard Method and the Internal Models (Advanced Approach Internal Model for Credit Cards and Auto Loans, and Foundation Approach Internal Model for Business Enterprises) to estimate the Capital Ratio is the following:

<b>Gross Exposures subject to the Standard Method and Internal Models*</b> (Million pesos)	<b>Banorte</b>
Commercial	<b>75,211</b>
YoY Revenues or Sales < 14 MM UDIS	75,211
States or Municipalities	103,832
Decentralized Federal Government Agencies and State Companies	47,923
Projects with own source of payment	100,456
Financial Institutions	29,690
Mortgage	228,797
Consumer Non-Revolving	69,309
<b>Total Loans subject to the Standard Method</b>	<b>655,217</b>
Commercial	157,944
YoY Revenues or Sales >= 14 MM UDIS	157,944
Federal, State and Municipal Government Decentralized Agencies, with annual income or Sales >= 14 MM UDIS	14,185
<b>Total Loans subject to the Foundation Approach Internal Model</b>	<b>172,128</b>
Consumer Non-Revolving (Auto)	32,333
Credit Cards	46,234
<b>Total Loans subject to Advanced Approach Internal Model</b>	<b>78,568</b>
Deferred Items	2,058
BAP Portfolio	3,188
<b>Total Loans with BAP and DI</b>	<b>911,153</b>

\* 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 31st., 2022, exposure to Credit Risk for Securities Investments of Banco Mercantil del Norte was Ps 326.89 billion, of which 97.0% 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 7% of the Tier 1 Capital as of September 2022. Additionally, there is no 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 2022.

For Derivatives operations, the exposure of the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 6% of the Tier 1 Capital as of September 2022.

Banorte' s exposure to counterparty risk from transactions with derivatives is presented below, as well as the netting effect and risk mitigation based on the aggregate guarantees related to settled transactions (includes operations with Banxico. Excludes settled transactions through central counterparties).

<b>Position</b> (Million Pesos)	<b>4Q22</b>	<b>4Q22 Average</b>
Forwards	109	116
FX Swaps	(172)	(105)
FX	(11)	(2)
Options	(70)	(90)
Swaps with Interest Rates (IRS)	(2,799)	(3,546)
Cross Currency Swap (CCIRS)	(1,480)	(1,141)
Credit Default Swaps (CDS)	134	153
<b>Total</b>	<b>(4,290)</b>	<b>(4,614)</b>
Positive Fair Value (Positive Market Value)	12,361	12,702
Netting Effect*	16,651	17,316
<b>Delivered Guarantees(-) /Received(+)</b>		
Cash	3,655	4,064
Securities	0	0
<b>Total</b>	<b>3,655</b>	<b>4,064</b>

\* 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:

(Million Pesos)	<b>Potential Risk</b>		<b>Current Risk</b>	
<b>Financial Counterparties</b>	4Q22	4Q22 Average	4Q22	4Q22 Average
<b>FWD</b>				
<b>FX SWAP</b>	4,856	3,380	(100)	(29)
<b>FX</b>				

<b>OPTIONS</b>	5,092	4,754	837	819
<b>INTEREST RATE SWAP</b>	2,778	2,647	3,722	3,927
<b>CCS</b>	5,545	5,955	(1,476)	(1,137)
<b>CDS</b>	472	630	134	153
<b>Total</b>	<b>4,542</b>	<b>4,534</b>	<b>3,117</b>	<b>3,733</b>
<b>Clients (Non-Financial)</b>	<b>4Q22</b>	<b>4Q22 Average</b>	<b>4Q22</b>	<b>4Q22 Average</b>
<b>FWD</b>	49	43	26	39
<b>OPTIONS</b>	87	69	(907)	(910)
<b>INTEREST RATE SWAP</b>	2,515	2,354	(6,521)	(7,472)
<b>CCS</b>	26	24	(4)	(4)
<b>Total</b>	<b>2,678</b>	<b>2,491</b>	<b>(7,407)</b>	<b>(8,347)</b>

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:

<b>Net Cash Outflows (Million pesos)</b>	<b>4Q22</b>	<b>4Q22 Average</b>
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.

<b>Rating (Million pesos)</b>	<b>MtM 4Q22</b>	<b>4Q22 Average</b>
<b>AAA/AA-</b>	0	0
<b>A+/A-</b>	2,017	2,717
<b>BBB+/BBB-</b>	(109)	(287)
<b>BB+/BB-</b>	(586)	(902)
<b>B+/B-</b>	(1,197)	(1,440)
<b>CCC/C</b>	0	0
<b>SC</b>	(4,415)	(4,701)
<b>Total</b>	<b>(4,290)</b>	<b>(4,614)</b>

### 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 Company 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:

<b>Collateral Type</b> <i>(Million pesos)</i>	<b>Banorte</b> <b>4Q22</b>
<b>Total Loan Portfolio</b>	<b>907,972</b>
Covered Loan Portfolio by type of collateral	
Real Financial Guarantees	21,568
Real Non-Financial Guarantees	512,427
Pari Passu	38,782
First Losses	17,901
Personal Guarantees	39,794
<b>Total Loan Portfolio Covered</b>	<b>630,472</b>

## 2.4. Expected Loss

As of December 31st, 2022, Banco Mercantil del Norte's total portfolio was Ps 907.97 billion. The expected loss represents 1.9% and the unexpected loss is 4.0% of the total portfolio. The average expected loss is 1.9% for the period October - December 2022.

## 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 communique 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.

As of January 2022, the NIF C16 (IFRS9<sup>1</sup>) rule is effective for the calculation of preventive reserves for credit risks, both in the Standard Approach and Internal Models. As a consequence, 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 CUB<sup>2</sup>.
- 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 3 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 generation by credit risk with an Advanced Approach (Document 111-3/706/2017). Periodically (as indicated by the regulation), Internal Models are recalibrated, on December 17, 2021, the CNBV granted authorization for the use of IM only for the calculation of Capital Requirements for a maximum period of 18 months<sup>3</sup> (Document 111-2/272/2021) and the Board of Directors authorized the use of the Reserve methodology based on NIF C16 in its session on October 21, 2021. The maximum period of use for Reserve model is also for a maximum of 18 months.

These internal models improve overall credit risk management by estimating risk parameters from the bank's own experience. 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 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 e 2	Stage e 3	Stage 1	Stage 2	Stage 3	Stage e 1	Stage 2	Stage 3		
1	3,510	5,047	0	0	75.6%			0.5%			22,798	30%
2	6,152	8,789	0	0	75.8%			0.9%			30,896	30%
3	4,818	6,412	0	0	76.2%			1.5%			12,368	25%
4	6,862	8,739	0	0	77.2%			2.5%			10,659	21%
5	5,813	7,328	0	0	78.4%	75.6%		4.1%	4.1%		5,076	21%
6	5,659	7,004	0	0	80.2%	75.6%		6.3%	6.3%		3,016	19%
7	3,990	5,030	1	0	81.2%	75.8%		9.2%	9.2%		1,822	21%
8	3,606	4,522	2	0	82.7%	76.0%		13.7 %	13.7%		1,309	20%

<sup>1</sup> IFRS9 = International Financial Reporting Standards 9, IRB = Internal Rate Based Models

<sup>2</sup> Circular Única de Bancos

<sup>3</sup> Banorte will request approval of the use of the Internal Model from the CNBV for a period of 12 months, considering that 18 months is the maximum period according to the CUB.

9	2,589	3,318	18	0	84.4%	76.9%	21.9%	21.9%	691	22%		
10	2,128	2,054	502	0	86.1%	85.8%	55.3%	55.3%	67	17%		
11	1,108	0	0	1,108		86.9%		100.0%	38	0%		
Total Port.	46,234	58,243	524	1,108	79.0%	85.0%	86.9%	7.0%	53.9%	100.0%	88,742	23%

\* 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 4Q21.

Backtesting				
Portfolio	Expected Loss Internal Model *	Observed Loss*	Difference Ps (Observed Loss – Expected Loss)	% NCL Coverage
Credit Card	3,601	3,034	(567)	119%
<b>Total Portfolio</b>	<b>3,601</b>	<b>3,034</b>	<b>(567)</b>	<b>119%</b>

\* 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, GF Banorte received approval from the banking regulator (Comisión Nacional Bancaria y de Valores) to use Internal Models (IM) for Auto Loans rating for reserves and regulatory capital generation by credit risk with an Advanced Approach (Document 111/678/2019). Periodically (as indicated by the regulation), Internal Models are recalibrated, on September 29, 2022, the CNBV (Document 111-2/272/2021) granted authorization for the use of IM only for the calculation of Capital Requirements for a maximum period of 18 months, and the Board of Directors authorized, in its meeting on July 2022, the use of reserve methodology based on NIF-C16. The maximum period of use of the reserve model is also for a maximum of 18 months.

These internal models improve overall credit risk management by estimating risk parameters from the bank's own experience. 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 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	2,484	0	0	2,484	0	0	49.64%			0.17%
2	8,234	0	0	8,234	0	0	57.11%			0.42%
3	7,469	0	0	7,469	0	0	61.34%	46.49%		0.80%
4	4,325	1	0	4,325	1	0	61.71%	57.91%		1.28%

5	4,949	2	0	4,949	2	0	63.36 %	56.69 %		1.91%
6	2,348	4	0	2,348	4	0	60.67 %	64.33 %		3.32%
7	1,605	54	0	1,605	54	0	57.68 %	62.98 %		8.96%
8	438	229	0	438	229	0	56.18 %	57.04 %		34.06%
9	0	0	193	0	0	193		63.53 %		100.00%
<b>Cartera Total</b>	<b>31,850</b>	<b>290</b>	<b>193</b>	<b>31,850</b>	<b>290</b>	<b>193</b>	<b>58.81 %</b>	<b>57.85 %</b>	<b>63.53 %</b>	<b>2.77%</b>

The next table shows the difference between expected loss and observed loss resulting from the Advance Approach Internal Model for Auto Loans from 4Q21.

<b>Backtesting</b>				
<b>Portfolio</b>	<b>Expected Loss Internal Model *</b>	<b>Observed Loss*</b>	<b>Difference Ps (Observed Loss – Expected Loss)</b>	<b>% NCL Coverage</b>
Auto Loans	627	445	(182)	141%
<b>Total Portfolio</b>	<b>627</b>	<b>445</b>	<b>(182)</b>	<b>141%</b>

\* Data as of December 2021.

### 2.5.3. 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). Periodically (as indicated by the regulation), Internal Models are recalibrated, on December 17, 2021, the CNBV granted authorization for the use of IM only for the calculation of Capital Requirements for a maximum period of 18 months for Banco Mercantil del Norte (Document 111-2/269/2021). Likewise, the Board of Directors authorized the use of the Reserve methodology based on NIF C16 in its session on October 21, 2021 for Banco Mercantil del Norte. The maximum period of use for Reserve model is also for a maximum 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). Shows the likelihood that a borrower defaults on its contractual obligations within twelve months after the month being rated. There is a score assigned to each borrower, which is in turn mapped against a master rating scale.

The following table shows the portfolio which is subject to the Foundation Approach Internal Model for Corporations, classified by risk level:

<b>Commercial Loans subject to the Foundation Approach Internal Model</b>			<i>Million Pesos</i>
<b>Institution</b>	<b>Accounting Balance</b>	<b>Exposure at Default (EAD)**</b>	<b>Expected Loss</b>
Banco Mercantil del Norte	186,810	187,641	1,135
<b>Total Loans*</b>	<b>186,810</b>	<b>187,641</b>	<b>1,135</b>

\* The balance includes Letters of Credit of Ps 14.7 billion and excludes accounting adjustments of Ps 1 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”; also, institutions must have the necessary information and documentation to prove that the person or group of people represent a common risk in accordance with the assumptions established in those rules.

In compliance with risk diversification regulation on active and passive operations, **Banco Mercantil del Norte** presents the following information:

<b>Tier 1 Capital as of September 30, 2022</b>	<b>185,190</b>
<i>(Million pesos)</i>	
<b>I. Loans with individual balance greater than 10% of Tier 1 Capital:</b>	
<u>Loan Operations</u>	
Number of loans	0
Total amount of loans	0
% in relation to Tier 1	0%
<u>Money Market Operations</u>	
Number of loans	0
Total amount of loans	0
% in relation to Tier 1	0%
<u>Overnight Operations</u>	
Number of loans	0
Total amount of loans	0
% in relation to Tier 1	0%
<b>II. Maximum amount of credit with the 3 largest debtors and common risk groups</b>	<b>43,180</b>

## 3. MARKET RISK

GFNorte's objectives regarding Market Risk are:

- Comply with the Desired Profile Risk defined by the Group's Board of Directors.
- Maintain an adequate monitoring on Market Risk.
- Maintain the Senior Management adequately informed in time and form.
- Quantify exposure to Market Risk through the use of various methodologies.
- Define maximum risk levels the Institution is willing to maintain.
- Measure the Institution's vulnerability to extreme market conditions and consider such results when making decisions.

GFNorte's Market Risk Policies are:

- New products subject to market risk must be evaluated and approved 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. Banorte implemented during January 2019 the calculation of expected shortfall, thus substituting the calculation of VaR. In addition, it was implemented the valuation of derivatives by OIS curves and curves adjusted for collateral following international standards.

Risk management is supported by a framework of policies and manuals through which the implementation and monitoring on market risk limits, the disclosure of the aforementioned risk metrics and its tracking regarding the established limits, are set.

Key risk ratios are disclosed in monthly reports to the Risk Policy Committee and through a daily report to top executives at the Institution, related to the Market Risk risk-taking.

### 3.2. Market Risk Exposure

Exposure of the Institution's financial portfolios to Market Risk is quantified using the methodology denominated Expected Shortfall which is the average of losses once VaR is surpassed.

The Expected shortfall model considers a one day horizon base, and considers a non-parametric historical simulation with a 97.5% confidence level and 500 historical observations on risk factors, and an additional stress scenario. Furthermore, it considers all the positions (money market, treasury, equities, FX and derivatives) classified for accounting purposes as trading assets, both on and off the balance sheet.

The average Expected shortfall of the portfolio for 4Q22 was Ps 94.0 million (Ps 20.8 million lower than the average expected shortfall from last quarter).

The result shows that the Bank's expected shortfall, using a 97.5% confidence level, is on average Ps 94.0 million.

<b>Expected Shortfall (Million Pesos)</b>	<b>4Q22 Average</b>
Total Expected Shortfall	94.0
Net Capital	194,923
<b>Expected Shortfall/Net Capital</b>	<b>0.048%</b>

Expected shortfall by risk factor behavior during the fourth quarter of the year is as follows:

<b>Risk Factor (Million Pesos)</b>	<b>4Q22</b>	<b>4Q22 Average</b>
Domestic Rates	56.0	50.4
Foreign Rates	77.9	61.6
Surcharges	48.0	49.7
FX	29.8	33.4
Equity	71.6	36.4
Diversification Effect	(211.4)	(137.5)
<b>Bank's Expected Shortfall</b>	<b>71.9</b>	<b>94.0</b>

Expected shortfall for 4Q22 was Ps 71.9 million. The contribution to the Bank's Expected shortfall for each risk factor is:

<b>Risk Factor (Million Pesos)</b>	<b>4Q22</b>	<b>4Q22 Average</b>
Domestic Rates	35.0	34.7
Foreign Rates	(1.1)	11.2
Surcharges	0.3	13.4
FX	3.9	5.0
Equity	33.8	29.7
<b>Bank's Expected Shortfall</b>	<b>71.9</b>	<b>94.0</b>

Expected shortfall by risk factor is determined by simulating 500 historical scenarios and an additional stress scenario to each risk factor and assessing instruments by their main risk factor. It is important to note that all positions classified as trading were considered, positions classified as held to maturity and available for sale were excluded.

The proportion by market risk factor excluding the diversification effect is:

<b>Risk Factor</b>	<b>4Q22</b>
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Rates	49%
Surcharges	14%
FX	5%
Equity	32%

### 3.3. Sensitivity Analysis and Stress Testing under extreme conditions

With the purpose of complementing and strengthening risk analysis, Banorte tests under extreme conditions known as Stress Testing. This is presented to the Risk Policy Committee on monthly basis with the main objective of assessing the impact on the Institution's positions of extreme movements in risk factors.

### 3.4. Backtesting

In order to validate the effectiveness and accuracy of the expected shortfall, a monthly Back testing analysis is presented to the Risk Policy Committee. Through this analysis, it is possible to compare losses and gains observed with respect to the estimated expected shortfall and if necessarily make the required adjustments to the parameter.

## 4. BALANCE AND LIQUIDITY RISK

GFNorte's Balance and Liquidity Risk objectives are:

- Comply with the Risk Appetite defined by the Group's Board of Directors.
- Give proper monitoring of Balance and Liquidity Risk.
- Assessing through the use of different methodologies, Balance and Liquidity Risk exposure.
- Measure Institution's vulnerability to extreme market conditions and consider such results for decision making.
- Maintain Senior Management properly informed in a timely manner on Balance and Liquidity Risk exposure and on any limits' and risk profile's deviation.
- 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

GFNorte's Liquidity Risk Policies are:

- Establishment of specific global limits of Balance and Liquidity Risk Management.
- Measurement and monitoring of Balance and Liquidity Risk.
- Information and disclosure of Liquidity Risk to risk-taking areas, CPR, Board of Directors, Financial Authorities and to public investors

### 4.1. Liquidity Risk Methodology and Exposure

Balance and Liquidity risk is managed through a series of fundamental pillars that include the use of key indicators such as the Liquidity Coverage Ratio (LCR), re-price gaps and liquidity, as well as stress testing. The latter, based on a framework of policies and manuals, including a funding contingency plan, and a contingency plan to preserve solvency and liquidity. Similarly, is enhanced with monitoring limits and Risk Appetite metrics of Balance and Liquidity Risk. The disclosure of metrics and indicators and their compliance with established limits and desired established risk profile is performed through monthly reports to the CPR, weekly reports to the capital and liquidity management group, and quarterly reports to the Board of Directors.

### 4.2. Profile and Funding Strategy

The composition and evolution of the Bank's funding during the quarter is shown in the following table:

<b>Funding Source (Million pesos)</b>	<b>3Q22</b>	<b>4Q22</b>	<b>Var vs. 3Q22</b>
Demand Deposits			
Local Currency <sup>(1)</sup>	530,649	549,822	3.6%
Foreign Currency <sup>(1)</sup>	70,641	72,367	2.4%
<b>Demand Deposits</b>	<b>601,291</b>	<b>622,190</b>	<b>3.5%</b>
Time Deposits – Core			
Local Currency <sup>(2)</sup>	214,441	213,651	(0.4%)
Foreign Currency <sup>(2)</sup>	3,328	3,137	(5.8%)

<b>Core Deposits</b>	<b>819,060</b>	<b>838,977</b>	<b>2.4%</b>
Money Market			
Local Currency <sup>(3)</sup>	38,877	62,368	60.4%
Foreign Currency <sup>(3)</sup>	18,798	14,013	(25.5%)
<b>Banking Sector Deposits</b>	<b>876,736</b>	<b>915,358</b>	<b>4.4%</b>

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 4Q22:

LCR Components		Consolidated Entity	
(Million Pesos)		Unweighted amount (Average)	Weighted amount (Average)
<b>COMPUTABLE LIQUID ASSETS</b>			
1	Total Computable Liquid Assets	NA	144,406
<b>CASH DISBURSEMENTS</b>			
2	Unsecured retail financing	482,592	30,871
3	Stable financing	347,761	17,388
4	Less stable financing	134,832	13,483
5	Unsecured wholesale financing	328,400	97,169
6	Operational Deposits	260,450	58,797
7	Non-Operational Deposits	65,982	36,403
8	Unsecured debt	1,969	1,969
9	Secured wholesale financing	273,587	10,092
10	Additional Requirements:	353,524	27,413
11	Disbursements related to derivatives and other guarantee requirements	16,465	8,416
12	Disbursements related to losses from debt financing	0	0
13	Lines of credit and liquidity	337,059	18,996
14	Other contractual financing obligations	2,583	267
15	Other contingent financing liabilities	0	0
16	<b>TOTAL CASH DISBURSEMENTS</b>	<b>NA</b>	<b>165,811</b>
<b>CASH INFLOWS</b>			
17	Cash Inflows for secured operations	105,679	5,999
18	Cash Inflows for unsecured operations	87,775	63,270
19	Other Cash Inflows	2,671	2,671
20	<b>TOTAL CASH INFLOWS</b>	<b>196,125</b>	<b>71,939</b>

			Adjusted amount
21	<b>TOTAL COMPUTABLE LIQUID ASSETS</b>	NA	<b>144,406</b>
22	<b>TOTAL NET CASH DISBURSEMENTS</b>	NA	<b>93,872</b>
23	<b>LIQUID COVERAGE RATIO</b>	NA	<b>154.61%</b>

LCR Components	Bank Stand Alone	
(Million Pesos)	Unweighted amount (Average)	Weighted amount (Average)

#### COMPUTABLE LIQUID ASSETS

1 Total Computable Liquid Assets	NA	<b>144,406</b>
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#### CASH DISBURSEMENTS

<b>2 Unsecured retail financing</b>	482,592	30,871
3 Stable financing	347,761	17,388
4 Less stable financing	134,832	13,483
<b>5 Unsecured wholesale financing</b>	316,820	86,292
6 Operational Deposits	260,450	58,797
7 Non-Operational Deposits	54,401	25,527
8 Unsecured debt	1,969	1,969
<b>9 Secured wholesale financing</b>	273,587	10,092
<b>10 Additional Requirements:</b>	310,927	25,184
11 Disbursements related to derivatives and other guarantee requirements	16,465	8,416
12 Disbursements related to losses from debt financing	0	0
13 Lines of credit and liquidity	294,462	16,768
14 Other contractual financing obligations	2,583	267
15 Other contingent financing liabilities	0	0
<b>16 TOTAL CASH DISBURSEMENTS</b>	<b>NA</b>	<b>152,706</b>

#### CASH INFLOWS

17 Cash Inflows for secured operations	105,679	5,999
18 Cash Inflows for unsecured operations	83,841	62,792
19 Other Cash Inflows	2,671	2,671
<b>20 TOTAL CASH INFLOWS</b>	<b>192,190</b>	<b>71,461</b>

			Adjusted amount
21	<b>TOTAL COMPUTABLE LIQUID ASSETS</b>	NA	<b>144,406</b>
22	<b>TOTAL NET CASH DISBURSEMENTS</b>	NA	<b>81,245</b>
23	<b>LIQUID COVERAGE RATIO</b>	NA	<b>178.98%</b>

During 4Q22, the 92-day average LCR for the Consolidated Entity was 154.61% with a 92-day average Bank's Stand-Alone LCR of 178.98%, and at the end of 4Q22 the LCR for the Consolidated Entity was 136.93%, while the bank's Stand-Alone LCR for 3Q22 was 149.58%; the aforementioned levels are above the Risk Appetite and the regulatory minimum standards. These results show that Banorte can meet all of its short-term obligations in a crisis scenario<sup>4</sup>.

#### 4.4. Evolution of LCR Components

<sup>4</sup> The Liquidity Coverage Ratio information is preliminary and is subject to Banco de Mexico's affirmation.

The evolution of the LCR components comparing 3Q22 and 4Q22 is presented in the following table:

<b>LCR Component</b> (Million pesos)	<b>3Q22</b>	<b>4Q22</b>	<b>Var vs. 3Q22</b>
Liquid Assets	156,261	145,332	(7.0%)
Cash Inflows	55,751	62,480	12.1%
Cash Outflows	165,637	168,620	1.8%

The Liquid Assets that compute in the LCRs for the Bank and Sofomes between 3Q22 and 4Q22 are distributed as follows:

<b>Type of Asset</b> (Million pesos)	<b>3Q21</b>	<b>4Q21</b>	<b>Var vs. 3Q21</b>
<b>Total</b>	<b>156,261</b>	<b>145,332</b>	<b>(7.0%)</b>
Level I	150,480	139,098	(7.6%)
Level II	5,781	6,234	7.8%
Level II A	2,645	2,848	7.7%
Level II B	3,136	3,386	8.0%

#### 4.5. Main Causes of LCR Results

Liquidity Coverage Ratio variations between 3Q22 and 4Q22, are consequence of the quarterly decrease in liquid assets as a consequence of the maturity of assets classified as Liquid Assets Level I, as well as the effects in available liquidity derived from portfolio allocation.

It is worth noting that Banorte has not used the Ordinary Facilities or the Extraordinary Facilities of Banco de México during 4Q22.

#### 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 4Q22, estimated outflows for derivatives were as follows:

<b>Derivatives Cash Outflows</b> (Million Pesos)	<b>3Q22</b>	<b>4Q22</b>	<b>Var vs. 3Q22</b>
Net cash outflows at market value and for potential future exposure	6,832	6,832	0.0%
Cash outflows for a 3 notch credit rating downgrade	0	0	0.0%

The measurement shows that potential outflows for derivatives may represent a liquidity requirement up to Ps 6.83 billion, stable vs. 3Q22.

#### 4.7. Net Stable Funding Ratio (NSFR)

The CFEN is an indicator that should be interpreted as the proportion between the Available Stable Financing, constituted from own and external resources that are considered reliable over a time horizon; and the Required Stable Financing, constituted from liquidity, asset maturities and off-balance sheet positions.

The following tables present the average evolution of CFEN components in 4Q22:

NSFR		Consolidated Entity				
(Million Pesos)		Unweighted value by residual maturity				Weighted Value
		No Maturity	< 6 months	6 months to < 1 year	<u>&gt; 1 year</u>	
Available Stable Funding Items						
1	Capital:	201,301	0	0	0	201,301
2	Regulatory Capital	201,301	0	0	0	201,301

3	Other capital instruments	0	0	0	0	0
4	Retail deposits and deposits from small business customers:	0	556,978	1,398	140	522,359
5	Stable deposits:	0	392,709	904	79	374,012
6	Less Stable deposits	0	164,269	494	60	148,347
7	Wholesale funding:	0	598,278	14,419	64,158	336,172
8	Operational deposits	0	34,096	0	0	17,048
9	Other wholesale funding	0	564,182	14,419	64,158	319,124
10	Liabilities with matching interdependent assets	0	1,214	934	9,226	0
11	Other liabilities	11,615		37,712		15,136
12	NSFR derivative liabilities	NA		0		NA
13	All other liabilities and equity not included in the above categories	11,615	9,168	26,815	1,728	15,136
14	<b>Total Available Stable Funding</b>	NA	NA	NA	NA	<b>1,074,968</b>
<b>Required Stable Funding Items</b>						
15	Total NSFR high-quality liquid assets (HQLA)	NA	NA	NA	NA	63,965
16	Deposits held at other financial institutions for operational purposes	0	963	0	0	482
17	Performing loans and securities:	0	252,907	68,246	640,090	631,613
18	Performing loans to financial institutions secured by Level 1 HQLA	0	84,442	615	1,318	10,069
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	0	15,874	6,760	6,656	12,417
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	135,389	53,979	407,415	420,132
21	With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	0	50,496	8,160	104,272	97,105
22	Performing residential mortgages, of which:	0	6,097	4,278	212,314	170,672
23	With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk.	0	1,687	1,102	74,916	50,090
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	0	11,105	2,614	12,387	18,322
25	Assets with matching interdependent liabilities	0	1,214	934	9,226	0
26	Other assets:	60,269		578,021		107,030
27	Physical traded commodities, including gold	17	NA	NA	NA	14
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	NA		1		1
29	NSFR derivative assets	NA		34,378		4,267
30	NSFR derivative liabilities before deduction of variation margin posted	NA		441,936		2,076
31	All other assets not included in the above categories	60,252	91,683	27	9,996	100,672
32	Off-balance sheet items	NA		375,736		18,787
33	<b>Total Required Stable Funding</b>	NA	NA	NA	NA	<b>821,876</b>
34	<b>Net Stable Funding Ratio (%)</b>	NA	NA	NA	NA	<b>130.79%</b>

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:	201,301	0	0	0	201,301
2	Regulatory Capital	201,301	0	0	0	201,301
3	Other capital instruments	0	0	0	0	0
4	Retail deposits and deposits from small business customers:	0	556,978	1,398	140	522,359
5	Stable deposits.	0	392,709	904	79	374,012
6	Less Stable deposits	0	164,269	494	60	148,347
7	Wholesale funding:	0	590,302	6,123	52,945	319,308
8	Operational deposits	0	34,096	0	0	17,048
9	Other wholesale funding	0	556,206	6,123	52,945	302,260
10	Liabilities with matching interdependent assets	0	1,214	934	9,226	0
11	Other liabilities	11,615	37,712			15,136
12	NSFR derivative liabilities	NA	0			NA
13	All other liabilities and equity not included in the above categories	11,615	9,168	26,815	1,728	15,136
14	Total Available Stable Funding	NA	NA	NA	NA	1,058,104
Required Stable Funding Items						
15	Total NSFR high-quality liquid assets (HQLA)	NA	NA	NA	NA	63,965
16	Deposits held at other financial institutions for operational purposes	0	963	0	0	482
17	Performing loans and securities:	0	242,411	65,990	631,034	615,461
18	Performing loans to financial institutions secured by Level 1 HQLA	0	84,442	615	1,318	10,069
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	0	23,242	7,200	9,993	17,079
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	117,525	51,283	395,022	399,319
21	With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	0	50,496	8,160	104,272	97,105
22	Performing residential mortgages, of which:	0	6,097	4,278	212,314	170,672
23	With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk.	0	1,687	1,102	74,916	50,090
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	0	11,105	2,614	12,387	18,322
25	Assets with matching interdependent liabilities	0	1,214	934	9,226	0
26	Other assets:	60,269	638,273			107,030
27	Physical traded commodities, including gold	17	NA	NA	NA	14

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		34,378		4,267
30	<i>NSFR derivative liabilities before deduction of variation margin posted</i>	NA		441,936		2,076
31	<i>All other assets not included in the above categories</i>	60,252	91,683	27	9,996	100,672
32	Off-balance sheet items	NA		332,111		16,606
33	<b>Total Required Stable Funding</b>	NA	NA	NA	NA	803,543
34	<b>Net Stable Funding Ratio (%)</b>	NA	NA	NA	NA	<b>131.68%</b>

During the 4Q22, it the NSFR for the Consolidated Entity had a 92-days quarter average of 130.79%, while the quarters average bank's stand-alone NSFR was 131.68%, with an end of quarter consolidated entity NSFR of 130.42%, forementioned levels are above the Risk Appetite and the regulatory minimum standards. Such levels show that Banorte has the stable founding 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 3Q22 to 4Q22 are shown in the following figure.

	3Q22			4Q22			Change		
	Available Stable Funding	Required Stable Funding	NSFR	Available Stable Funding	Required Stable Funding	NSFR	Available Stable Funding	Required Stable Funding	NSFR
< 6 months	962,612	212,849		992,555	218,076		3.1%	2.5%	
From 6 months to < 1 year	24,664	28,778		22,064	34,960		(10.5%)	21.5%	
>1 year	58,598	550,440	<b>132.0%</b>	61,787	572,292	<b>130.4%</b>	5.4%	4.0%	<b>(1.2%)</b>

#### 4.9. Main Causes of NSFR Results

The solid levels of the Net Stable Funding Ratio are supported by not only the strength of Banorte's Tier 1 capital, but also, by a balanced mix between short term and long-term core liabilities.

#### 4.10. Liquidity Risk in foreign currency

For Liquidity Risk quantification and monitoring, in the specific case of the foreign currency denominated portfolio, Banorte uses the criteria established by Banco de México for the assessment of the foreign currency Liquidity Coefficient.

The Liquidity Coefficient in foreign currencies should be interpreted as the ability of the institution to meet its liquidity mismatches with liquid assets, both in foreign currency.

#### 4.11. 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 4Q2 are presented in the following table.

<b>Concept</b> (Million pesos)	<b>3Q22</b>	<b>4Q22</b>	<b>Var vs. 3Q22</b>
Cumulative 30 day Gap	(107,329)	(110,110)	2.6%
Liquid Assets	120,613	105,082	(12.9%)

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:

<b>Concept</b> (Million pesos)	<b>1 day</b>	<b>7 days</b>	<b>1 month</b>	<b>3 months</b>	<b>6 months</b>	<b>12 months</b>
Natural Gap	(114,677)	23,388	(18,821)	45,321	49,816	50,178
Accumulated Gap	(114,677)	(91,289)	(110,110)	(64,789)	(14,973)	35,205

#### **4.12. Stress Testing under liquidity extreme conditions**

As part of its Liquidity Risk management, Banorte performs tests under extreme liquidity circumstances with internal scenarios, to assess the Bank's liquidity adequacy under adverse conditions from the environment as well as by the bank's intrinsic conditions. A total of 9 scenarios, based on 3 sources of risk (systemic, idiosyncratic and combined) with 3 levels of severity (moderate, medium and severe) are used.

#### **4.13. Contingency Funding Plan**

In order to comply with comprehensive liquidity management practices, and to ensure its operation in adverse situations in terms of Liquidity, Banorte has implemented a contingency funding plan, which incorporates elements to identify possible liquidity problems and defines alternate funding sources available to deal with contingencies.

#### **4.14. 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 assets and liabilities in the balance sheet, the model used is a re-pricing model by brackets in which all assets and liabilities are distributed in different bands depending on their re-pricing characteristics and/or tenure. Once categorized by re-pricing structure, the impact that each of these bands have on these metrics can be estimated.

##### **4.14.1. Financial Margin Sensitivity**

Financial Margin sensitivity is a static metric that takes into consideration a twelve-month period. Only the bands with duration lower than 1 year are impacted by interest rate simulated fluctuations. Relevant considerations behind margin sensitivity calculations are:

- Considers repricing outcomes for all financial assets and liabilities in the balance sheet.
- Separated trading book surveillance.
- Considers the behavior for all balance sheet models, such as mortgage prepayments and deposit survival.
- The balance sheet is considered static and constant through time. Neither organic growth nor interest rate structure or changes or strategies in product's mixture are considered.

The following table shows Financial Margin Sensitivity for Banorte:

<b>Margin Sensitivity</b> (Million Pesos)	<b>3Q22</b>	<b>4Q22</b>	<b>Change vs. 3Q22</b>
Local Currency Balance	1,205	1,222	1.4%
Foreign Currency Balance	896	1,076	20.1%



At the end of 4Q22, local currency balance sensitivity for a 100bps shift in reference rates, changed from Ps 1,205 million in 3Q22 to Ps 1,222 million. Foreign currency balance sensitivity for a 100bps shift in reference rates changed from Ps 896 million to Ps 1,076 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 114.77 billion at the end of 4Q22, with an average of Ps 113.02 billion balance.

## 5. OPERATIONAL RISK

The Institution has a formal Operational Risk department reporting directly to the Chief Risk Officer.

Operational Risk is defined as the potential loss due to failures or deficiencies in internal controls, errors in operation processing and storing or in data transmitting, as well as to adverse administrative and judicial rulings, fraud or theft (this definition includes Technological and Legal Risk).

The objectives of Operational Risk Management are: a) Enable and support the organization to reach its institutional objectives through prevention and management of operational risks; b) To ensure that the existing operational risks and the required controls are properly identified, assessed and in line with the risk strategy established by the organization; and c) To ensure that operational risks are properly quantified in order to adequately allocate capital per Operational Risk.

### 5.1. Policies, Objectives and Guidelines

As part of the Institutional regulations, there are documented policies, objectives, guidelines, methodologies and responsible areas in Operating Risk management.

The Operational Risk Management Directors maintains close communication and coordination with the Regulatory Comptrollership in order to facilitate effective Internal Control in which proper procedures and controls are established for mitigating Operating Risk among the processes, and provide monitoring through the Internal Audit Department.

The Regulatory Comptrollership, as part of the Internal Control System, carries out the following activities to mitigate risk: a) Internal control validations; b) Institutional regulations management and control; c) Monitoring of operating processes' internal control by means of control indicators reports, that are reported by the process comptrollers in the various areas; d) Money Laundering Prevention process management; e) Control and monitoring of the regulatory provisions; and f) Analysis and assessment of the operating processes and projects with the participation of the responsible Directors of each process in order to ensure adequate internal control.

### 5.2. Quantitative and Qualitative Measuring Tools

#### 5.2.1 Operational Losses Database

In order to record operating loss events, the Institution owns a system that enables, the central information supplier areas, to directly record such events online, which are classified by Type of Event in accordance with the following categories:

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,	Losses caused by errors in operations processing or management, as

Delivery and Management	well as relations with commercial counterparties and suppliers
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This historical Database provides the statistics of the operational events in which the institution has incurred to determine their trends, frequency, impact and distribution.

### **5.2.2. Legal and Fiscal Contingencies Database**

For recording and monitoring legal, administrative and tax issues that may arise from adverse ruling, an internal system called “Legal Risk Issues Monitoring System” (SMARL by its acronym in Spanish) was developed. This system enables the central data supplying areas to record such events directly and on-line, which are then classified by company, sector and legal issue, among others.

As part of 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 applicable, define tolerance levels. Currently, work is being done on developing a new Institution Operating Risk Management Model and the technological tools needed to implement it.

### **5.4. Required Capital Calculation**

In accordance with the current Capitalization for Operational Risk Regulations, for Banorte, the Institution has adopted the Alternative Standardized Approach (ASA) Model, which is estimated and reported periodically to the authorities.

### **5.5. Information and Reporting**

The information generated by the Database and the Management Model is 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 done 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 1.0% 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, 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 from failure to comply with the applicable legal and administrative provisions, the issuance of indisputable unfavorable court rulings and the application of penalties regarding the operations that the institution performs.

The Legal Risk must be measured as an inherent part of Operating Risk in order to understand and estimate its impact. Therefore, those legal issues which result in actual operating losses of the SMARL system are later recorded in the SCERO a database of operational events.

Based on the statistics of the current legal issues and real loss events, the Institution can identify specific legal or operating risks, which are analyzed in order to eliminate or mitigate them in an attempt to reduce or limit their future occurrence or impact.

## 6. SECURITIZATIONS PERFORMED BY GFNORTE

The main objective of the securitization operations carried out by the Group, is to transfer risks and benefits of certain financial assets to third parties.

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.

In accordance with criterion C-1 Recognition and Disposal of Financial Assets, these assets were written off from the Institution's balance sheet as a sale, given that conditions for the risk's and benefit's transfer inherent in the ownership of the financial assets were met. The Institution is not responsible for assumed or retained risks regarding the trust assets, its sole responsibility is the fulfillment of its obligations in the trust agreement and administration contract.

The Institution is responsible that each of the assigned loans meets the eligibility criteria, at the time of their respective assignment. If the trust, the common representative, the financial guarantor, identify any non-eligible loans, they may require Banorte to replace such loan or if replacement is not possible, to make payment for the "non-replaced ineligible loan" in question. If Banorte identifies any non-eligible loan, it must be notified and replace it or make the corresponding payment.

The Institution's Board of Directors has no pre-determined policies for the issuance of securitizations, authorization for any new issuance must be requested.

The Institution does not participate in securitizations of third party positions.

There are several risk factors for securitizations that may affect trusts' assets. If these risks materialize, payment to market certificates' holders could be adversely affected. The main risks to which these financial instruments are exposed to are credit, market, liquidity and operational risk, which have been detailed in previous sections.

To monitor the quality of Credit Risk exposure of financial instruments arising from securitized assets, the Institution estimates expected loss within one-year time horizon. Likewise, in order to monitor exposure to market risk, the value at risk is calculated with a one-day time horizon and a 99% confidence level, for these instruments.

Banco Mercantil del Norte is the settlor and trustee of trusts for the securitizations carried out. At the same time it acts as underwriter on each issue, offering bonds to investors. Additionally, the Institution also carries out the duties of administrator in each of the trusts.

As of December 31th, 2022 The Institution does not have securities of the FCASACB securitization in its own position:

Securitization (Million pesos)	Issued Securities	Banorte
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 trust is as follows:

Securitization	Standard & Poor's		Fitch Ratings		Moody's		HR Ratings		Verum		Best		DBRS	
	Local	Global	Local	Global	Local	Global	Local	Global	Local	Global	Local	Global	Local	Global
97_FCASACB_06U	mxCC		CCC	(mex)										

As of December 31st, 2022 the amounts of the underlying assets of the securitization were:

Securitization (Million pesos)	Amount		
	Performing	Past-Due	Total
97_FCASACB_06U	Ps 61	Ps 98	Ps 159

No securitization position is registered in memorandum accounts and no maintained securitization position is deducted from Tier 1 Capital.

Securitization from Trust 563 considers early amortization provisions. The institution has not made revolving securitizations or re-securitizations operations during the quarter.

### 6.1. Applied Accounting Policies

All securitization operations carried out by the Institution were recognized as sales in accordance with criterion C-1 Recognition and Disposal of Financial Assets. This is because, despite retaining the contractual rights to receive cash flows from financial assets, a contractual obligation is assumed to pay such cash flows to a third party. In addition, an analysis of the transfer of these assets concluded that the entity substantially transfers all the risks and benefits inherent with ownership of the financial assets. Registration of profits from sales conforms to the provisions in paragraph 31 of criterion C-1, which states:

- 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.

The MBS (Mortgage-Backed Securities) Trust issued certificates in favor of the institution, as holders of rights in last place under the trust agreement. These certificates provide the right to receive a percentage of the distributions and in general to the corresponding proportions of the remnant that may be in the trust after full payment of the bonds. Valuation of the certificates is based on the method of net present value of remaining cash flows expected over the lifespan of the securitization. Remaining cash flows for the MBS the sum of cash flows to be received from the securitized loan portfolio, minus cash flow to be paid to securitized portfolios, minus the monthly administration expenses, plus the income from sales of foreclosed properties, if applicable. At the end of the period, the certificate related to securitization FCASACB 06U shows a fair market value of zero, since no remaining cash flows are expected to be received.

Remaining flows are discounted with the B1 banking curve, which takes into consideration the trusts' Credit Risks. The most important assumptions in the valuation of the certificates are the following:

- 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.
- 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.
- Portfolio term: is estimated using WAM (Weighted Average Maturity) of the securitized portfolio.
- Portfolio interest rate: is estimated using WAC (Weighted Average Coupon) of the securitized portfolio.
- Portfolio payment dates: loan portfolio payment dates are considered to be the same as those of the stock certificates.
- 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.
- 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 PiP-Latam.

Regarding the policies for recognizing obligations in balance sheet of the agreements that may require financial support from the Institution in case of asset's securitization: all amounts due under the stock certificates of the different existing securitizations, will be charged to the trust estate. If, for any reason, the liquid assets of the trust net worth are not sufficient to ensure payment of the amounts due under the stock certificates, holders will not have the right to claim payment from the Institution, the Trust, the common representative, the placement agent, the guarantor or guarantors in the case, or anyone else. The stock certificates have not been guaranteed or endorsed by any of the persons involved in the issuance thereof, therefore none of them are obligated to make payments to the certificate holders, with the exception, in the case of a trust, where payments may be charged to the trust in accordance with the trust agreement.

**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.**

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#### **38 - MEMORANDUM ACCOUNTS (unaudited)**

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	<b>2022</b>
Guarantees Granted	Ps. 357
Contingent assets and liabilities	32
Credit commitments	347,355
Assets in trust or mandate	308,801
Managed assets in custody	546,061
Collateral received	182,756
Collateral received and sold or given as a pledge	72,400
Interest accrued but not charged of past due loans	412
Other registration accounts	542,918
	<b>Ps. 2,001,092</b>

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#### **39 - COMMITMENTS**

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As of December 31, 2022, the Institution had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 347,355, which are recorded in memorandum accounts.

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#### **40 - CONTINGENCIES**

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As of December 31, 2022, 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, 2022, the Institution has recorded a reserve for contentious matters of Ps. 1,027.

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#### **41 - PREVENTIVE MECHANISM FOR SAVINGS' PROTECTION**

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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 2022, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps 3,859.

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## 42 - NEW ACCOUNTING GUIDELINES

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Improvements to MFRS 2023 – The following improvements were issued with effect as of January 1, 2023, which generate accounting changes.

The improvements consist of specifying the scope and definitions of these MFRSs to more clearly indicate their application and accounting treatment.

a. Improvements to MFRS that generate accounting changes

**MFRS B-11 "Disposal of long-lived assets and discontinued operations".-** Long-lived assets held to distribute to the owners, that is, they will be used to pay dividends or capital reimbursements, are valued at the lower of their value net book value and fair value less disposal costs.

b. Improvements to MFRS that do not generate accounting changes

**MFRS B-3 "Statement of comprehensive income".-** Clarifies that exchange fluctuations derived from UDIS must be included in the comprehensive financing result; On the other hand, for the purposes of MFRS B-10 - Effects of inflation, they must be treated as monetary items; consequently, in the application of MFRS B-15 - Conversion of foreign currencies, they must be valued at the closing exchange rate.

**MFRS B-10 "Effects of inflation".-** When MFRS B-10 was issued, the mention of 8% was included because it was the annual average to determine the 26% accumulated in three years. Reference to the 8% average is removed.

**MFRS C-3 "Accounts receivable".-** It is clarified that the scope of this MFRS includes other accounts receivable that do not accrue interest. The reference to "commercial" accounts receivable is eliminated, thus including all accounts receivable.

The Institution's Management is in the process of evaluating the financial effects originated by the adoption of the other standards, however, it considers that they will not have significant effects on the financial information.