3Q21

Risk Management Report

as of September 30th, 2021

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GRUPO FINANCIERO BANORTE

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Risk Management

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

1. OBJECTIVES, SCOPE AND RISK MANAGEMENT FUNCTIONS

GFNorte's Risk Management main objectives are:

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

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

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

<u>Market Risk:</u> 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.

<u>Liquidity Risk:</u> 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.

<u>Operational Risk</u>: 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.

<u>Concentration Risk:</u> 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:

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

1.1 Risk Management – Structure and Corporate Governance

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

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

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

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

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

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

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

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

1.2 Scope and Nature of GFNorte's Risk Management

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

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

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

2. CREDIT RISK

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

The objectives of Credit Risk Management at GFNorte are:

- Comply with the Risk Appetite defined by the Board of Directors.
- Improve the quality, diversification and composition of the loan portfolio in order to optimize the risk- reward ratio.
- Provide Executive Management with reliable, timely information to assist decision making regarding funding.
- Provide Business Areas with clear and sufficient tools to support and monitor funding placement.
- Create economic value for shareholders through an efficient Credit Risk Management.
- Define and update the regulatory framework for the Credit Risk Management.
- Comply with the information requirements that the authorities establish regarding Credit Risk Management.
- Perform Risk Management in accordance with the best practices, implementing models, methodologies, procedures and systems based on best practices worldwide.
- Measure Institution's vulnerability to extreme conditions and consider those results for decisions making.

GFNorte's Credit Risk Management policies are:

- Grant and Manage Retail Credit Risk according to best market practices through Parametric Models aimed to identify risk, minimize losses and increase loan origination with quality.
- Grant and Manage Wholesale Loans to companies and other entities, according to best market practices through a credit strategy including Target Markets and Risk Acceptance Criteria, identifying and managing risk through Loan Rating and Early Warnings methodologies.
- Monitor and control asset quality through Loan Classification System which provides treatment and general actions for defined situations, as well as departments or officers responsible for carrying out such actions.
- Surveillance and Control through Global and Specific Limits, loan rating policies, and Portfolio Credit Risk models that identify expected and unexpected losses at specific confidence levels.
- Inform and disclose Credit Risks to risk taking areas, CPR, Board of Directors, Financial Authorities and Investors.
- Define faculties for Credit Risks taking at Institution.

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

2.1 Credit Risk Scope and Methodology

2.1.1 Individual Credit Risk

GFNorte segments the loan portfolio into two large groups: retail loans and wholesale loans.

The individual Credit Risk for retail loans is identified, measured and controlled through a parametric system (scoring) that includes models for each of the SME (small and medium enterprises) and consumer products (mortgage, auto, payroll, personal loans and credit cards).

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

The Target Markets, Risk Acceptance Criteria and Early Warnings are tools that, together with the Internal Risk Rating, are part of GFNorte's Loan Strategy and support the estimated level of Credit Risk.

The Target Markets are categories of economic activity by region, backed by economic research and loan behavior analysis as well as by expert opinions, where GFNorte is interested in granting loans.

The Risk Acceptance Criteria are parameters that describe different types of risks by industry, in order to estimate the risk taking when granting loans to customers based on their economic activity. The types of risk observed in the Risk Acceptance Criteria are: Financial, Operation, Market, and Enterprise's life cycle, Legal and Regulatory Risks, besides credit experience and management quality.

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

Banorte's CIR is a borrower's rating methodology which assesses quantitative and qualitative criteria in order to determine credit quality. CIR applies to commercial loans equal to or greater than the equivalent of four million investment units (UDIs) in Mexican pesos on the rating date, or borrowers whose annual sales or income are greater or equal to 14 million UDIs (in case of being enterprises).

2.1.2 Portfolio Credit Risk

GFNorte developed a portfolio Credit Risk methodology that, besides including international standards for identifying, measuring, controlling and monitoring, has been adapted to function within the context of the Mexican Financial System.

This Credit Risk methodology provides current value of the entire loan's portfolio at GFNorte, that is, the loan exposure, in order to monitor risk concentration levels through risk ratings, geographical regions, economic activities, currency and type of product in order to observe the portfolio's profile and act to improve diversification, which will maximize profitability with the lowest risk.

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

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

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

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

2.1.3 Credit Risk of Financial Instruments

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

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

The Loan Committee authorizes operation lines with financial instruments for clients and counterparties in accordance with authorization policies. The authorization request is submitted by the business area and other areas involved in the operation, with all the relevant information for analysis by the Committee who, if considered appropriate, issues its authorization. Nevertheless, counterparty credit lines (mainly to financial entities) that comply with certain criteria may be approved through a parametric methodology approved by the CPR.

In the specific case of derivatives contracts, and in line with best practices, a methodology for estimating potential exposure to lines is used, which are analyzed and approved within the Credit Committee and are monitored on daily basis and reported monthly in the CPR, where guarantee analysis for derivative transaction is held both for clients and financial counterparties.

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

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

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

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

1) The probability of default of the issuer, security or counterparty, which is expressed as a percentage between 0% and 100% where the better the rating or lower rate differential vs. the instrument of an equivalent government bond, the lower the probability of default and vice versa.

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

2.2 Credit Risk Exposure

As of September 30th, 2021 the total amount of the exposure subject to the Standard Method and the Internal Models (Advanced Approach Internal Model for Credit Cards and Auto Loans, and Foundation Approach Internal Model for Business Enterprises) to estimate the Capital Ratio is the following:

Gross Exposures subject to the Standard Method and Internal Models** *(Million pesos)*	**Banorte**	**Arrendadora y Factor***	**Total Portfolio**
Commercial	68,466	1,279	69,744
YoY Revenues or Sales < 14 MM UDIS	68,466	1,279	69,744
States or Municipalities	94,872	322	95,194
Decentralized Federal Government Agencies and State Companies	47,387	3,751	51,138
Projects with own source of payment	103,401	0	103,401
Financial Institutions	22,647	637	23,284
Mortgage	199,872	0	199,872
Consumer Non-Revolving	56,010	5	56,014
Total Loans subject to the Standard Method	**592,653**	**5,994**	**598,647**
Commercial	130,209	27,363	157,572
YoY Revenues or Sales >= 14 MM UDIS	130,209	27,363	157,572
Federal, State and Municipal Government Decentralized Agencies, with annual income or Sales >= 14 MM UDIS	15,642	0	15,642
Total Loans subject to the Foundation Approach Internal Model	**145,851**	**27,363**	**173,214**
Consumer Non-Revolving (Auto)	28,137	0	28,137
Credit Card	38,550	0	38,550
Total Loans subject to Advanced Approach Internal Model	**66,687**	**0**	**66,687**
Eliminations and Accounting Records			(15,431)
Not Rated			86
Total Loans			**823,204**

* Excludes Pure Leasing

** The exposure does not consider Letters of Credit and it has accounting adjustments.

For transactions subject to Credit Risk, the Institution uses external ratings issued by the rating agencies S&P, Moody's, Fitch, HR Ratings, Verum, DBRS Ratings México and A.M. Best America Latina. Only ratings issues by rating agencies are considered and are not assigned based on comparable assets.

2.2.1 Loan Portfolio

GFNorte's Credit Risk loan portfolio as of 3Q21 presents a total exposure of Ps 823.20 billion, Ps 17.46 million higher vs. the previous quarter or 2.2% higher, and Ps 18.07 billion higher or a 2.2% increase versus the previous year.

Variations per product of GFNorte's total portfolio are:

Product / Segment	**Total Loan**			**Var. vs. 2Q21**		**Var. vs. 3Q20**	
(Million pesos)	**3Q20**	**2Q21**	**3Q21**	**Ps**	**%**	**Ps**	**%**
Government	162,897	154,835	161,558	6,724	4.3%	(1,339)	(0.8%)
Commercial	190,005	197,066	202,171	5,106	2.6%	12,166	6.4%
Mortgage	184,495	198,091	199,872	1,781	0.9%	15,377	8.3%
Corporate	147,070	133,881	136,901	3,020	2.3%	(10,169)	(6.9%)
Payroll	53,252	55,214	55,984	770	1.4%	2,732	5.1%
Credit Card	39,831	38,213	38,550	337	0.9%	(1,282)	(3.2%)
Auto Loans	27,587	28,446	28,168	(278)	(1.0%)	580	2.1%
Total Loans	**805,138**	**805,746**	**823,204**	**17,458**	**2.2%**	**18,065**	**2.2%**

Subsidiary *(Million pesos)*	Loans		Distressed Portfolio		Total	Total Reserves
	Performing	Past-due	Performing	Past-due		
Banorte*	779,970	6,154	815	3,157	790,096	13,639
Arrendadora y Factoraje	32,679	7	32	639	33,356	476
Accounting Records**	(249)				(249)	3,182
Total Loans	**812,401**	**6,161**	**846**	**3,796**	**823,204**	**17,297**

* Banorte' s total loans include eliminations for (Ps 15.10) billion.

** Includes portfolio from trust FCICK 16-1 for Ps 86.2 million.

Total reserves of Ps 17.30 billion include rating reserves of Ps 14.12 billion and accounting records (to provision 100% of past due interests, valuation, negative debts in the Credit Bureau, and those registered in recoveries) of Ps 3.18 billion.

GFNorte's performing, past-due and distressed portfolios in 3Q21 grouped by sector and subsidiary are detailed in the following two tables:

Sector *(Million pesos)*	Loans		Distressed		Total Loans	Reserves		3Q21 Charge offs	Days Past--Due**
	Performing	Past-Due	Performing	Past-Due		3Q21	Var vs. 2Q21		
Government	161,400	4	0	154	161,558	948	68	0	215
Services*	95,791	27	179	665	96,662	889	41	116	76
Commerce	48,846	70	253	529	49,699	727	(59)	225	229
Manufacturing	47,403	131	238	1,162	48,934	845	85	55	148
Transportation	43,572	2	55	74	43,703	282	16	8	53
Top 5 Sectors	**397,011**	**235**	**725**	**2,585**	**400,556**	**3,691**	**151**	**404**	**0**
Other Sectors	98,057	599	121	1,211	99,988	1,093	(12)	66	0
Mortgage	197,737	2,135	0	0	199,872	1,138	45	707	0
Consumer	119,510	3,191	0	0	122,701	8,192	(429)	2,586	0
Accounting Records	86	0	0	0	86	3,182	0	0	0
Total Loans	**812,401**	**6,161**	**846**	**3,796**	**823,204**	**17,297**	**(245)**	**3,763**	0

* Includes Financial, Real Estate and Other Services

** Days past due from Non-Performing Loans.

*** Includes portfolio from trust FCICK 16-1 for Ps 86.2 million.

Sector/Subsidiary *(Million pesos)*	Banorte*	AyF	Accounting Record	Total Loans
Government	157,901	4,073	(415)	161,558
Services**	90,363	6,218	81	96,662
Commerce	44,148	5,551	0	49,699
Manufacturing	39,460	9,474	0	48,934
Transportation	39,978	3,725	0	43,703
Top 5 Sectors	**371,849**	**29,042**	**(335)**	**400,556**
Remaining***	418,246	4,315	86	422,647
Total Loans	**790,096**	**33,356**	**(249)**	**823,204**

* Banorte' s total loans include eliminations for (Ps 15.10) billion.

** Includes Financial and Real Estate services

*** Remaining includes the portfolio from trust FCICK 16-1 for Ps 86.2 million

As of 3Q21, GFNorte's performing, past due and distressed portfolios grouped by federal entity and subsidiary are detailed in the following two tables:

	Federal Entities (Million pesos)	Loans		Distressed		Total Loans	Total Reserves
		Performing	Past-Due	Performing	Past-Due		
1	Ciudad de México	245,201	1,731	286	1,069	248,288	3,564
2	Nuevo León	127,321	479	84	334	128,218	1,690
3	Estado de México	66,266	776	88	162	67,292	1,386
4	Jalisco	51,739	293	80	94	52,206	700
5	Tamaulipas	24,591	241	31	42	24,906	434
6	Sinaloa	24,582	105	16	187	24,889	369
7	Baja California Sur	24,275	100	8	4	24,387	225
8	Coahuila	22,420	134	11	38	22,604	407
9	Chihuahua	19,712	143	12	88	19,956	440
10	Guanajuato	18,414	128	18	24	18,583	331
	Top 10	**624,520**	**4,131**	**634**	**2,043**	**631,329**	**9,546**
	Other Federal Entities	188,129	2,029	213	1,753	192,124	4,569
	Accounting Records	(249)				(249)	3,182
	Total Loans	**812,401**	**6,161**	**846**	**3,796**	**823,204**	**17,297**

* Banorte' s total loans include eliminations for (Ps 15.10) billion.

** Includes the portfolio from trust FCICK 16-1 for Ps 86.2 million.

As of 3Q21, GFNorte's performing, past due and distressed portfolios grouped by term are detailed below:

Remaining Term (Million pesos)	Portfolio		Distressed		Total Loans	Total Reserves
	Performing	Past-Due	Performing	Past-Due		
0 - 1 years	122,718	1,626	161	1,774	126,280	5,288
1 - 5 years	215,657	2,412	518	1,092	219,679	5,873
5 - 10 years	98,099	157	135	288	98,679	670
> 10 years	343,496	1,959	0	2	345,458	1,808
Banorte*	**779,970**	**6,154**	**815**	**3,157**	**790,096**	**13,639**
Arrendadora y Factor	32,679	7	32	639	33,356	476
Accounting Records**	(249)				(249)	3,182
Total Loans	**812,401**	**6,161**	**846**	**3,796**	**823,204**	**17,297**

* Banorte' s total loans include eliminations for (Ps 15.10) billion.

**Includes the portfolio from trust FCICK 16-1 for Ps 86.2 million.

The total distressed portfolio is Ps 4.64 billion. Below is the quarterly balance of loan loss provisions for this portfolio:

Loan Loss Provisions for Distressed Portfolio *(Million pesos)*	**3Q21**		
	Banorte	**Arrendadora y Factor**	**GFNorte**
Initial Loan Loss Provisions	**1,514**	**267**	**1,782**
Charged to results	548	48	597
Loans' write offs	222	0	222
Adjustments in Credit Risk	327	48	375
Sale of Portfolios	0	0	0
FX Effect	(1)	0	(1)
Received in lieu of payment	0	0	0
Write-offs, charge-offs and discounts	(447)	0	(447)
Final Loan Loss Provisions	**1,615**	**316**	**1,930**
Loan Recoveries	**90**	**0**	**90**

2.2.2 Exposure to Financial Instruments

As of September 30th, 2021, exposure to Credit Risk for Securities Investments of Banco Mercantil del Norte was Ps 213.62 billion, of which 93.9% is rated higher or equal to AA-(mex) on a local scale, placing them in investment grade, and the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 7% of the Tier 1 Capital as of June 2021. Additionally, exposure of investments with the same counterparty other than the Federal Government that represents a higher or equal concentration to 5% of the Net Capital as of June 2021 it is rated as AAA(mex), except Pemex that has BBB-(mex), and is comprised of (*weighted average, amounts in pesos and weighted average return to annualized maturity*): certificates of deposit and market certificates of Banobras for 1 year and 4 months totaling Ps 12.46 billion at 4.8%; and market and bond certificates of Pemex for 3 years and 8 months totaling Ps 12.17 billion at 3.3%.

For Derivatives operations, the exposure of the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 2% of the Tier 1 Capital as of June 2021.

Exposure to Credit Risk for Securities Investments of Casa de Bolsa Banorte was Ps 291.46 billion, of which 99.8% is rated higher or equal to AA-(mex) on a local scale, placing them in investment grade and the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 72% of the Equity as of June 2021. Additionally, the exposure of investments with the same counterparty other than the Federal Government that represents a higher or equal concentration to 5% of the Equity as of June 2021 has a higher or equal rating to A-(mex) and are comprised of (*weighted average term, amounts in pesos and weighted average return to annualized maturity*): certificates of deposit and market certificates of BBVA Mexico for 2 years Ps 3.66 billion at 4.8%; market certificates of FEFA for 1 year and 10 months totaling Ps 3.17 billion at 4.9%; market certificates of Scotiabank Inverlat for 11 months totaling Ps 3.06 billion at 4.8%; certificates of deposit and market certificates of Banco Santander Mexicano for 2 months totaling Ps 3.00 billion at 4.8%; market certificates of Mexico City Government for 26 years Ps 2.45 billion at 5.0%; certificates of deposit of Banco del Bajío for 6 months totaling Ps 2.00 billion at 5.0%; certificates of deposit of Banco Multiva for 9 months totaling Ps 1.34 billion at 5.2%; market certificates of HSBC Mexico for 1 year and 6 months totaling Ps 1.09 billion at 4.9%; certificates of deposit of Banca Mifel for 4 months totaling Ps 881 million at 5.3%; market certificates of Banco Compartamos for 1 year and 6 months totaling Ps 830 million at 5.4%; market certificates of Banco Inbursa for 1 year and 8 months totaling Ps 815 million at 4.8%; certificates of deposit of Banco Invex for 8 months totaling Ps 798 million at 5.1%; Deutsche Bank bonds for 1 year and 8 months totaling Ps 790 million at 6.4%; CABEI bonds for 1 year and 1 month totaling Ps 728 million at 4.1%; market certificates of FONACOT for 3 years Ps 700 million at 4.8%; market certificates of Grupo Aeroportuario del Pacífico for 3 years and 3 months totaling Ps 502 million at 5.2%; market certificates of Pemex for 3 years and 6 months totaling Ps 501 million at 7.0%; and certificates of deposit and market certificates of Banobras for 4 years and 5 months totaling Ps 296 million at 4.8%.

For Derivatives, there is an operation with one counterparty other than the Federal Government, State Governments and National Financial Institutions, which represents 0% of the Equity as of June 2021.

Arrendadora y Factor Banorte had no exposure to Securities Investments or to Derivatives.

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

Position Banorte (Million Pesos)	3Q21	3Q21 Average
Forwards	300	347
FX Swaps	9	4
FX	1	2
Options	130	189
Swaps with Interest Rates IRS	3,293	5,347
Cross Currency Swap (CCIRS)	(6,703)	(6,224)
Credit Default Swaps (CDS)	124	132
Total	**(2,845)**	**(203)**
Positive Fair Value *(Positive Market Value)*	8,223	9,476
Netting Effect*	11,069	9,676
Delivered Guarantees (-) /Received (+)		
Cash	(6,583)	(7,029)
Securities	(2)	(0.7)
Total	**(6,585)**	**(7,030)**

* Difference between the positive market value (not considering the net positions) and the portfolio market value. Transactions performed at the Clearing House are not included, as they are not subject to counter party risk.

The following table represents the current and potential levels of exposure at the end and the average of the quarter, respectively, for Banorte.

Banorte (Million Pesos)	Potential Risk		Current Risk	
Financial Counterparties	3Q21	3Q21 Average	3Q21	3Q21 Average
FWD			310	343
FX SWAP	3,478	2,951	9	4
FX			1	2
OPTIONS	5,381	4,741	358	397
INTEREST RATE SWAP	7,066	6,631	(447)	(1,186)
CCS	5,386	4,813	(6,717)	(6,239)
CDS	4	5	124	132
Total	**6,542**	**6,152**	**(6,361)**	**(6,547)**
Clients (Non-Financial)	3Q21	3Q21 Average	3Q21	3Q21 Average
FWD	7	18	(10)	4
OPTIONS	18	23	(228)	(208)
INTEREST RATE SWAP	6,506	8,521	3,740	6,533
CCS	39	39	14	15
Total	**6,571**	**8,602**	**3,516**	**6,344**

Based on conditions established in derivative agreements, tolerance levels of exposure are considered according to the rating of involved entities. The following table presents the amount of guarantees to be delivered, in case of a rating downgrade. It's worth noting that with most counterparties we've migrated to cero threshold, thus, guarantees to be delivered do not depend on credit rating but to market movements:

Banorte Net Cash Outflows (Million pesos)	3Q21	3Q21 Average
Cash Outflow with 1-notch Downgrade	0	0
Cash Outflow with 2-notch Downgrade	0	0
Cash Outflow with 3-notch Downgrade	0	0

In the following table, the derivatives' market value is detailed according to the counterparties' ratings:

Banorte Rating (Million Pesos)	MoM 3Q21	3Q21 Average
AAA/AA-	0	0
A+/A-	(5,118)	(5,782)
BBB+/BBB-	(92)	321
BB+/BB-	1,582	3,139
B+/B-	(261)	56
CCC/C	0	0
SC	1,043	2,064
Total	**(2,845)**	**(203)**

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

Position Casa de Bolsa (Million Pesos)	3Q21	3Q21 Average
Swaps with Interest Rates IRS	66	68
Total	**66**	**68**
Positive Fair Value *(Positive Market Value)*	104	110
Netting Effect*	36	87

* Difference between the positive market value (not considering the net positions) and the portfolio market value. Transactions performed at the Clearing House are not included, as they are not subject to counter party risk.

The following table represents the current and potential levels of exposure at the end and the average of the quarter, respectively, for Casa de Bolsa.

Casa de Bolsa (Million Pesos)	Potential Risk		Current Risk	
Financial Counterparties	3Q21	3Q21 Average	3Q21	3Q21 Average
INTEREST RATE SWAP	264	226	104	6
Total	**264**	**226**	**104**	**6**
Non-Financial Counterparties	3Q21	3Q21 Average	3Q21	3Q21 Average
INTEREST RATE SWAP	89	123	(38)	62
Total	**89**	**123**	**(38)**	**62**

Based on conditions established in derivative agreements, tolerance levels of exposure are considered according to the rating of involved entities. The following table presents the amount of guarantees to be delivered, in case of a rating downgrade. It's worth noting that with most counterparties we've migrated to cero threshold, thus, guarantees to be delivered do not depend on credit rating but to market movements:

Casa de Bolsa Net Cash Outflows (Million pesos)	3Q21	3Q21 Average
Cash Outflow with 1-notch Downgrade	0	0
Cash Outflow with 2-notch Downgrade	0	0
Cash Outflow with 3-notch Downgrade	0	0

In the following table, the derivatives' market value is detailed according to the counterparties' ratings:

Casa de Bolsa Rating (Million Pesos)	MoM 3Q21	3Q21 Average
AAA/AA-	0	0
A+/A-	0	0
BBB+/BBB-	104	6
BB+/BB-	0	0
B+/B-	0	0
CCC/C	0	0
SC	(38)	62
Total	**66**	**68**

2.3 Credit Collaterals

Collaterals represent the second credit recovery source when its coverage, through the predominant activity of the applicant, is compromised. Collaterals may be real or personal.

The main types of real collaterals are the following:

- Civil Mortgage
- Industrial Mortgage
- Regular Pledge
- Pledge w/o possession transfers
- Pledge / Pledge Bond
- Pledge Bond
- Caution Securities
- Securities Pledge
- Management and Payments Trust
- Development Funds

For assets granted in guarantee, the Institution has policies and procedures to monitor and make periodic inspection visits to ensure the existence, legitimacy, value and quality of the guarantees accepted as an alternative credit support. Furthermore, when guarantees are securities, there are policies and procedures to monitor its market's valuation and require additional guarantees if needed.

The covered loan portfolio by type of collateral is as follows:

Collateral Type (Million Pesos)	3Q21		
	Banorte	Arrendadora y Factor**	GFNorte*
Total Loan Portfolio	**805,278**	**33,356**	**823,204**
Covered Loan Portfolio by type of collateral			
Real Financial Guarantees	17,650	0	17,650
Real Non-Financial Guarantees	471,240	6,789	478,029
Pari Passu	33,722	0	33,722
First Losses	17,498	0	17,498
Personal Guarantees	22,037	2,886	24,923
Total Loan Portfolio Covered	**562,148**	**9,675**	**571,823**

* Total Loans includes eliminations and accounting records for (Ps 15.43 billion).
** Excludes Pure Leasing

2.4 Expected Loss

As of September 30th, 2021, Banco Mercantil del Norte's total portfolio was Ps 805.19 billion. The expected loss represents 1.7% and the unexpected loss is 3.9% of the total portfolio. The average expected loss is 1.8% for the period July - September 2021.

Regarding Casa de Bolsa Banorte, the credit exposure of investments is Ps 291.56 billion and the expected loss represents 0.01% of the exposure. The average expected loss is 0.01% between July - September 2021.

The total portfolio of Arrendadora y Factor Banorte, including pure leasing is Ps 35.32 billion. The expected loss represents 1.2% and the unexpected loss is 2.8% of the total portfolio. The average expected loss is 1.1% for the period July - September 2021.

2.5 Internal Models

2.5.1 Advanced Approach Internal Model for Credit Card

On November 15, 2017, GF Banorte received approval from the banking regulator (Comisión Nacional Bancaria y de Valores) to use Internal Models (IM) for credit card rating for reserves and regulatory capital generation by credit risk with an Advanced Approach (Document 111-3/706/2017). On yearly basis, Internal Models are recalibrated, and CNBV's certification is granted in order to use the Models for the estimation of the regulatory requirements for another 12-month period.

These internal models improve overall credit risk management by estimating risk parameters from the bank's own experience based on January 2018 data, and have been applied as of February 2018. The aforementioned parameters are:

- Probability of Default (PD). Indicates the probability that a credit card customer defaults on its contractual obligations within the next twelve months after the month being rated. For each loan, there is a score, which is mapped to a Master rating scale.
- Loss Given Default (LGD). Measures the intensity of the loss upon default expressed as a percentage of the Exposure at Default (EAD).
- Exposure at Default (EAD). The amount of the debt at the time of default, considering a time horizon of twelve months after the month being rated.

The next table shows the Credit Card portfolio subject to the Advanced Approach Internal Model, classified by degrees of regulatory risk:

Consumer Revolving Credit Card Portfolio under Advanced Approach Internal Model

Million Pesos

Risk Level*	Accounting Balance	Exposure at Default (EAD)**	Loss Given Default	PD factored by EAD	Unused credit lines	EAD factored by Exposure	Current EAD
A1	17,387	22,621	74.43%	1.37%	62,390	23%	22,578
A2	4,802	6,030	76.65%	4.03%	5,026	20%	5,983
B1	2,925	3,603	78.70%	5.47%	1,676	19%	3,564
B2	2,435	2,994	77.79%	7.70%	1,761	19%	2,966
B3	1,489	1,804	78.14%	8.54%	900	17%	1,774
C1	3,488	4,266	80.06%	12.03%	1,221	18%	4,168
C2	4,340	5,208	84.01%	23.68%	647	17%	4,740
D	992	1,105	83.52%	61.63%	350	10%	239
E	691	691	88.49%	100.00%	94	0%	19
Total Portfolio	**38,550**	**48,321**	**77.46%**	**8.80%**	**74,065**	**20%**	**46,030**

* The scale of Risk Level for the Advanced Approach Internal Model has been mapped in accordance with regulatory risk levels.
** The balances under Exposure at Default include Potential Risk as well as used credit line balance.

The next table shows the difference between expected loss and observed loss resulting from the Advance Approach Internal Model for Credit Cards from 3Q20.

Backtesting				
Portfolio	Expected Loss Internal Model*	Observed Loss*	Difference Ps (Observed Loss – Expected Loss)	% NCL Coverage
Credit Card	4,498	4,564	65	101%
Total Portfolio	**4,498**	**4,564**	**65**	**101%**

* Expected and Observed Loss is equal to the last twelve months' average.

2.5.2 Advanced Approach Internal Model for Auto Loans

On November 15, 2019, GF Banorte received approval from the banking regulator (Comisión Nacional Bancaria y de Valores) to use Internal Models (IM) for Auto Loans rating for reserves and regulatory capital generation by credit risk with an Advanced Approach (Document 111/678/2019). On yearly basis, Internal Models are recalibrated, and CNBV's certification is granted in order to use the Models for the estimation of the regulatory requirements for another 12-month period.

These internal models improve overall credit risk management by estimating risk parameters from the bank's own experience based on January 2020 data, and have been applied as of February 2020. The aforementioned parameters are:

- Probability of Default (PD). Indicates the probability that an auto customer defaults on its contractual obligations within the next twelve months after the month being rated. For each loan, there is a score, which is mapped to a Master rating scale.
- Loss Given Default (LGD). Measures the intensity of the loss upon default expressed as a percentage of the Exposure at Default (EAD).
- Exposure at Default (EAD). The amount of the debt at the time of default, considering a time horizon of twelve months after the month being rated.

The next table shows the Auto portfolio subject to the Advanced Approach Internal Model, classified by degrees of regulatory risk:

Consumer Revolving Auto Portfolio under Advanced Approach Internal Model					
Risk Level*	Accounting Balance	Exposure at Default (EAD)**	Loss Given Default	PD factored by EAD	Current EAD
A1	23,067	23,067	56.28%	0.77%	23,067
A2	2,382	2,382	60.85%	3.60%	2,382
B1	325	325	68.98%	5.36%	325
B2	0	0	0.00%	0.00%	0
B3	0	0	0.00%	0.00%	0
C1	741	741	52.04%	13.91%	741
C2	1,013	1,013	68.98%	13.91%	1,011
D	207	207	52.04%	53.43%	15
E	402	402	69.17%	79.88%	6
Total Portfolio	**28,137**	**28,137**	**57.32%**	**3.40%**	**27,548**

* The scale of Risk Level for the Advanced Approach Internal Model has been mapped in accordance with regulatory risk levels.

The next table shows the difference between expected loss and observed loss resulting from the Advance Approach Internal Model for Auto Loans from 3Q20.

Backtesting				
Portfolio	**Expected Loss Internal Model***	**Observed Loss**	**Difference Ps (Observed Loss – Expected Loss)**	**% NCL Coverage**
Auto Loans	598	687	89	115%
Total Portfolio	**598**	**687**	**89**	**115%**

* Data as of September 2020.

2.5.3 Foundation Approach Internal Model for Commercial Loans

On November 30th, 2018, GFNorte obtained authorization from the banking regulator CNBV (Comisión Nacional Bancaria y de Valores) to use the Internal Model (IM) for Commercial Loans for reserves generation and regulatory capital requirements by credit risk with a Foundation Approach, as per Document 111-3/1472/2018 in Banco Mercantil del Norte, and on March 1st, 2019 for Arrendadora y Factor Banorte as per Documents 111-1/160/2019 and 111-1/161/2019. On yearly basis, Internal Models are recalibrated, and CNBV's certification is granted in order to use the Models for the estimation of the regulatory requirements for another 12-month period.

Exposures subject to this rating are those pertaining to corporations (other than states, municipalities and financial entities), and individuals (sole proprietorships), both with annual sales higher or equal to 14 million UDIs.

The Internal Model (IM) enhances the overall credit risk management practice by estimating risk parameters through the institution's own experience with such customers. These models have been applied since February 2019 (January figures) at Banco Mercantil del Norte, and starting in March 2019 (with February figures) at Arrendadora y Factor Banorte. The parameter authorized under the Foundation Approach Internal Model for Corporations is:

- Probability of Default (PD). Shows the likelihood that a borrower defaults on its contractual obligations within twelve months after the month being rated. There is a score assigned to each borrower, which is in turn mapped against a master rating scale.

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

Commercial Loans subject to the Foundation Approach Internal Model Grupo Financiero Banorte			*Million Pesos*
Risk Level	**Accounting Balance**	**Exposure at Default (EAD)***	**PD weighted by EAD**
1	56,234	56,294	0.20%
2	63,851	64,051	0.50%
3	42,977	42,997	0.90%
4	15,412	15,412	1.19%
5	994	994	1.99%
6	1,792	1,792	5.29%
7	331	331	10.83%
8	1,293	1,293	34.32%
9	34	34	15.48%
Default	1,993	1,993	100.00%
Total	**184,911**	**185,191**	**1.94%**

* EAD balances include both potential risk as well as used balance risk.

A breakdown of risk exposure and expected loss by subsidiary is shown below:

Commercial Loans Portfolio subject to the Foundation Approach Internal Model			*Million Pesos*
Subsidiary	**Accounting Balance**	**Exposure at Default (EAD)***	**Expected Loss**
Banco Mercantil del Norte	157,437	157,717	1,045
Arrendadora y Factor Banorte	27,474	27,474	388
Total Loans*	**184,911**	**185,191**	**1,433**

* The balance includes Letters of Credit of Ps 11.59 billion and excludes accounting adjustments of Ps 1 million in Banorte and Ps 111 million in Arrendadora y Factor Banorte.
** EAD balances include both potential risk as well as used balance risk.

The following table shows the difference between expected loss estimated by the Foundation Approach Internal Model for Commercial Loans, and the real loss observed in the following 12 months. Because the model was just recently authorized, the table shows estimations obtained during the parallel model runs period.

Backtesting			Million Pesos
Period	**Expected Loss with Internal Model**	**Observed Loss**	**% Coverage (Expected Loss / Observed Loss)**
3Q20	716	266	269%

2.6 Risk Diversification

In December 2005, the CNBV issued "General Provisions Applicable to Credit Institutions related to Risk Diversification". These guidelines state that institutions must perform an analysis of their borrowers and/or loans to determine the amount of "Common Risk"; also, institutions must have the necessary information and documentation to prove that the person or group of people represent a common risk in accordance with the assumptions established in those rules.

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

Tier 1 Capital as of June 30, 2021	179,769
I. Loans with individual balance greater than 10% of Tier 1 Capital:	
Loan Operations	
Number of loans	0
Total amount of loans	0
% in relation to Tier 1	0%
Money Market Operations	
Number of loans	0
Total amount of loans	0
% in relation to Tier 1	0%
Overnight Operations	
Number of loans	0
Total amount of loans	0
% in relation to Tier 1	0%
II. Maximum amount of credit with the 3 largest debtors and common risk groups:	**43,850**

In compliance with risk diversification regulation on active and passive operations, **Arrendadora y Factor Banorte** presents the following information (million pesos):

Equity as of June 30, 2021	9,497
I. Loans with individual balance greater than 10% of Equity:	
Loan Operations	
Number of loans	3
Total amount of loans	4,720
% in relation to Equity	50%
Money Market Operations	
Number of loans	0
Total amount of loans	0
% in relation to Equity	0%
Overnight Operations	
Number of loans	0
Total amount of loans	0
% in relation to Equity	0%
II. Maximum amount of credit with the 3 largest debtors and common risk groups:	**7,249**

3. MARKET RISK (BANK AND BROKERAGE HOUSE)

GFNorte's objectives regarding Market Risk are:

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

GFNorte's Market Risk Policies are:

- New products subject to market risk must be evaluated and approved though the new products' guidelines approved by the CPR.
- The Board of Directors is the entitled body to approve global limits and market risk's appetite metrics, as well as their amendments.
- The CPR is the entitled body to approve models, methodologies and specific limits, as well as their amendments.
- Market risk models will be valid by and independent area, which is different from the one that develop and manage them.
- Market risk inputs and models will be valid as per a properly approved policy by the CPR.

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 Bank´s portfolio for 3Q21 was Ps 71.9 million (Ps 13.4 million higher than the average expected shortfall from last quarter).

The result shows that the Bank's expected shortfall, using a 97.5% confidence level, is on average Ps 71.9 million.

Expected Shortfall Million Pesos	Average 3Q21
Total Expected Shortfall	71.9
Net Capital	185,291
Expected Shortfall/Net Capital	**0.04%**

Expected shortfall by risk factor behavior during the third quarter of the year:

Risk Factor Million Pesos	3Q21	Average 3Q21
Domestic Rates	24.5	21.9
Foreign Rates	49.8	49.3
Surcharges	22.4	21.5
FX	77.8	42.9
Equity	1.7	0.6
Diversification Effect	(75.5)	(64.3)
Bank's Expected Shortfall	**100.7**	**71.9**

Expected shortfall for 3Q21 was Ps 100.7 million. The contribution to the Bank´s Expected shortfall for each risk factor is:

Risk Factor Million Pesos	3Q21	Average 3Q21
Domestic Rates	8.5	3.4
Foreign Rates	29.4	32.6
Surcharges	13.0	12.1
FX	59.4	28.4
Equity	(9.6)	(4.6)
Bank's Expected Shortfall	**100.7**	**71.9**

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

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

Risk Factor	3Q21
Rates	42%
Surcharges	13%
FX	44%
Equity	1%

3.2.1 Sensitivity Analysis and Stress Testing under extreme conditions

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

3.2.2 Back testing

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

3.2.3 Expected Shortfall of Casa de Bolsa

The expected shortfall average in 3Q21 was Ps 117.1 million, Ps 13.7 million higher vs. 2Q21.

The result shows that potential loss for Casa de Bolsa, using a 97.5% confidence level, is on average Ps 117.1 million:

Expected Shortfall Million Pesos	Average 3Q21
Total Expected Shortfall	117.1
Net Capital	5,586
Expected Shortfall/Net Capital	**2.09%**

The expected shortfall by risk factor for Casa de Bolsa Banorte portfolio behavior during the third quarter of the year was:

Risk Factor *(Million Pesos)*	3Q21	Average 3Q21
Domestic Rates	55.4	59.7
Foreign Rates	0.2	0.2
Surcharges	98.8	67.9
FX	0.0	0.0
Equity	6.5	4.7
Diversification effect	(18.0)	(15.4)
Casa de Bolsa Expected Shortfall	**142.9**	**117.1**

Expected shortfall at the end of 3Q21 was Ps 142.9 million.

The expected shortfall by risk factor is determined by simulating 500 historical scenarios and an additional stress scenario, performing a grouping of instruments by their main risk factor. It is important to note that all positions classified as trading were considered, excluding the held-to-maturity position and available for sale.

Concentration by Market Risk factor is mainly in interest rates

3.2.4 Sensitivity Analysis and Stress Testing under extreme conditions

Complementing the potential losses methodology with the purpose of enhancing risk analysis, Casa de Bolsa Banorte complements its risk analysis enforcing tests under extreme conditions known as Stress Testing. This is presented to the Risk Policy Committee on a monthly basis with the main objective of assessing the impact on the Institution's positions of extreme movements in risk factors

3.2.5 Back testing

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

4. BALANCE AND LIQUIDITY RISK

GFNorte's Balance and Liquidity Risk objectives are:

- Comply with the Risk Appetite defined by the Group's Board of Directors.
- Give proper monitoring of Balance and Liquidity Risk.
- Assessing through the use of different methodologies, Balance and Liquidity Risk exposure.
- Measure Institution's vulnerability to extreme market conditions and consider such results for decision making.
- Maintain Senior Management properly informed in a timely manner on Balance and Liquidity Risk exposure and on any limits' and risk profile's deviation.
- Follow-up on the institution's coverage policy and review it at least annually.
- Maintain a sufficient level of liquid assets eligible to guarantee the institution's liquidity even under stress conditions.

GFNorte's Liquidity Risk Policies are:

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

4.1 Liquidity Risk Methodology and Exposure

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

4.2 Profile and Funding Strategy

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

Funding Source (Million Pesos)	2Q21	3Q21	Change vs. 2Q21
Demand Deposits			
Local Currency (1)	481,913	463,248	(3.9%)
Foreign Currency (1)	55,533	56,551	1.8%
Demand Deposits	**537,446**	**519,799**	**(3.3%)**
Time Deposits – Core			
Local Currency (2)	201,069	202,854	0.9%
Foreign Currency	12,750	10,744	(15.7%)
Core Deposits	**751,265**	**733,397**	**(2.4%)**
Money Market			
Local Currency (3)	32,663	36,614	12.1%
Foreign Currency (3)	28,863	26,685	(7.5%)
Banking Sector Deposits	**812,791**	**796,696**	**(2.0%)**

1. Includes balance of the Global Deposits without Movement.
2. Includes eliminations among subsidiaries.
3. Money Market & Time Deposits.

4.3 Liquidity Coverage Ratio (LCR)

The LCR measures Liquidity Risk through the relationship between Liquid Assets and Net Cash Outflows in the next 30 days, under a regulatory stress scenario.

The LCR is an indicator designed to ensure that the institution has sufficient liquidity to meet its short-term obligations, under an extreme scenario using exclusively high-quality liquid assets as source of funding.

The following table presents the average evolution of LCR components in 3Q21.

	LCR Components	Bank and Sofomes	
	(Million Pesos)	**Unweighted amount (Average)**	**Weighted amount (Average)**
COMPUTABLE LIQUID ASSETS			
1	Total Computable Liquid Assets	NA	139,871
CASH DISBURSEMENTS			
2	**Unsecured retail financing**	**447,030**	**28,818**
3	Stable financing	317,691	15,885
4	Less stable financing	129,339	12,934
5	**Unsecured wholesale financing**	**269,107**	**72,738**
6	Operational Deposits	233,009	52,641
7	Non-Operational Deposits	35,206	19,204
8	Unsecured debt	893	893
9	**Secured wholesale financing**	**382,396**	**10,317**
10	**Additional Requirements:**	**280,389**	**23,294**
11	Disbursements related to derivatives and other guarantee requirements	17,854	8,671
12	Disbursements related to losses from debt financing	0	0
13	Lines of credit and liquidity	262,536	14,623
14	Other contractual financing obligations	1,355	54
15	Other contingent financing liabilities	0	0
16	**TOTAL CASH DISBURSEMENTS**	**NA**	**135,221**
CASH INFLOWS			
17	Cash Inflows for secured operations	303,355	11,344
18	Cash Inflows for unsecured operations	66,331	44,231
19	Other Cash Inflows	2,840	2,840
20	**TOTAL CASH INFLOWS**	**372,526**	**58,414**
			Adjusted amount
21	**TOTAL COMPUTABLE LIQUID ASSETS**	**NA**	**139,871**
22	**TOTAL NET CASH DISBURSEMENTS**	**NA**	**76,807**
23	**LIQUID COVERAGE RATIO**	**NA**	**183.67%**

During 3T21, the 92-day average LCR for the Bank and Sofomes was 183.67%, and at the end of 3Q21 the LCR was 159.25%, the aforementioned levels are above the Risk Appetite and the regulatory minimum standards. These results show that Banorte can meet all of its short-term obligations in a crisis scenario[1].

4.4 Evolution of LCR Components

The evolution of the LCR components comparing 2Q21 and 3Q21 is presented in the following table:

LCR Component (Million Pesos)	2Q21	3Q21	Var. vs. 2Q21
Liquid Assets	153,518	127,863	(16.7%)
Cash Inflows	62,352	50,806	(18.5%)
Cash Outflows	135,532	131,097	(3.3%)

The Liquid Assets that compute in the LCRs for the Bank and Sofomes between 2Q21 and 3Q21 are distributed as follows:

Type of Asset (Million Pesos)	2Q21	3Q21	Var. vs. 2Q21
Total	**153,518**	**127,863**	**(16.7%)**
Level I	145,338	119,145	(18.0%)
Level II	8,180	8,718	6.6%
Level II A	4,244	4,727	11.4%
Level II B	3,935	3,992	1.4%

4.5 Main Causes of LCR Results

Liquidity Coverage Ratio variations between 2Q21 and 3Q21, are consequence of the liability structure on balance sheet, including maturity of issues to market and the available structure liquidity.

It is worth noting that Banorte has not used the Ordinary Facilities or the Extraordinary Facilities of Banco de México during 3Q21.

4.6 Liquidity Risk in foreign currency

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

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

4.7 Exposure to Derivatives and possible Margin calls

Banorte applies the regulatory methodology to determine potential cash outflows for derivatives. At the end of 3Q21, estimated outflows for derivatives were as follows:

Derivatives Cash Outflows (Million Pesos)	2Q21	3Q21	Var. vs. 2Q21
Net cash outflows at market value and for potential future exposure	6,744	6,744	0.0%
Cash outflows for a 3-notch credit rating downgrade.	0	0	0.0%

[1] The Liquidity Coverage Ratio information is preliminary and is subject to Banco de Mexico's affirmation.

The measurement shows that potential outflows for derivatives may represent a liquidity requirement up to Ps 6.74 billion, with no changes vs. 2Q21.

4.8 Liquidity Gaps

As part of the liquidity analysis for the Bank, 30-day liquidity gaps for the Institution's assets and liabilities (obligations) are analyzed. Results for the Bank at the end of 3Q21 are presented in the following table.

Concept *(Million Pesos)*	**2Q21**	**3Q21**	**Var. vs. 2Q21**
Cumulative 30-day Gap	(64,120)	(102,027)	59.1%
Liquid Assets	97,131	105,015	8.1%

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 3Q21:

Concept (Million pesos)	**1 day**	**7 days**	**1 month**	**3 months**	**6 months**	**12 months**
Natural Gap	(102,783)	14,279	(13,522)	35,125	24,800	21,392
Accumulated Gap	(102,783)	(88,504)	(102,027)	(66,902)	(42,102)	(20,710)

4.9 Stress Testing under liquidity extreme conditions

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

4.10 Contingency Funding Plan

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

4.11 Balance Risk

Interest rate risk entails estimating its impact on the financial margin. Financial margin is the difference between interest income and costs associated to interest bearing liabilities (interest expense). Depending on the balance's structure, variations in interest rates may have either a positive or negative impact in the rate scenarios.

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

4.11.1 Financial Margin Sensitivity

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

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

The following table shows Financial Margin Sensitivity for Banorte Bank:

Margin Sensitivity *(Million Pesos)*	**2Q21**	**3Q21**	**Change vs. 2Q21**
Local Currency Balance	638	842	32.0%
Foreign Currency Balance	603	643	6.6%

At the end of 3Q21, local currency balance sensitivity for a 100bps shift in reference rates, changed from Ps 638 million in 2Q21 to Ps 842 million. Foreign currency balance sensitivity for a 100bps shift in reference rates changed from Ps 603 million to Ps 643 million. The Available for Sale portfolio had a balance of Ps 142.12 billion at the end of 3Q21, with an average of Ps 146.82 billion balance.

It is important to mention, that the Balance Book in local currency shows an exposure to base risk due to the composition and structure of assets and liabilities. Base risk arises when banks owns positions within their balance sheets at a floating rate with different re-price base rates and different currencies. In the Bank's balance for local currency, on assets side, the Commercial portfolio at a floating rate based on TIIE, while on the liabilities side, demand deposits pay interest on a percentage of CETES. Finally, there is a positive difference between the average value of TIIE and CETES that produces base risk as long as the difference is positive and greater, it will have a positive effect on the financial margin.

4.12 Subsidiaries

Balance and Liquidity Risk Management processes for the Bank and its Sofomes are centralized in GFNorte's Credit and Risk Management and Credit Managing Direction. To monitor Sofomes' liquidity, an analysis of the balance sheet structural behavior is conducted, as well as funding diversification. Furthermore, a liquidity gap analysis is performed. Specifically for the Brokerage House, regulatory liquidity requirements are monitored.

The following table shows the composition of the gap indicators for the Bank's subsidiaries and Sofomes at the end of 3Q21.

Liquidity Ratio *(Million Pesos)*	**Casa de Bolsa Banorte**	**Arrendadora y Factor**
Cumulative 30 days Gap	5,647	(2,310)
Liquid assets	5,825	119

4 OPERATIONAL RISK

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

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

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

5.1 Policies, Objectives and Guidelines

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

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

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

5.2 Quantitative and Qualitative Measuring Tools

5.2.1 Operational Losses Database

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

Internal Fraud: Losses derived from a type of action intended to defraud; unlawfully assets appropriation; or sidestep regulations, laws or company policies (excluding diversity/discrimination events) in which at least one company party is involved.

External Fraud: Losses derived from a type of action intended to defraud; unlawfully assets appropriation; or sidestep the laws, caused by a third party.

Labor Relations and Safety in the Workplace: Losses caused by acts incompatible with the legislation or labor agreements regarding hygiene or safety, the payment of personal damage claims, or cases associated with diversity/discrimination.

Customers, Products & Business Practices: Losses caused by involuntary noncompliance or negligence of a professional obligation to specific customers (including fiduciary and adjustment requirements), or due to the nature or design of a product.

Natural Disasters and Other Events**:** Losses caused by damage or harm to material assets as a consequence of natural disasters or other events.

Incidences in the Business and Systems Failures**:** Losses caused by incidences in the business and systems failures.

Process Execution, Delivery and Management: Losses caused by errors in operations processing or management, as well as relations with commercial counterparties and suppliers.

This historical Database provides the statistics of the operational events in which the institution has incurred to determine their trends, frequency, impact and distribution.

5.2.2 Legal and Fiscal Contingencies Database

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

As part of GFNorte's Legal Risk Management, legal and fiscal contingencies are estimated by the attorneys that process the cases, determining its risk level based on an internal methodology. This allows to constitute necessary reserves in a determined term (according to lawsuit's term) to face such Contingencies.

5.3 Risk Management Model

GFNorte has defined objectives, which are achieved through different plans, programs and projects. Compliance with such objectives may be adversely affected due to operating risks, therefore it is imperative to provide a methodology for managing them within the organization. Consequently, Operating Risk Management is now an institutional policy defined and supported by senior management.

To perform Operating Risk Management, each of the operating risks involved in the processes must be identified in order to analyze them. In this regard, the risks identified by the Regulatory Comptrollership with the support of Process Comptrollership, are processed in order to eliminate or mitigate them (seeking to reduce their severity or frequency) and if applicable, define tolerance levels. Currently, work is being done on developing a new Institution Operating Risk Management Model and the technological tools needed to implement it.

5.4. Required Capital Calculation

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

5.5. Information and Reporting

The information generated by the Database and the Management Model is processes periodically to report to the Risk Policies Committee and the Board of Directors regarding the main operating events that were detected, the trends, identified risks and their mitigating strategies. Reporting is also done regarding the status of the main Operating Risk mitigation initiatives implemented by the various areas of the organization.

5.6 Technological Risk

Technological Risk is defined as all potential losses from damage, interruption, alteration or failures derived from the use of or dependence on hardware, software, systems, applications, networks and any other information distribution channel in the rendering of banking services to the customers. This risk forms an inherent part of Operating Risk, which is why its management is handled collectively throughout the entire organization.

To address the Operating Risk associated with information integrity, and "Integrity Committee" has been created. Its objectives are to align security and information control efforts under a prevention focus, to define new strategies, policies, processes or procedures and to provide solutions to information security issues that affect or may affect the Institutional patrimony.

The functions established by the CNBV for Technology Risk Management are performed by the Institution under regulatory and Integrity Committee guidelines.

To address the Operating Risk caused by high impact external events, GFNorte has a Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) based on a same-time data replication system at an alternate computer site. All the above, covers the backup and recovery of the Institution's critical applications in the event or any relevant operating contingency.

5.7 Legal risk

Legal Risk is defined as the potential loss from failure to comply with the applicable legal and administrative provisions, the issuance of indisputable unfavorable court rulings and the application of penalties regarding the operations that the institution performs.

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

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

6. SECURITIZATIONS PERFORMED BY GFNORTE

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

GFNorte has carried out the following securitization:

- On October 11th, 2006, Fincasa Hipotecaria (Fincasa), now merged with Banorte, held the irrevocable trust for the issuance of market certificates No. 563, issuer code FCASACB, whose underlying assets are mortgages originated and transferred by Fincasa.

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

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

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

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

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

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

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

As of September 30th, 2021 Grupo Financiero Banorte does not have securities of the FCASACB securitization in its own position:

Securitization *(Million pesos)*	**Issued Securities**	**Banorte**	**Seguros Banorte**	**Total GFNorte**	**Total Clients**
97_FCASACB_06U	1,351,386	0.0%	0.0%	0.0%	100.0%

Ratings assigned by each rating agency at the end of the quarter for each market certificate issued by the aforementioned trust is as follows:

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

As of September 30th, 2021 the amounts of the underlying assets of the securitization were:

Securitization *(Million pesos)*	**Amount**		
	Performing	**Past-Due**	**Total**
97_FCASACB_06U	Ps. 69	Ps. 109	Ps. 179

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

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

6.1 Applied Accounting Policies

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

a) Eliminate transferred financial assets at the last book value;
b) Recognition for the consideration received in the operation;
c) Recognition of profit or loss in the income statement, for the difference between the book value of eliminated financial assets, and the sum of (i) compensation received (recognized at fair value) and (ii) the effect (gain or loss) by cumulative valuation recognized in equity.

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

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

a) Non-compliance rate: cash flows to be received from loan portfolios are adjusted by a determined percentage of the outstanding portfolio amount that is estimated to fall into non-compliance. That percentage is estimated using historical performance information of this portfolio. This percentage is applied to flows greater than 12 months.

b) Prepayment rate: cash flows to be received from the loan portfolio are adjusted by a determined percentage of the outstanding portfolio amount estimated to be prepaid. That percentage is estimated using historical performance information of this portfolio.
c) Portfolio term: is estimated using WAM (*Weighted Average Maturity*) of the securitized portfolio.
d) Portfolio interest rate: is estimated using WAC (*Weighted Average Coupon*) of the securitized portfolio.
e) Portfolio payment dates: loan portfolio payment dates are considered to be the same as those of the stock certificates.
f) Reserve to be rated: the current value of the remaining flows is reduced by the amount of the reserve to be rated. This reserve corresponds to the non-compliance risk for cash flows in the first 12 months.
g) General account: the current value of the remaining flows is added to the amount of cash or cash equivalents deposited in the general account, collection account and if the case, in the expense reserve account, in case of total payment of the stock certificates, these assets would be distributed to the certificate holders.
h) General terms of stock certificates: estimated to be in accordance with prices published by PiP-Latam.

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

7 POSITION IN SHARES:

At the end of September 30th, 2021, Banco Mercantil del Norte held shares amounting to Ps 7.02 billion, with gains of Ps 576.6 million accumulated during the year.

During the third quarter, accumulated revenues from sales and settlements were Ps 37.0 million.

The capital requirement for Market Risk was Ps 265.8 million, and the regulatory Net Capital deductions reached Ps 125.0 million.

Institution	Type of Trading	Accounting Classification	Capitalization Treatment	Market Value 3Q21	Gains / Losses Cumm.	Profit / Loss Sales / Purchases
Banorte	Public Trading	Negotiation	Market Risk	242.3	114.5	0
Banorte	Public Trading	Available for Sale	Market Risk	4.1	(11.5)	0
Banorte	Public Trading	Negotiation	Capital Deduction	125.0	(2.8)	0
Banorte	w/o Public trading	Negotiation	Market Risk	636.8	420.2	0
Banorte	w/o Public trading	Available for Sale	Market and Credit Risk	6,016.6	56.2	37.0
			Total	**7,024.8**	**576.6**	**37.0**

As of September 30th, 2021 a position of Ps 580.9 million is held in Casa de Bolsa Banorte.

During the quarter, there were gains for Ps 2.9 million from sales and settlements.

Regarding Market Risk Capital Requirement, the amount was Ps 180.3 million of the total position in shares of Banorte.

Institution	Type of Trading	Accounting Classification	Capitalization Treatment	Market Value 3Q21	Gains / Losses Cumm.	Profit / Loss Sales / Purchases
Casa de Bolsa Banorte	Public	Negotiation	Market Risk	580.9	314.6	2.9
			Total	**580.9**	**314.6**	**2.9**

ANNEX

CREDIT PORTFOLIO INTERNAL MODELS RATINGS FOR RESERVES AND REGULATORY CAPITAL CONSTITUTION ON CREDIT RISK

1. Applicable Portfolio

GFNorte owns Rating Internal Models for Revolving Consumer and Auto Loans portfolios for the constitution of reserves and capital under an Advanced Approach, estimating the three parameters required for its calculation: Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

Additionally, owns a Rating Internal Model for Commercial Loans portfolio, for the constitution of reserves and capital under a Foundation Approach, estimating only the Probability of Default (PD) parameter. The exposures considered in the Commercial Loans portfolio are those pertaining to corporations (other than states, municipalities and financial entities), and individuals (sole proprietorships), both with annual sales higher or equal to 14 million UDIs.

The methodology used by the Institution in the estimation of the parameters and the calculation of reserves and capital, follows the guidelines established by the banking regulator CNBV (Comisión Nacional Bancaria y de Valores), in relation to the general provisions applicable to Credit Institutions stipulated in the Single Bank Circular (Circular Única de Bancos CUB) and its Annex 15.

According to these guidelines (CUB and Annex 15), it is necessary to carry out on yearly basis the calibration and re-certification of the Internal Models, including the most recent data available, attending Internal Audit and the CNBV's observations and adjusting what is necessary for the improvement of the Models.

2. Internal Models Authorization

On November 15, 2017, GFNorte received approval from the banking regulator CNBV (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). According to regulation, Internal Models were re-certified on January 28,2019 (Document 111-1/153/2019), January 8,2020 (Document 111/698/2019) and January19,2021 (Document 111-2/155/2021).

Likewise, on November 30th, 2018, GFNorte obtained authorization from the banking regulator CNBV (Comisión Nacional Bancaria y de Valores) to use the Internal Model (IM) for Commercial Loans for reserves generation and regulatory capital requirements by credit risk with a Foundation Approach, as per Document 111-3/1472/2018 in Banco Mercantil del Norte, and on March 1st, 2019 for Arrendadora y Factor Banorte as per Documents 111-1/160/2019 y 111-1/161/2019. Models were re-certified on December 20,2019 (Document 111/690/2019) and January 19,2021 (Document 111-2/154/2021) for Banorte, and for Arrendadora y Factor Banorte on December 20,2019 (Documents 111/694/2019 and 111/695/2019) and December 17,2020 (Document 111-2/107/2020).

Subsequently, on November 25, 2019, GFNorte received approval from CNBV 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). The models were re-certified on September 30, 2020 (Document 111-2 / 085/2020) and September 29,2021 (Document 111-2/243/2021).

3. Internal Models Statements

Internal Models used by the Institution, like the Standard Models, have an expected loss approach for the next twelve months.

Internal Models grant a comprehensive credit risk management, considering the portfolio's own risk in such a way that the resulting models show greater predictability, derived from the use of specific attributes for each of the segments.

3.1.1. Internal Models Usage

One of the purposes of internal estimations, is to calculate Reserves and Capital Requirements for Credit Card, Auto Loans and Commercial Loans Portfolios, which must be rated in accordance with the General Provisions Applicable to Credit Institutions described in the Single Bank Circular (Circular Única de Bancos CUB).

On the other hand, reports are generated related to the performance of the Internal Models sent quarterly to senior management. These reports show the transition matrices of the Probability of Default (PD); as well as a comparative analysis of the estimated values against those observed, for each of the parameters: Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) (the last two only for Credit Cards and Auto Loans).

3.1.2. Coverage Management Process

The Institution owns a risk coverage system using different scenarios, which have shown that the coverage is at acceptable levels hedging the observed losses for the next twelve months.

3.1.3. Control Mechanisms

As part of the control process for the Rating Systems, there is an internal validation process which monitors the different models in order to ensure the consistency of their results, as well as an Independent Validation and Self-evaluation process that verifies that the models meet the needs for which they were developed and comply with all the requirements established in the CUB for the certification of Internal Models.

In the Control processes for the Rating Systems, the following independent areas are engaged:

- Model Development Area. Responsible for the development of Internal Models.
- Independent validation. It´s a self-dependent area from the Model Development Area that reviews, validates and replicates the development of a model from its inception and, issues a judgment from a statistical consistency point of view.
- Auditor. It is an objective and independent authority of the Institution's internal controls, which carries out the Self-evaluation process of the model in accordance with Section VI of Annex 15, and Fraction II of Article 2 Bis 66 of the CUB.
- Support areas. All those areas involved throughout the different stages of the project, such as: Planning, Certification Office, Risks, Audit, and Comptroller, among others.

4. Internal Rating Process

4.1.1. Commercial Loans

For the Commercial Loans portfolio, the estimation of the Probability of Default (PD) is performed using the Internal Model with Foundation Approach, considering internal and external variables.

Once PD is determined, Loss Given Default (LGD) and the Exposure at Default (EAD) are considered under the Standard Method, and once the above factors have been obtained, the Expected Loss (EL) is computed as follows:

$$EL = PD * SL * EAD$$

4.1.2. Credit Cards Portfolio

In the Credit Card portfolio, the Rating System scale allows the Institution to have a better credit risk management when considering the portfolio's own risk, in order to continuously monitor customers and to prevent or mitigate adverse events.

Its main purpose is to segregate population into homogeneous subsets (buckets) within each other, so that the resulting models show greater predictability, derived from the use of specific attributes for each of the segments.

Credit Card Model's certification was made under the Advanced Approach, which means that the three parameters required to calculate Expected Loss (Probability of Default (PD), the Loss Given Default (LGD) and Exposure to Default (EAD)) were estimated.

4.1.3. Auto Loans Portfolio

The scale of the Rating System for the Auto portfolio, allows Banorte to own an efficient credit risk management which considers actual risk, in order to monitor continuously the customers and to prevent or mitigate adverse events.

Its main purpose is to segregate population into homogeneous subsets (buckets) within each other, so that the resulting models show greater predictability, derived from the use of specific attributes for each of the segments.

Auto Loans Model's certification was made under the Advanced Approach, which means that the three parameters required to calculate Expected Loss (Probability of Default (PD), the Loss Given Default (LGD) and Exposure to Default (EAD)) were estimated.

5. Internal Models' Variable Estimation

5.1.1. Probability of Default

Probability of Default (PD) shows the likelihood that a borrower defaults on its contractual obligations within twelve months after the month being rated. Default is defined when loans present 90 or more days past-due. In the case of Corporations, a materiality criterion is included, which consists on marking default only if the balance of delinquent loans represents 5% or more of the total balance.

For its estimation, information from internal and external variables is used with which a score is obtained, which is mapped to a master rating measuring risk level.

5.1.2. Loss Given Default

Loss Given Default. Measures the intensity of the loss upon default expressed as a percentage of the Exposure at Default (EAD), once considered collateral values and the costs associated regarding the settlement (judicial, administrative collection, and deed in lieu, among others).

The estimation of the Loss Given Default (LGD) implies calculating present value of flows at default date, granting a comparable measure for loans with different recovery periods.

5.1.3. Exposure at Default

Exposure at Default (EAD) is the amount of the debt at the time of default of a loan. It is estimated on a conversion factor basis, which considers the relationship between balance and the unused credit line.

In the particular case of the Commercial Loan portfolio, Loss Given Default (LGD) and Exposure at Default (EAD) are used in accordance with those established on the CUB for Standard Models.