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# Risk Management Report

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**3Q23**

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## Risk Management

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

### 1. COMPREHENSIVE RISK MANAGEMENT FRAMEWORK

A Comprehensive Risk Management Framework, consisting of objectives, guidelines, policies, and procedures, has the following main objectives:

- Provide clear rules to the different business areas, which help minimize risk and ensure compliance with the parameters established and approved by the Board of Directors and the Risk Policies Committee (CPR by its acronym in Spanish).
- Establish mechanisms to monitor risk-taking throughout GFNorte, through the use of robust systems and processes.
- Verify the observance of Risk Appetite.
- Estimate and control GFNorte's capital, under base and stressed scenarios, aiming to provide coverage for unexpected losses from market movements, credit bankruptcies, and operational risks.
- Implement identification, valuation, and management models for different types of risks.
- Establish procedures for portfolio's optimization and credit portfolio management.
- Update and monitor the Contingency Plan to restore capital and liquidity levels in case of adverse events.

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

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

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

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

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

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

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

The Unit for the Comprehensive Risk Management (UAIR by its acronym in Spanish) supervises the Risk Management and Credit Department (DGARC by its acronym in Spanish), and among its functions, is responsible for identifying, measuring, monitoring, limiting, controlling, reporting, and disclosing the different types of risk to which the GFNorte is exposed to.

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

## 1.2. Main and emerging risks

The Comprehensive Risk Management Framework includes strategies to identify and regulate the main and emerging risks that pose as a potential threat to the business, clients, collaborators, and to GFNorte's strategy. The definition and classification of potential risks allows them to be better managed and mitigated, according to the nature of each type of risk.

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

1. Credit Risk: revenue volatility due to constitution of provisions for impaired loans, and potential losses on borrower or counterparty defaults.
2. Market Risk: revenue volatility due to market changes, which affect the valuation of book positions for assets, liabilities, or contingent liabilities operations, such as: interest rates, spread over yields, exchange rates, price index, among others.
3. Balance and Liquidity Risk: potential loss by the impossibility of renewing liabilities or securing resources in normal conditions, and by early or forced sale of assets at unusual discounts to meet their obligations.
4. Operational Risk: loss resulting from inadequate or failed internal processes, employees, internal systems, or external events. This definition includes Technology Risk and Legal Risk. Technology Risk groups all potential losses from damage, interruption, disruption, or failures resulting from use of or reliance on hardware, software, systems, applications, networks, and any other information distribution channel, while the Legal Risk involves the potential loss caused by sanctions for noncompliance with laws as well as unfavorable administrative or judicial decisions related to GFNorte's operations.
5. Concentration Risk: potential loss by high and disproportional exposure to particular risk factors within a single category or among different risk categories.
6. ESG Risk: likelihood that dangerous environmental, social or governance events or conditions occur and generate adverse impacts on the institution and/or the environment and the community.

Likewise, regarding non-quantifiable risks, Risk Management's Manual in GFNorte establishes specific objectives for:

7. Reputational Risk: potential loss in the Institution's performance activities, due to an inappropriate or unethical perception of the different stakeholders, internal or external, on their solvency and viability. Likewise, the deterioration of the Institution's image due to internal or external events that go against corporate values.
8. Strategic Risk: potential loss due to failures or deficiencies in decision-making, in the implementation of procedures and actions to carry out the business model and strategies of the Institution as well as due to ignorance of the risks to which the business activity is exposed to, affecting the expected results of its strategic plan.
9. Business Risk: potential loss or impact on profitability attributable to the inherent characteristics of the business and changes in the economic cycle or market conditions in which the Institution operates.

Emerging Risks are new risks that arise from changes in economic, political, social, cultural, environmental, and even technological processes. They are characterized by a recent increase in the probability of occurrence and exposure to them, therefore, their prompt identification is necessary to be able to implement effective and timely measures. Its potential for damage or loss is not yet fully known, derived from a new or evolving hazard, which may result in significant new exposure for the Group.

1. Epidemiological Risk: The probability that a disease in a determined population escalates to the degree of epidemic or pandemic, generating adverse impacts on the Institution, financing, health, and the community. It's expressed through various epidemiological indicators whose analysis makes it possible to design preparation and response plans.

2. **Risk of New Technologies:** Risks associated with the implementation of new technologies that could materialize in economic losses for the institution. They arise from new vulnerabilities, technical threats, potential economic frauds, crimes against intellectual property, threats to the privacy of information, and cyberbullying, among others.

At GFNorte, the identification and tracking of new risks is a continuous task, and as a result, it strengthens and consolidates the Comprehensive Risk Management Framework, considering the ESG vision and new emerging risks.

### 1.3. Risk Management Culture at GFNorte

GFNorte's Risk Management Culture, holistically permeates all levels of the organization. The Group's decisions are based on maximizing the risk-return ratio, encouraging informed decision-making to achieve the strategic objectives of asset quality, profitability, liquidity, and solvency.

GFNorte's risk culture is based on the following principles:

- **We Are All Risk Managers:** Promote employees' proactive participation in risk identification, escalation, and management. The operational, technological, psychosocial, credit, market, and fraud risk reporting channels make it easier for all employees to fulfill their role as the first line of defense. For example, through the Governance, Risk, and Compliance (GRC) platform, all employees report their relevant identified risks, monitoring them until their mitigation. This feedback triggers process improvements by implementing control measures based on what is reported.
- **Risk Anticipation:** Monitor the economic and business environment to anticipate future risks and incorporate market trends into models, tools, processes, and policies to prevent and mitigate risks. It also covers the importance of close communication with clients to be able to identify their needs and problems, preventing potential breaches.
- **Prospective Vision:** Always maintaining a farsighted vision in line with the new business trends in the risk management strategy and the evaluation of policies and models. For a continuous improvement of products and processes, updating methodologies and tools following the best practices to estimate the future behavior of assets and create scenarios to make strategic decisions.
- **Multidisciplinary Participation:** Joint decision-making through multidisciplinary committees and teams strengthens GFNorte's perspective to identify and control risks. Risks are continuously monitored, and mitigation strategies or actions are planned and executed consensually with all the areas involved. Operating through a cell-based collaboration scheme, i.e., multidisciplinary teams assigned a specific task, such as improving a process or developing a new product. This collaboration scheme allows to react instantly to changing environments involving risks in operations and strategies or execute an existing credit prevention or mitigation plan.
- **Communication and Continuous Training:** The Board of Directors and Senior management members communicate the importance of robust risk culture. In this regard, the Group has reinforced internal training for risk management, including the content of risk management, prevention, and mitigation for all our staff.
- **Risk - Return-Based Compensation:** Risk management criteria is targeted into the employees' evaluation and compensation to maximize the risk-return ratio. To attain this, the risk indicators' formal measurement is linked with the performance evaluation process, promotion, and compensation of staff. The Remuneration System establishes these incentives, where the evaluation criteria is established mainly for Senior management, consistent with reasonable risk-taking. Additionally, a performance evaluation system has been implemented, where employees and their immediate superiors set operational, safety, and career development goals. Performance is evaluated under specific metrics as well as professional skills and credentials, according to the profile of each position.
- **Innovation:** GFNorte is known for its fast development in risk management and for performing with the latest banking practices. Therefore, it is observed to remain at the forefront of new products, channels, technologies, and risk implications. Technological innovation is crucial to identify, measure, and control risks properly in the face of technological change and new products and segments of the digital market. These innovative products go through a formal project evaluation process, which includes identifying and measuring risks determined by the relevant areas.

#### 1.3.1. Desired Risk Profile

General and specific guidelines are established throughout the Group to monitor the Desired Risk Profile; in addition, a

formal escalation process is in place, in case of any deviation from the desired risk profile. Critical quantitative indicators by type of risk were developed, for the Group and its subsidiaries. Such indicators are sensitive to the material risks to which the Institutions are exposed to and can be used as critical financial health indicators. These indicators are reviewed and ratified once a year by the Board of Directors and serve as a guideline for the definition and implementation of strategies and objectives.

## 2. CREDIT RISK

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

The objectives of Credit Risk Management at GFNorte are:

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

The policies for managing, covering and mitigating Credit Risk in GFNorte are:

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

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

### 2.1. Credit Risk Scope, Nature, and Methodology

Risk management is supported by a framework of policies and manuals, which establish the implementation and monitoring process of Credit Risk limits, coverage, mitigation, and compensation strategies, the disclosure of the referred risk metrics, within the established limits. Within these policies are detailed, among others: the characteristics, capacity, legal aspects, instrumentation issues and degree of coverage that must be considered when compensating or mitigating risk. Likewise, the execution of guarantees is contemplated as a risk compensation mechanism whenever there is a breach that has not been corrected by the debtors.

The DGARC relies on various Credit Risk information and measurement systems, which comply with regulatory standards and are aligned with the best international practices in Risk Management. It is worth mentioning that the information contained in the risk systems as well as the reports generated by them are continuously backed up, following institutional procedures of institutional information security procedures.

As part of the strategies and processes to monitor the continuous effectiveness of the hedges or mitigants, there are limits for Credit Risk, which are continuously monitored, and there are procedures established so that excesses and their causes are documented as well as implementing the corresponding corrective actions to return to acceptable risk levels.

The key risk indicators are disclosed through monthly reports to the CPR and through a daily report to the main executives in the institution about credit defaults by customers that could potentiate Credit Risk.

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

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

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

The individual risk for wholesale loans is identified, measured, and controlled through Target Markets, Risk Acceptance Criteria, Early Warnings and GFNorte's New Internal Risk Rating (NCIR Banorte), which are tools that integrate GFNorte's Loan Strategy and support the estimated level of Credit Risk.

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

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

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

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

### **2.1.2. Portfolio Credit Risk**

GFNorte has developed a portfolio Credit Risk methodology, which considers the loan portfolio exposure directly from the balance of each loan, whereas the financial instruments' portfolio considers the present value of the instruments and their future cash flows. Since the exposure is sensible to market changes, it is possible to define sensitivity estimates under different economic scenarios.

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

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

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



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

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

The Credit Risk Management of financial instruments is managed through a robust framework of policies for its origination, analysis, authorization, and management.

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

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

In the specific case of Derivatives contracts, and in line with best practices, a methodology for estimating the potential exposure to lines is used. The potential exposure for lines calculation methodology is then analyzed by the Credit Committee, and if approved, is monitored on a daily basis as well as reported monthly in the CPR, where analysis of guarantees behind Derivative transaction is held for both clients and financial counterparties.

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

To determine adversely correlated lines (Wrong Way Risk "WWR"), a potential exposure adjustment is taken into account.

On an individual level, the risk concentration on financial instruments is managed on a continuous basis, by establishing and monitoring maximum parameters of operation for each counterparty or issuer depending on the rating and type of operation. Defined risk diversification policies exist for portfolios, for economic groups and internal groups. Additionally, the concentration of counterparty type or issuer, the size of the financial institutions, and the region in which it operates, are monitored in order to obtain an appropriate diversification and to avoid undesired concentrations.

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

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

## 2.2. Credit Risk Exposure

As of September 30<sup>th</sup>, 2023 the total amount of the exposure subject to the Standard Method and the Internal Models (Advanced Approach Internal Model for Credit Cards, Mortgages and Auto Loans, and Foundation Approach Internal Model for Business Enterprises) for the estimation of Capital Ratio is as follows:

<b>Gross Exposures subject to the Standard Method and Internal Models**</b> <i>(Million pesos)</i>	<b>Banorte</b>	<b>Arrendadora y Factor Banorte*</b>	<b>Total Portfolio</b>
Commercial	<b>82,529</b>	<b>1,984</b>	<b>84,513</b>
YoY Revenues or Sales < 14 MM UDIS	82,529	1,984	84,513
States or Municipalities	104,881	315	105,196
Decentralized Federal Government Agencies and State Companies	45,393	7,781	53,175
Projects with own source of payment	113,271	0	113,271
Financial Institutions	36,883	865	37,748
Consumer Non-Revolving	78,044	2	78,046
<b>Total Loans subject to the Standard Method</b>	<b>461,002</b>	<b>10,948</b>	<b>471,949</b>
Commercial	175,857	30,669	206,526
YoY Revenues or Sales >= 14 MM UDIS	175,857	30,669	206,526
Federal, State and Municipal Government Decentralized Agencies, with annual income or Sales >= 14 MM UDIS	13,278	0	13,278
<b>Total Loans subject to the Foundation Approach Internal Model</b>	<b>189,136</b>	<b>30,669</b>	<b>219,805</b>
Consumer Non-Revolving (Auto)	40,843	0	40,843
Credit Card	52,884	0	52,884
Mortgage	250,953	0	250,953
<b>Total Loans subject to Advanced Approach Internal Model</b>	<b>344,680</b>	<b>0</b>	<b>344,680</b>
<b>Eliminations and Accounting Records</b>			(16,068)
Deferred Items	2,306	(33)	2,273
BAP Portfolio	3,433	0	3,433
Not Rated			0
<b>Total Loans with BAP and DI</b>			<b>1,026,072</b>

\* Excludes Pure Leasing.

\*\* The exposure excludes Letters of Credit and 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 issued 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 3Q23 presents a total exposure of Ps 1,020.37 billion, Ps 43.61 billion higher than previous quarter or 4.5% higher, and Ps 135.07 billion higher or a 15.3% increase from the previous year.

Variations per product of GFNorte's total portfolio are:

<b>Product / Segment</b> <i>(Million pesos)</i>	<b>Total Loan</b>			<b>Var. vs. 2Q23</b>		<b>Var. vs. 3Q22</b>	
	<b>3Q22</b>	<b>2Q23</b>	<b>3Q23</b>	<b>Ps</b>	<b>%</b>	<b>Ps</b>	<b>%</b>
Government	163,792	164,682	171,649	6,967	4.2%	7,857	4.8%
Commercial	215,809	246,121	257,504	11,383	4.6%	41,695	19.3%
Mortgage	219,943	243,498	250,953	7,455	3.1%	31,010	14.1%
Corporate	144,551	157,746	168,486	10,740	6.8%	23,935	16.6%
Payroll	66,838	75,822	78,026	2,204	2.9%	11,187	16.7%
Credit Card	44,131	50,317	52,884	2,566	5.1%	8,752	19.8%
Auto Loans	30,233	38,572	40,864	2,292	5.9%	10,630	35.2%
<b>Total Loans</b>	<b>885,299</b>	<b>976,758</b>	<b>1,020,365</b>	<b>43,607</b>	<b>4.5%</b>	<b>135,067</b>	<b>15.3%</b>
Deferred Items	1,560	2,240	2,273				
BAP Portfolio	3,123	3,322	3,433				
<b>Total Loans with BAP and DI</b>	<b>889,982</b>	<b>982,320</b>	<b>1,026,072</b>				

Performing Loans now broken down into Stage 1 and 2 represent Ps 1,010.02 billion, while Non-performing loans, also known as Stage 3 Loans, represent Ps 10.34 billion.

Subsidiary (Million pesos)	Loans		Total	Total Reserves
	Performing	Non-Performing		
Banorte*	969,258	9,491	978,749	17,973
Arrendadora y Factor Banorte	40,765	852	41,617	822
Accounting Records	0	0	0	636
<b>Total Loans</b>	<b>1,010,023</b>	<b>10,342</b>	<b>1,020,365</b>	<b>19,431</b>
Deferred Items			2,273	
BAP Portfolio			3,433	
<b>Total Loans with BAP and DI</b>			<b>1,026,072</b>	

\* Banorte's total loans include eliminations for (Ps 16.07) billion.

Total reserves of Ps 19.43 billion include rating reserves of Ps 18.80 billion and accounting records (Covid-19 reserves, valuation, negative debts in the Credit Bureau, and BAP reserves) of Ps 636 million.

GFNorte's Performing and Non-performing portfolios in 3Q23 grouped by sector and subsidiary are detailed in the following two tables:

Sector (Million pesos)	Loans		Total Loans	Reserves		3Q23 Charge offs	Days Past-Due**
	Performing	Non-Performing		3Q23	Var vs. 2Q23		
Government	171,638	11	171,649	840	39	0	32
Services*	137,531	632	138,162	932	-248	43	293
Commerce	63,666	1,220	64,886	1,180	89	72	362
Manufacturing	54,513	1,135	55,648	971	94	19	548
Transportation	51,314	91	51,405	366	20	9	71
<b>Top 5 Sectors</b>	<b>478,661</b>	<b>3,090</b>	<b>481,751</b>	<b>4,289</b>	<b>-6</b>	<b>143</b>	
Other Sectors	114,874	1,014	115,888	1,574	251	15	
Mortgage	248,864	2,089	250,953	1,218	115	548	
Consumer	167,623	4,150	171,773	11,715	455	3,533	
Accounting Records				636			
<b>Total Loans</b>	<b>1,010,023</b>	<b>10,342</b>	<b>1,020,365</b>	<b>19,431</b>	<b>816</b>	<b>4,239</b>	
Deferred Items			2,273				
BAP Portfolio			3,433				
<b>Total Loans with BAP and DI</b>			<b>1,026,072</b>				

\* Includes Financial, Real Estate and Other Services.

\*\* Days past due from Non-performing Loans.

Sector/Subsidiary (Million pesos)	Banorte*	AyF	Total Loans
Government	163,553	8,096	171,649
Services**	129,856	8,307	138,162
Commerce	58,729	6,157	64,886
Manufacturing	46,679	8,969	55,648
Transportation	45,790	5,616	51,405
<b>Top 5 Sectors</b>	<b>444,607</b>	<b>37,144</b>	<b>481,751</b>
Remaining	534,142	4,473	538,614
<b>Total Loans</b>	<b>978,749</b>	<b>41,617</b>	<b>1,020,365</b>
Deferred Items			2,273

BAP Portfolio	3,433
<b>Total Loans with BAP and DI</b>	<b>1,026,072</b>

\* Banorte's total loans include eliminations for (Ps 16.07) billion.

\*\* Includes Financial and Real Estate services.

As of 3Q23, GFNorte's Performing and Non-performing loans grouped by federal entity and subsidiary are detailed in the following table:

Federal Entities <i>(Million pesos)</i>	Loans		Total Loans	Total Reserves
	Performing	Non-performing		
1 Ciudad de México	293,322	1,902	295,224	3,793
2 Nuevo León	166,651	1,153	167,804	2,371
3 Estado de México	75,122	1,032	76,154	1,867
4 Jalisco	65,985	497	66,482	962
5 Sinaloa	37,061	325	37,386	547
6 Baja California Norte	29,322	214	29,536	558
7 Tamaulipas	28,913	306	29,219	713
8 Quintana Roo	26,573	112	26,685	283
9 Chihuahua	25,881	384	26,265	667
10 Coahuila	25,701	418	26,118	644
<b>Top 10</b>	<b>774,533</b>	<b>6,341</b>	<b>780,874</b>	<b>12,405</b>
Other Federal Entities	235,490	4,001	239,491	6,390
Accounting Records				636
<b>Total Loans</b>	<b>1,010,023</b>	<b>10,342</b>	<b>1,020,365</b>	<b>19,431</b>
Deferred Items			2,273	
BAP Portfolio			3,433	
<b>Total Loans with BAP and DI</b>			<b>1,026,072</b>	

\* Banorte's total loans include eliminations for (Ps 16.07) billion.

As of 3Q23, GFNorte's Performing and Non-performing loans grouped by term are detailed below:

Remaining Term <i>(Million pesos)</i>	Portfolio		Total Loans	Total Reserves
	Performing	Non-performing		
0 - 1 years	168,869	3,662	172,531	7,447
1 - 5 years	295,220	3,501	298,721	8,006
5 - 10 years	115,154	424	115,577	653
> 10 years	390,015	1,904	391,919	1,867
<b>Banorte*</b>	<b>969,258</b>	<b>9,491</b>	<b>978,749</b>	<b>17,973</b>
Arrendadora y Factor Banorte	40,765	852	41,617	822
Accounting Records				636
<b>Total Loans</b>	<b>1,010,023</b>	<b>10,342</b>	<b>1,020,365</b>	<b>19,431</b>
Deferred Items			2,273	
BAP Portfolio			3,433	
<b>Total Loans with BAP and DI</b>			<b>1,026,072</b>	

\* Banorte's total loans include eliminations for (Ps 16.07) billion.

## 2.2.2. Exposure to Financial Instruments

As of 3Q23, exposure to Credit Risk for Securities Investments of Banco Mercantil del Norte was Ps 337.76 billion, of which 97.7% 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 17% of the Tier 1

Capital as of June 2023. Additionally, the exposure of investments with the same counterparty besides the Federal Government that represents a higher or equal concentration to 5% of the Net Capital as of June 2023 is rated as AAA(mex) and is comprised of (*weighted average term, amounts in pesos and weighted average return to annualized maturity*): certificates of deposit and market certificates of BANOBRAS for 1 year totaling Ps 14.76 billion at 11.2%; and US Treasury Bonds for 2 years and 3 months totaling Ps 24.18 billion at 5.2%.

For Derivatives operations, the exposure of the three main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 5% of the Tier 1 Capital as of June 2023.

Exposure to Credit Risk for Securities Investments of Casa de Bolsa Banorte was Ps 229.58 billion, of which 100% 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 65% of the Equity as of June 2023. Additionally, the exposure of investments with the same counterparty besides the Federal Government that represents a higher or equal concentration to 5% of the Equity as of June 2023 has a higher or equal rating to AA(mex) and are comprised of (*weighted average term, amounts in pesos and weighted average return to annualized maturity*): certificates of deposit and market certificates of Banco Santander Mexico for 2 years and 4 months totaling 6.74 billion at 11.5%; certificates of deposit and market certificates of Scotiabank Inverlat for 11 months totaling Ps 2.61 billion at 11.5%; market certificates of Mexico City Government for 24 years totaling Ps 2.41 billion at 11.7%; market certificates of BBVA Mexico for 2 years and 1 month totaling Ps 2.41 billion at 11.5%; certificates of deposit of Banco del Bajío for 5 months totaling Ps 2.34 billion at 11.6%; certificates of deposit of Banco Invex for 6 months totaling Ps 1.99 billion at 11.8%; certificates of deposit and market certificates of BANOBRAS for 2 years and 4 months totaling Ps 1.86 billion at 11.5%; market certificates of Banco Compartamos for 1 year and 9 months totaling Ps 1.55 billion at 12.0%; market certificates of NAFIN for 2 years and 9 months totaling Ps 1.30 billion at 11.5%; market certificates of BANCOMEXT for 2 years and 7 months totaling 1.11 billion at 11.5%; market certificates of FONACOT for 1 year and 6 months totaling Ps 1.00 billion at 11.6%; market certificates of Banco Actinver for 3 years and 5 months totaling Ps 805 million at 12.3%; market certificates of Sociedad Hipotecaria Federal for 3 years and 6 months totaling Ps 705 million at 11.5%; CABEI bonds for 3 years and 4 months totaling Ps 626 million at 11.8%; market certificates of PEMEX for 1 year and 6 months totaling Ps 540 million at 10.6%; market certificates of FEFA for 1 year and 9 months totaling Ps 522 million at 11.5%; certificates of deposit of Banco Sabadell México for 8 months totaling Ps 502 at 11.7%; market certificates of Grupo Aeroportuario del Pacífico for 1 year and 4 months totaling Ps 486 million at 11.7%; promissory notes of JP Morgan Mexico for 3 months totaling Ps 484 million at 11.5%; market certificates of CFE for 1 year and 3 months totaling 334 million at 11.9%.

For Derivatives operations, the exposure of the three main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 0% of the Equity as of June 2023.

Arrendadora y Factor Banorte had no exposure neither to Securities Investments nor 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 and excludes settled transactions through central counterparties).

Position Banorte (Million Pesos)	3Q23	3Q23 Average
Forwards	336	445
FX Swaps	119	(28)
FX	(1)	(8)
Options	(206)	(160)
Swaps with Interest Rates IRS	(4,790)	(2,994)
Cross Currency Swap (CCIRS)	2,219	4,499
Credit Default Swaps (CDS)	(13)	27
<b>Total</b>	<b>(2,334)</b>	<b>1,780</b>
Positive Fair Value (Positive Market Value)	12,908	15,334
Netting Effect*	15,243	13,554
Delivered Guarantees (-) /Received (+)		
Cash	6,451	9,149
Securities	0.0	0.0
<b>Total</b>	<b>6,451</b>	<b>9,149</b>

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

The following table shows the current and potential levels of exposure at the end of the quarter and the average amount for the quarter for Banorte:

Banorte (Million Pesos)	Potential Risk		Current Risk	
	3Q23	3Q23 Average	3Q23	3Q23 Average
<b>Financial Counterparties</b>				
<b>FWD</b>				
<b>FX SWAP</b>	4,208	3,885	408	285
<b>FX</b>				
<b>OPTIONS</b>	3,732	3,383	880	834
<b>INTEREST RATE SWAP</b>	1,008	958	2,818	2,780
<b>CCS</b>	4,230	3,800	2,223	4,510
<b>CDS</b>	57	119	(13)	27
<b>Total</b>	<b>2,320</b>	<b>2,219</b>	<b>6,316</b>	<b>8,437</b>
<b>Clients (Non-Financial)</b>				
<b>FWD</b>	102	123	47	123
<b>OPTIONS</b>	157	129	(1,086)	(994)
<b>INTEREST RATE SWAP</b>	1,518	2,437	(7,608)	(5,774)
<b>CCS</b>	23	22	(4)	(11)
<b>Total</b>	<b>1,658</b>	<b>2,597</b>	<b>(8,650)</b>	<b>(6,656)</b>

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

Banorte Net Cash Outflows (Million pesos)	3Q23	3Q23 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 3Q23	3Q23 Average
<b>AAA/AA-</b>	131	125
<b>A+/A-</b>	6,222	8,297
<b>BBB+/BBB-</b>	(1,277)	(1,074)
<b>BB+/BB-</b>	(1,237)	(452)
<b>B+/B-</b>	(1,018)	(1,010)
<b>CCC/C</b>	0	0

SC	(5,154)	(4,105)
<b>Total</b>	<b>(2,334)</b>	<b>1,780</b>

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

Position Casa de Bolsa Banorte (Million Pesos)	3Q23	3Q23 Average
Forwards	0	0
FX Swaps	0	0
FX	0	0
Options	0	0
Swaps with Interest Rates IRS	130	133
Cross Currency Swap (CCIRS)	0	0
Credit Default Swaps (CDS)	0	0
<b>Total</b>	<b>130</b>	<b>133</b>
Positive Fair Value (Positive Market Value)	852	639
Netting Effect*	722	506
Delivered Guarantees (-) /Received (+)		
Cash	0	0
Securities	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

\* 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 shows the current and potential levels of exposure at the end and the average amount of the quarter, respectively, for Casa de Bolsa Banorte.

Casa de Bolsa Banorte (Million Pesos)	Potential Risk		Current Risk	
	3Q23	3Q23 Average	3Q23	3Q23 Average
<b>Financial Counterparties</b>				
FWD				
FX SWAP	0	0	0	0
FX				
OPTIONS	0	0	(21)	(18)
INTEREST RATE SWAP	877	608	873	607
CCS	0	0	0	0
CDS	0	0	0	0
<b>Total</b>	<b>877</b>	<b>608</b>	<b>852</b>	<b>589</b>
<b>Non-Financial Counterparties</b>				
FWD				
OPTIONS	21	15	21	18
INTEREST RATE SWAP	130	234	(743)	(474)
CCS	0	0	0	0
<b>Total</b>	<b>151</b>	<b>249</b>	<b>(722)</b>	<b>(456)</b>

Based on conditions established in derivative agreements, tolerance levels of exposure are considered according to the rating of involved entities. The following table shows the number of guarantees to be delivered, in case of a rating downgrade. It's worth noting that we have migrated to zero threshold with most counterparties, thus, guarantees to be delivered are not dependent on credit rating, but rather on market movements.

<b>Casa de Bolsa Banorte Net Cash Outflows (Million pesos)</b>	<b>3Q23</b>	<b>3Q23 Average</b>
Cash Outflow with 1-notch Downgrade	0	0
Cash Outflow with 2-notch Downgrade	0	0
Cash Outflow with 3-notch Downgrade	0	0

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

<b>Casa de Bolsa Banorte Rating (Million Pesos)</b>	<b>MoM 3Q23</b>	<b>3Q23 Average</b>
<b>AAA/AA-</b>	0	0
<b>A+/A-</b>	0	0
<b>BBB+/BBB-</b>	852	589
<b>BB+/BB-</b>	0	0
<b>B+/B-</b>	0	0
<b>CCC/C</b>	0	0
<b>SC</b>	(722)	(456)
<b>Total</b>	<b>130</b>	<b>133</b>

### 2.3. Credit Collaterals

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

The main types of real collaterals are the following:

- Civil Mortgage.
- Industrial Mortgage.
- Regular Pledge.
- Pledge without possession transfers.
- Pledge / Pledge Bond.
- Pledge Bond.
- Caution Securities.
- Securities Pledge.
- Management and Payments Trust.
- Development Funds.

For assets granted in guarantee, the Institution has policies and procedures for monitoring and periodically making inspection visits to ensure the existence, legitimacy, value, and quality of the guarantees accepted as an alternative credit support. Furthermore, when the guarantees are a type securities, there are policies and procedures to monitor their market valuation; furthermore, additional guarantees may be required if needed.



The following table shows the covered loan portfolio by collateral type.

Collateral Type (Million Pesos)	3Q23			
	Banorte	Banorte Ahorro y Previsión	Arrendadora y Factor Banorte**	GFNorte*
<b>Total Loan Portfolio</b>	<b>997,123</b>	<b>3,433</b>	<b>41,584</b>	<b>1,026,072</b>
Covered Loan Portfolio by type of collateral				
Real Financial Guarantees	36,416	0	0	36,416
Real Non-Financial Guarantees	560,590	0	8,163	568,753
Pari Passu	43,963	0	0	43,963
First Losses	18,387	0	0	18,387
Personal Guarantees	40,007	0	4,431	44,438
<b>Total Loan Portfolio Covered</b>	<b>699,362</b>	<b>0</b>	<b>12,594</b>	<b>711,956</b>

\* Total Loans include eliminations and accounting records for (Ps 16.07 billion).

\*\* Excludes Pure Leasing.

## 2.4. Expected Loss

As of 3Q23, Banco Mercantil del Norte's total portfolio was Ps 997.12 billion. The expected loss represents 1.9% , while the unexpected loss is 3.8% of the total portfolio. The average expected loss is 1.9%, for the period July-September 2023.

Regarding Casa de Bolsa Banorte, the credit exposure of investments is Ps 230.45 billion and the expected loss represents 0.003% of the exposure. The average expected loss is 0.003% for the period July - September 2023.

The total portfolio of Arrendadora y Factor Banorte, including pure leasing is Ps 44.38 billion. The expected loss represents 1.8% and the unexpected loss is 5.7% of the total portfolio. The average expected loss is 1.8%, for the period July-September 2023.

## 2.5. Internal Models

In October 2016, the Board of Directors approved the implementation plan for the Internal Models for estimating reserves and capital requirements on all applicable portfolios, which was dispatched to CNBV in the same year. In accordance with this implementation plan, the models for the Credit Card, Commercial Loans and Auto Loans portfolios were certified.

At the end of 2018, the CNBV released the project to migrate Standard and Internal Methodologies under the IFRS9 approach, but it was not until March 2020 that the definitive rule for Internal Methodologies of reserves based on NIF C-16 (IFRS9), effective as of January 2021, was published in the Federation Official Journal (DOF by its acronym in Spanish). However, due to the COVID-19 pandemic, the CNBV issued a press release in April 2020 indicating that the rule would be effective as of January 2022.

Therefore, GFNorte complied with the new regulation and adopted the Internal Reserve Methodologies based on NIF C-16, for which the Risk Policies Committee (CPR by its acronym in Spanish) and the Board of Directors were requested in April 2021 to approve the new Implementation Plan (Capital and Reserves), which was authorized by the CNBV in January 2022 through Document 111-2/852/2022.

Since January 2022, the NIF C16 (IFRS9<sup>1</sup>) rule has been effective for the calculation of preventive reserves for credit risks, both in the Standard Approach and Internal Models. Consequently, for Internal Models, estimates for risk parameters will consider two approaches: IRB to compute capital requirements and IFRS9 to compute reserves:

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

- The capital approach will maintain long-term estimates (“Through the Cycle”, TTC), under Annex 15 of the CUB<sup>2</sup>.
- The reserves approach will consider current behaviors (“Point in Time”, PIT) and with a prospective approach (future macroeconomic environment), under Annex 15 Bis of the CUB. In addition, the new methodology indicates that the portfolio must be classified into three risk stages, being necessary for stage 2 a reserve calculation for the remaining term (LifeTime).

Given the new guidelines of the CUB on Internal Models, the regulator (CNBV) will only issue a Document of approval for the use of methodology for Capital Estimation, for a maximum period of 18 months. The use of Internal Model for Reserve methodology is authorized by Banorte’s Board of Directors and by the Board of Arrendadora y Factor Banorte, accordingly, with the support of the Technical Evaluation made by the Independent Evaluator, which guarantees compliance with the Model under the standards established in Annex 15 Bis. It should be noted that the Technical Evaluation Report is sent to the CNBV for review; likewise, the validity of this model has a maximum period of 18 months.

### 2.5.1. Advanced Approach Internal Model for Credit Card

On November 15, 2017, GFNorte received approval from the banking regulator (Comisión Nacional Bancaria y de Valores) to use Internal Models (IM) for credit card rating for reserves and regulatory capital calculation by credit risk with an Advanced Approach (Document 111-3/706/2017). As indicated by the regulation, Internal Models are periodically recalibrated. On December 15, 2022, the CNBV granted authorization for the use of IM for the calculation of Capital Requirements for a period of 18 months (Document 111-2/948/2022); additionally, the Board of Directors authorized the use of the Reserve methodology based on NIF C16 in its session on October 20, 2022 for a period of 18 months.

The previously mentioned internal models improve overall credit risk management by estimating risk parameters from the bank’s own experience. These risk parameters are described below:

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

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

Consumer Revolving Credit Card Portfolio under Advanced Approach Internal Model												(Million Pesos)
Risk Level*	Account. Balance	Exposure at Default (EAD)**			Loss Given Default			PD factored by EAD			Unused Credit Lines	EAD factored by Exposure
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3		
1	2,819	3,833	0	0	70.0%			0.4%			17,318	26%
2	6,692	8,806	0	0	71.1%			0.7%			27,231	24%
3	6,302	8,958	0	0	71.8%			1.5%			23,304	30%
4	7,562	9,827	0	0	74.0%			2.3%			14,451	23%
5	5,297	6,742	0.01	0	75.0%	69.2%		3.3%	3.3%		5,388	21%
6	5,522	7,197	0.1	0	75.5%	69.2%		5.0%	5.0%		7,306	23%
7	6,114	7,543	1	0	78.4%	70.3%		7.6%	7.6%		2,905	19%
8	4,273	5,386	3	0	78.9%	71.2%		11.1%	11.1%		1,399	21%
9	3,683	4,644	11	0	81.4%	72.7%		18.7%	18.7%		696	21%
10	3,185	3,113	701	0	83.4%	83.6%		49.9%	49.9%		107	16%
11	1,435	0	0	1,435			85.3%			100.0%	-9	0%
<b>Total Portfolio</b>	<b>52,884</b>	<b>66,050</b>	<b>716</b>	<b>1,435</b>	<b>75.3%</b>	<b>83.1%</b>	<b>85.3%</b>	<b>7.0%</b>	<b>49.2%</b>	<b>100.0%</b>	<b>100,095</b>	<b>22%</b>

\* Scale of Risk Level for the Advanced Approach Internal Model.

\*\* The balance under Exposure at Default includes Potential Risk as well as Used Credit Line Balance.

<sup>2</sup> Circular Única de Bancos.

The next table shows the difference between expected loss and observed loss resulting from the Advance Approach Internal Model for Credit Cards from 3Q22.

Backtesting				
Portfolio	Expected Loss Internal Model*	Observed Loss*	Difference Ps (Observed Loss – Expected Loss)	% NCL Coverage
Credit Card	4,231	3,739	(492)	113%
<b>Total Portfolio</b>	<b>4,231</b>	<b>3,739</b>	<b>(492)</b>	<b>113%</b>

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

### 2.5.2. Advanced Approach Internal Model for Auto Loans

On November 25, 2019, GFNorte received approval from the banking regulator (Comisión Nacional Bancaria y de Valores) to use Internal Models (IM) for Auto Loans for reserves and regulatory capital calculation by credit risk with an Advanced Approach (Document 111/678/2019). Periodically, as indicated by the regulation, Internal Models are recalibrated. On September 28, 2022, the CNBV (Document 111-2/917/2022) granted authorization for the use of IM exclusively for the calculation of Capital Requirements for a period of 18 months; in addition, the Board of Directors authorized, in its meeting on July 2022, the use of reserve methodology based on NIF-C16 for a period of 18 months.

The previously mentioned internal models improve overall credit risk management by estimating risk parameters from the bank's own experience. These risk parameters are described below:

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

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

Consumer Revolving Auto Portfolio under Advanced Approach Internal Model										(Million Pesos)
Risk Level*	Accounting Balance			Exposure at Default (EAD)			Loss Given Default			PD factored by EAD
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
1	3,408	0.06	0	3,408	0	0	49.74%	46.49%		0.12%
2	11,577	0.25	0	11,577	0	0	57.67%	60.77%		0.29%
3	9,474	0.2	0	9,474	0	0	62.45%	75.04%		0.56%
4	5,459	0.3	0	5,459	0	0	63.14%	75.04%		0.89%
5	3,981	0.2	0	3,981	0	0	61.36%	57.91%		1.33%
6	3,709	1	0	3,709	1	0	63.06%	75.04%		2.32%
7	2,027	33	0	2,027	33	0	57.58%	63.14%		6.25%
8	571	356	0	571	356	0	55.75%	57.65%		23.76%
9	0	0	249	0	0	249			62.52%	100.00%
<b>Total Portfolio</b>	<b>40,204</b>	<b>390</b>	<b>249</b>	<b>40,204</b>	<b>390</b>	<b>249</b>	<b>59.16%</b>	<b>58.17%</b>	<b>62.52%</b>	<b>2.14%</b>

\* Scale of Risk Level for the Advanced Approach Internal Model.

The next table shows the difference between expected loss and observed loss resulting from the Advance Approach Internal Model for Auto Loans from 3Q22.

Backtesting				
Portfolio	Expected Loss Internal Model*	Observed Loss	Difference Ps (Observed Loss – Expected Loss)	% NCL Coverage
Auto Loans	614	470	(144)	131%
<b>Total Portfolio</b>	<b>614</b>	<b>470</b>	<b>(144)</b>	<b>131%</b>

\* Data as of September 2022.

### 2.5.3. Advanced Approach Internal Model for Mortgages

On July 27, 2023, GFNorte received approval from the banking regulator (Comisión Nacional Bancaria y de Valores) to use Internal Models with an Advanced Approach for regulatory capital calculation on the Mortgage portfolio (Document 111-2/1628/2023), for a period of 18 months. In addition, the Board of Directors authorized, in its meeting on April 20, 2023, the use of reserve methodology based on NIF-C16 for a period of 18 months.

The previously mentioned internal models improve overall credit risk management by estimating risk parameters from the bank's own experience. These risk parameters are described below:

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

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

Mortgage Portfolio under Advanced Approach Internal Model										(Million Pesos)
Risk Level	Accounting Balance*			Exposure at Default (EAD)			Loss Given Default			PD factored by EAD
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
1	77,557	24	0	77,557	24	0	14.47%	13.32%		0.09%
2	71,607	0	0	71,607	0	0	16.53%	0%		0.28%
3	56,743	0	0	56,743	0	0	17.15%	0%		0.69%
4	18,547	0	0	18,547	0	0	18.92%	0%		1.58%
5	10,261	10	0	10,261	10	0	16.58%	23.31%		3.39%
6	1,578	39	0	1,578	39	0	12.34%	12.33%		7.06%
7	3,365	332	0	3,365	332	0	16.93%	17.21%		11.48%
8	3,936	3,101	0	3,936	3,101	0	14.71%	15.02%		30.39%
9	0	0	1,739	0	0	1,739			16.73%	100.00%
<b>Cartera Total</b>	<b>243,594</b>	<b>3,507</b>	<b>1,739</b>	<b>243,594</b>	<b>3,507</b>	<b>1,739</b>	<b>15.83%</b>	<b>15.08%</b>	<b>16.73%</b>	<b>2.30%</b>

\* Accounting Balance excludes Joint Portfolio for Ps 2.1 billion

The next table shows the difference between expected loss and observed loss resulting from the Advance Approach Internal Model for Mortgage from 3Q23.

Backtesting				
Portfolio	Expected Loss Internal Model*	Observed Loss	Difference Ps (Observed Loss – Expected Loss)	% NCL Coverage
Mortgage	1,049	757	(292)	139%
<b>Total Portfolio</b>	<b>1,049</b>	<b>757</b>	<b>(292)</b>	<b>139%</b>

\* Expected and Observed Loss is estimated as the Average for the last 12 months.

#### 2.5.4. Foundation Approach Internal Model for Commercial Loans

On November 30th, 2018, GFNorte received authorization from the banking regulator CNBV (Comisión Nacional Bancaria y de Valores) to use the Internal Model (IM) for Commercial Loans for the generation of reserves and regulatory capital requirements by credit risk with a Foundation Approach, as per (Document 111-3/1472/2018) in Banco Mercantil del Norte, and on March 1<sup>st</sup>, 2019, for Arrendadora y Factor Banorte as per Documents (111-1/160/2019 and 111-1/161/2019). As indicated by the regulation, Internal Models are periodically recalibrated. On December 15, 2022, the CNBV granted authorization for the use of IM only for the calculation of Capital Requirements for a period of 18 months for Banco Mercantil del Norte (Document 111-2/938/2022) and on December 2, 2022 for Arrendadora y Factor Banorte (Document 111-2/939/2022). Likewise, the Board of Directors authorized the use of the Reserve methodology based on NIF C16 in its session on July 21, 2022 for Banco Mercantil del Norte and on July 20, 2022 for Arrendadora y Factor Banorte, for a period of 18 months.

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

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

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

The following tables show the portfolio which is subject to the Foundation Approach Internal Model for Commercial Loans, classified by stage and risk level:

Commercial Loans subject to the Foundation Approach Internal Model GFNorte				(Million Pesos)
Stage 1 Loans				
Risk Level	Accounting Balance	Exposure at Default (EAD)*	PD weighted by EAD	
1	119,455	119,930	0.12%	
2	53,893	53,793	0.22%	
3	30,318	30,351	0.70%	
4	23,113	23,266	1.59%	
5	6,898	7,083	3.09%	
6	549	553	6.46%	
7	416	416	15.82%	
8	1,049	1,047	15.79%	
9	213	213	35.95%	
<b>Total</b>	<b>235,904</b>	<b>236,653</b>	<b>0.59%</b>	

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

Commercial Loans subject to the Foundation Approach Internal Model GFNorte Stage 2 Loans				<i>(Million Pesos)</i>
Risk Level	Accounting Balance	Exposure at Default (EAD)*	PD weighted by EAD	
1	20	20	0.45%	
2	0	0	0.00%	
3	0	0	0.00%	
4	3	3	1.46%	
5	26	26	5.09%	
6	31	31	11.46%	
7	155	155	21.68%	
8	89	89	42.72%	
9	0	0	0.00%	
<b>Total</b>	<b>324</b>	<b>324</b>	<b>23.70%</b>	

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

Commercial Loans subject to the Foundation Approach Internal Model GFNorte Stage 3 Loans				<i>(Million Pesos)</i>
Risk Level	Accounting Balance	Exposure at Default (EAD)*	PD weighted by EAD	
Stage 3	1,121	1,121	93.12%	
<b>Total</b>	<b>1,121</b>	<b>1,121</b>	<b>93.12%</b>	

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

Commercial Loans subject to the Foundation Approach Internal Model GFNorte Total Loans				<i>(Million Pesos)</i>
Risk Level	Accounting Balance	Exposure at Default (EAD)*	PD weighted by EAD	
1	119,475	119,997	0.12%	
2	53,893	53,906	0.22%	
3	30,318	30,379	0.70%	
4	23,116	23,280	1.59%	
5	6,924	7,109	3.10%	
6	579	584	6.72%	
7	571	571	17.41%	
8	1,138	1,138	17.94%	
9	213	213	35.95%	
Stage 3	1,121	1,121	95.25%	
<b>Total</b>	<b>237,348</b>	<b>238,297</b>	<b>1.07%</b>	

\* 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	206,518	207,467	875
Arrendadora y Factor Banorte	30,830	30,830	262
<b>Total Loans*</b>	<b>237,348</b>	<b>238,297</b>	<b>1,137</b>

\* The balance includes Letters of Credit of Ps 17.4 billion and excludes accounting adjustments of Ps 0.5 million in Banorte and Ps 161 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. Since the model was just recently authorized, the table shows the estimations obtained during the parallel model run period.

Backtesting			(Million Pesos)
Period	Expected Loss with Internal Model	Observed Loss	% Coverage (Expected Loss / Observed Loss)
3Q22	1,620	335	484%

## 2.6. Risk Diversification

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

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

Tier 1 Capital as of June 30, 2023		195,605
(Million Pesos)		
<b>I. Loans with individual balance greater than 10% of Tier 1 Capital:</b>		
<u>Loan Operations</u>		
Number of loans		0
Total amount of loans		0
% in relation to Tier 1		0%
<u>Money Market Operations</u>		
Number of loans		0
Total amount of loans		0
% in relation to Tier 1		0%
<u>Overnight Operations</u>		
Number of loans		0
Total amount of loans		0
% in relation to Tier 1		0%
<b>II. Maximum amount of credit with the 3 largest debtors and common risk groups:</b>		<b>57,661</b>

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

<b>Equity as of June 30, 2023</b> <i>(Million Pesos)</i>	<b>10,568</b>
<b>I. Loans with individual balance greater than 10% of Equity:</b>	
<u>Loan Operations</u>	
Number of loans	2
Total amount of loans	6,389
% in relation to Equity	60%
<u>Money Market Operations</u>	
Number of loans	0
Total amount of loans	0
% in relation to Equity	0%
<u>Overnight Operations</u>	
Number of loans	0
Total amount of loans	0
% in relation to Equity	0%
<b>II. Maximum amount of credit with the 3 largest debtors and common risk groups:</b>	<b>5,362</b>



### 3. MARKET RISK (Banorte and Casa de Bolsa Banorte)

GFNorte's Market Risk objectives are:

- Adhere to the Desired Profile Risk defined by the Group's Board of Directors.
- Ensure proper monitoring of Market Risk. Keep, in a timely manner, the Senior Management properly informed.
- Quantify the exposure to Market Risk through the use of various methodologies.
- Define the maximum risk levels the Institution is willing to maintain.
- Measure the Institution's vulnerability to extreme market conditions and consider such results in decision making.

GFNorte's Market Risk Policies are:

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

#### 3.1. Scope, Methodologies and Reports for Market Risk

Market Risk Management is controlled through a series of fundamental pillars, highlighting the use of models and methodologies such as potential loss commonly known as "*expected shortfall*", Backtesting and Stress Testing, which are used to measure the risk of traded products and portfolios in the financial markets. Banorte implemented during January 2019 the calculation of expected shortfall, thus replacing the calculation of VaR. In addition, the valuation of derivatives through OIS curves and curves adjusted for collateral was implemented in accordance with international standards.

Risk management is supported by a framework of policies and manuals, which establish the implementation and monitoring of Market Risk limits, the disclosure of risk metrics and their monitoring with respect to the established limits. These policies detail, among other things, the characteristics, capacity, legal aspects, instrumentation issues and degree of coverage that must be considered when compensating or mitigating the risk.

Market Risk management is supported by various information and risk measurement systems, which comply with regulatory standards and are aligned with the international best practices in Risk Management. It is worth mentioning that the information contained in the risk systems as well as the reports generated by them, are continuously backed up following institutional information security procedures.

Key risk ratios are disclosed in monthly reports to the Risk Policy Committee and through a daily report to the Institution's senior executives, in relation to the Market risk-taking.

#### 3.2. Market Risk Exposure Banorte

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

The expected shortfall model is based on a one-day horizon base and takes into account a non-parametric historical simulation with a 97.5% confidence level and 500 historical observations on risk factors, as well as an additional stress scenario. It also takes into account all positions (money market, treasury, equities, FX and derivatives) that are classified as trading assets, both on and off the balance sheet.

The average expected shortfall of the Bank's portfolio for 3Q23 was Ps 69.7 million (Ps 50.2 million lower than the average expected shortfall from the previous quarter).

The result shows that the Bank's expected shortfall, using a 97.5% confidence level, is an average of Ps 69.7 million, as shown in the following table:

Expected Shortfall (Million Pesos)	Average 3Q23
Total Expected Shortfall	69.7
Net Capital	200,547
<b>Expected Shortfall/Net Capital</b>	<b>0.035%</b>

The expected shortfall by risk factor behavior in 3Q23 is detailed in the following table:

Risk Factor (Million Pesos)	3Q23	Average 3Q23
Domestic Rates	36.3	54.2
Foreign Rates	25.8	43.7
Surcharges	61.0	57.2
FX	38.2	25.9
Others	43.0	35.7
Diversification Effect	(138.7)	(146.9)
<b>Bank's Expected Shortfall</b>	<b>65.6</b>	<b>69.7</b>

The expected shortfall for 3Q23 is an average of Ps 65.6 million. The contribution to the Bank's Expected shortfall for each risk factor is shown in the following table:

Risk Factor (Million Pesos)	3Q23	Average 3Q23
Domestic Rates	15.0	37.2
Foreign Rates	3.8	2.0
Surcharges	10.3	6.9
FX	24.8	14.3
Others	11.7	9.3
<b>Bank's Expected Shortfall</b>	<b>65.6</b>	<b>69.7</b>

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

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

Risk Factor	3Q23
Rates	56%
Surcharges	10%
FX	20%
Others	13%

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

With the aim of complementing and reinforcing risk analysis, Banorte carries out tests under extreme conditions known as Stress Testing. The results of these tests are presented to the Risk Policy Committee on a monthly basis with the main objective of assessing the impact of extreme movements in risk factors on the Institution's positions.

### 3.2.2. Backtesting Banorte

In order to validate the effectiveness and accuracy of the expected shortfall, a monthly Backtesting analysis is presented to the Risk Policy Committee. Through this analysis, it is possible to compare the losses and profits observed in relation to the estimated expected shortfall, and if necessary, make the required adjustments to the parameter.

### 3.2.3. Expected Shortfall of Casa de Bolsa Banorte

The average expected shortfall in 3Q23 was Ps 122.5 million, Ps 2.9 million higher in comparison with 2Q23.

The result shows that the potential loss for Casa de Bolsa Banorte, using a 97.5% confidence level, is on average Ps 122.5 million:

Expected Shortfall (Million Pesos)	Average 3Q23
Total Expected Shortfall	122.5
Net Capital	5,154
<b>Expected Shortfall/Net Capital</b>	<b>2.38%</b>

The expected shortfall by risk factor for Casa de Bolsa Banorte portfolio behavior during 3Q23 is:

Risk Factor (Million Pesos)	3Q23	Average 3Q23
Domestic Rates	34.9	44.0
Foreign Rates	0.4	0.5
Surcharges	85.1	84.5
FX	0.7	0.2
Others	6.4	2.1
Diversification effect	(11.4)	(8.9)
<b>Casa de Bolsa Banorte Expected Shortfall</b>	<b>116.1</b>	<b>122.5</b>

The expected shortfall at the end of 3Q23 is Ps 116.1 million.

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

Concentration by Market Risk factor is mainly reflected in interest rates.

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

In addition to the potential losses methodology, with the aim of improving risk analysis, Casa de Bolsa Banorte complements its risk analysis by carrying out 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 of extreme movements on the Institution's positions.

### 3.2.5. Backtesting Casa de Bolsa Banorte

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

## 4. BALANCE AND LIQUIDITY RISK

GFNorte's Balance and Liquidity Risk objectives are:

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

GFNorte's Liquidity Risk Policies:

- Establish specific global limits of Balance and Liquidity Risk Management.
- Measure and monitor Balance and Liquidity Risk.
- Inform and disclose of Liquidity Risk to risk-taking areas, CPR, Board of Directors, Financial Authorities and public investors.

### 4.1. Scope, Methodologies and Report of Balance and Liquidity Risk

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

Balance and Liquidity Risk management is supported by various information and risk measurement systems, which comply with regulatory standards and are aligned with international best practices in Risk Management. It is worth noting that the information contained in the risk systems as well as the reports they generate, are continuously safeguarded in accordance with institutional information security procedures.

### 4.2. Profile and Funding Strategy

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

Funding Source (Million Pesos)	2Q23	3Q23	Change vs. 2Q23
Demand Deposits			
Local Currency <sup>(1)</sup>	578,664	609,435	5.3%
Foreign Currency <sup>(1)</sup>	74,292	76,596	3.1%
<b>Demand Deposits</b>	<b>652,956</b>	<b>686,031</b>	<b>5.1%</b>
Time Deposits – Core			
Local Currency <sup>(2)</sup>	239,856	257,568	7.4%
Foreign Currency	2,826	3,998	41.5%
<b>Core Deposits</b>	<b>895,638</b>	<b>947,597</b>	<b>5.8%</b>
Money Market			
Local Currency <sup>(3)</sup>	50,472	59,528	17.9%
Foreign Currency <sup>(3)</sup>	34,272	34,069	-0.6%
<b>Banking Sector Deposits</b>	<b>980,383</b>	<b>1,041,194</b>	<b>6.2%</b>

1. Includes balance of the Global Deposits without Movement.

2. Includes eliminations among subsidiaries.

### 4.3. Liquidity Coverage Ratio (LCR)

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

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

The following tables shows the average evolution of LCR components in 3Q23.

LCR Components (Million Pesos)	Consolidated Entity	
	Unweighted amount (Average)	Weighted amount (Average)
<b>COMPUTABLE LIQUID ASSETS</b>		
1 Total Computable Liquid Assets	NA	173,129
<b>CASH DISBURSEMENTS</b>		
2 Unsecured retail financing	498,294	31,695
3 Stable financing	362,690	18,135
4 Less stable financing	135,603	13,560
5 Unsecured wholesale financing	384,265	110,780
6 Operational Deposits	293,912	67,546
7 Non-Operational Deposits	89,588	42,468
8 Unsecured debt	766	766
9 Secured wholesale financing	267,293	11,388
10 Additional Requirements:	407,724	31,442
11 Disbursements related to derivatives and other guarantee requirements	15,194	9,083
12 Disbursements related to losses from debt financing	0	0
13 Lines of credit and liquidity	392,530	22,359
14 Other contractual financing obligations	1,306	177
15 Other contingent financing liabilities	0	0
<b>16 TOTAL CASH DISBURSEMENTS</b>	<b>NA</b>	<b>185,482</b>
<b>CASH INFLOWS</b>		
17 Cash Inflows for secured operations	122,056	10,740
18 Cash Inflows for unsecured operations	99,612	71,488
19 Other Cash Inflows	3,990	3,990
<b>20 TOTAL CASH INFLOWS</b>	<b>225,658</b>	<b>86,218</b>
		<b>Adjusted amount</b>
<b>21 TOTAL COMPUTABLE LIQUID ASSETS</b>	<b>NA</b>	<b>173,129</b>
<b>22 TOTAL NET CASH DISBURSEMENTS</b>	<b>NA</b>	<b>99,264</b>
<b>23 LIQUIDITY COVERAGE RATIO</b>	<b>NA</b>	<b>175.26%</b>

LCR Components (Million Pesos)	Bank Stand Alone	
	Unweighted amount (Average)	Weighted amount (Average)
<b>COMPUTABLE LIQUID ASSETS</b>		
1 Total Computable Liquid Assets	<b>NA</b>	<b>173,129</b>
<b>CASH DISBURSEMENTS</b>		
<b>2 Unsecured retail financing</b>	498,294	31,695
3 Stable financing	362,690	18,135
4 Less stable financing	135,603	13,560
<b>5 Unsecured wholesale financing</b>	379,022	108,420
6 Operational Deposits	293,912	67,546
7 Non-Operational Deposits	84,345	40,109
8 Unsecured debt	766	766
<b>9 Secured wholesale financing</b>	267,293	11,388
<b>10 Additional Requirements:</b>	366,587	29,273
11 Disbursements related to derivatives and other guarantee requirements	15,194	9,083
12 Disbursements related to losses from debt financing	0	0
13 Lines of credit and liquidity	351,393	20,190
14 Other contractual financing obligations	1,306	177
15 Other contingent financing liabilities	0	0
<b>16 TOTAL CASH DISBURSEMENTS</b>	<b>NA</b>	<b>180,953</b>
<b>CASH INFLOWS</b>		
17 Cash Inflows for secured operations	122,056	10,740
18 Cash Inflows for unsecured operations	97,515	73,781
19 Other Cash Inflows	3,990	3,990
<b>20 TOTAL CASH INFLOWS</b>	<b>223,561</b>	<b>88,510</b>
		<b>Adjusted amount</b>
<b>21 TOTAL COMPUTABLE LIQUID ASSETS</b>	<b>NA</b>	<b>173,129</b>
<b>22 TOTAL NET CASH DISBURSEMENTS</b>	<b>NA</b>	<b>92,442</b>
<b>23 LIQUIDITY COVERAGE RATIO</b>	<b>NA</b>	<b>188.34%</b>

During 3Q23, the 92-day average LCR for the Consolidated Entity was 175.26% with a 92-day average for the Bank's Stand-Alone LCR of 188.34%, and at the end of 3Q23, the LCR for the Consolidated Entity was 153.37%, while the bank's Stand-Alone LCR for 3Q23 was 165.73%; the aforementioned levels are above the Risk Appetite and the regulatory minimum standards. These results show that Banorte can meet all of its short-term obligations in a crisis scenario<sup>3</sup>.

<sup>3</sup> The Liquidity Coverage Ratio information is preliminary and is subject to Banco de Mexico's validation.

#### 4.4. Evolution of LCR Components

The evolution of the LCR components comparing 2Q23 and 3Q23 is presented in the following table:

LCR Component (Million Pesos)	2Q23	3Q23	Var. vs. 2Q23
Liquid Assets	145,122	187,352	29.1%
Cash Inflows	95,443	64,227	(32.7%)
Cash Outflows	179,396	186,387	3.9%

The Liquid Assets that compute in the LCRs for the Bank and Sofomes between 2Q23 and 3Q23 are distributed as follows:

Type of Asset (Million Pesos)	2Q23	3Q23	Var. vs. 2Q23
<b>Total</b>	<b>145,122</b>	<b>187,352</b>	<b>29.1%</b>
Level I	139,454	180,888	29.7%
Level II	5,668	6,464	14.0%
Level II A	2,726	3,540	29.9%
Level II B	2,942	2,923	(0.6%)

#### 4.5. Main Causes of LCR Results

The changes in the Liquidity Coverage Ratio between 2Q23 and 3Q23 are the result of the increase in wholesale deposits, offset by the increase in available liquidity due to the issuances during the quarter, portfolio origination and the liquidity inherent to the aforementioned growth in deposits.

It is worth noting that Banorte has not used the Ordinary Facilities or the Extraordinary Facilities of Banco de México during 3Q23.

#### 4.6. Exposure to Derivatives and possible Margin calls

Banorte applies the regulatory methodology to determine potential cash outflows for derivatives. At the end of 3Q23, the estimated outflows for derivatives were as follows:

Derivatives Cash Outflows (Million Pesos)	2Q23	3Q23	Var. vs. 2Q23
Net cash outflows at market value and for potential future exposure	6,751	6,751	0.0%
Cash outflows for a 3-notch credit rating downgrade.	0	0	0.0%

The assessment shows that potential outflows for derivatives may represent a liquidity requirement of up to Ps 6.75 billion, stable compared to 2Q23.

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

The NSFR is an indicator that should be interpreted as the proportion between the Available Stable Financing, made up of internal and external resources that are considered reliable over a time horizon, and the Required Stable Financing, made up of liquidity, asset maturities and off-balance sheet positions.



The following tables present the average evolution of NSFR components in 3Q23:

NSFR  (Million Pesos)		Consolidated Entity				
		Unweighted value by residual maturity				Weighted Value
		No Maturity	< 6 months	6 months to < 1 year	> 1 year	
<b>Available Stable Funding Items</b>						
1	Capital:	203,976	0	0	0	203,976
2	<i>Regulatory Capital</i>	203,976	0	0	0	203,976
3	<i>Other capital instruments</i>	0	0	0	0	0
4	Retail deposits and deposits from small business customers:	0	582,503	1,632	175	546,525
5	<i>Stable deposits.</i>	0	411,778	795	109	392,053
6	<i>Less Stable deposits</i>	0	170,725	838	66	154,472
7	Wholesale funding:	0	707,074	4,099	66,569	395,742
8	<i>Operational deposits</i>	0	48,691	0	0	24,346
9	<i>Other wholesale funding</i>	0	658,383	4,099	66,569	371,397
10	Liabilities with matching interdependent assets	0	1,398	263	8,207	0
11	Other liabilities	13,498		30,456		12,927
12	<i>NSFR derivative liabilities</i>	NA		0		NA
13	<i>All other liabilities and equity not included in the above categories</i>	13,498	6,103	22,852	1,501	12,927
<b>14</b>	<b>Total Available Stable Funding</b>	NA	NA	NA	NA	<b>1,159,170</b>
<b>Required Stable Funding Items</b>						
15	Total NSFR high-quality liquid assets (HQLA)	NA	NA	NA	NA	68,970
16	Deposits held at other financial institutions for operational purposes	0	1,490	0	0	745
17	Performing loans and securities:	0	303,788	77,291	681,480	678,614
18	<i>Performing loans to financial institutions secured by Level 1 HQLA</i>	0	108,200	1,867	0	11,753
19	<i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i>	0	21,564	8,443	10,341	17,797
20	<i>Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:</i>	0	151,527	61,828	430,564	451,208
21	<i>With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk</i>	0	49,824	14,445	107,244	101,843
22	<i>Performing residential mortgages, of which:</i>	0	7,113	4,552	226,752	177,392
23	<i>With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk.</i>	0	3,108	1,568	105,901	71,174
24	<i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i>	0	15,384	602	13,824	20,464
25	<i>Assets with matching interdependent liabilities</i>	0	1,398	263	8,207	0
26	Other assets:	46,251		720,379		102,102
27	<i>Physical traded commodities, including gold</i>	10	NA	NA	NA	8
28	<i>Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs</i>	NA		2		2
29	<i>NSFR derivative assets</i>	NA		40,968		8,603
30	<i>NSFR derivative liabilities before deduction of variation margin posted</i>	NA		440,920		2,139

31	<i>All other assets not included in the above categories</i>	46,241	227,609	32	10,847	91,349
32	Off-balance sheet items	NA		423,184		21,159
<b>33</b>	<b>Total Required Stable Funding</b>	NA	NA	NA	NA	871,590
<b>34</b>	<b>Net Stable Funding Ratio (%)</b>	NA	NA	NA	NA	<b>132.99%</b>

NSFR  (Million Pesos)		Stand-Alone				
		Unweighted value by residual maturity				Weighted Value
		No Maturity	No Maturity	No Maturity	No Maturity	
<b>Available Stable Funding Items</b>						
1	Capital:	203,976	0	0	0	203,976
2	<i>Regulatory Capital</i>	203,976	0	0	0	203,976
3	<i>Other capital instruments</i>	0	0	0	0	0
4	Retail deposits and deposits from small business customers:	0	582,503	1,632	175	546,525
5	<i>Stable deposits.</i>	0	411,778	795	109	392,053
6	<i>Less Stable deposits</i>	0	170,725	838	66	154,472
7	Wholesale funding:	0	689,899	3,580	63,727	384,499
8	<i>Operational deposits</i>	0	48,691	0	0	24,346
9	<i>Other wholesale funding</i>	0	641,208	3,580	63,727	360,154
10	Liabilities with matching interdependent assets	0	1,398	263	8,207	0
11	Other liabilities	13,498		30,456		12,927
12	<i>NSFR derivative liabilities</i>	NA		0		NA
13	<i>All other liabilities and equity not included in the above categories</i>	13,498	6,103	22,852	1,501	12,927
<b>14</b>	<b>Total Available Stable Funding</b>	NA	NA	NA	NA	1,147,927
<b>Required Stable Funding Items</b>						
15	Total NSFR high-quality liquid assets (HQLA)	NA	NA	NA	NA	68,970
16	Deposits held at other financial institutions for operational purposes	0	1,490	0	0	745
17	Performing loans and securities:	0	289,719	74,545	672,964	661,233
18	<i>Performing loans to financial institutions secured by Level 1 HQLA</i>	0	108,200	1,867	0	11,753
19	<i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i>	0	28,998	8,755	16,128	24,855
20	<i>Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:</i>	0	130,023	58,770	416,260	426,769
21	<i>With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk</i>	0	49,824	14,445	107,244	101,843
22	<i>Performing residential mortgages, of which:</i>	0	7,113	4,552	226,752	177,392
23	<i>With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk.</i>	0	3,108	1,568	105,901	71,174
24	<i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i>	0	15,384	602	13,824	20,464
25	<i>Assets with matching interdependent liabilities</i>	0	1,398	263	8,207	0

26	Other assets:	46,251		766,620		102,102
27	<i>Physical traded commodities, including gold</i>	10	NA	NA	NA	8
28	<i>Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs</i>	NA		2		2
29	<i>NSFR derivative assets</i>	NA		40,968		8,603
30	<i>NSFR derivative liabilities before deduction of variation margin posted</i>	NA		440,920		2,139
31	<i>All other assets not included in the above categories</i>	46,241	227,609	32	10,847	91,349
32	Off-balance sheet items	NA		381,036		19,052
<b>33</b>	<b>Total Required Stable Funding</b>	NA	NA	NA	NA	852,102
<b>34</b>	<b>Net Stable Funding Ratio (%)</b>	NA	NA	NA	NA	<b>134.72%</b>

During 3Q23, the NSFR for the Consolidated Entity had a 92-days quarterly average of 132.99%, while the bank's quarterly average stand-alone NSFR was 134.72%, with an end of quarter consolidated entity NSFR of 133.03%; forementioned levels are above the Risk Appetite and the regulatory minimum standards. Such levels show that Banorte has the stable funding required for its assets and off-balance sheet items.

#### 4.8. Evolution of NSFR Components

The evolution of the components of the Net Stable Funding Ratio from 2Q23 to 3Q23 is shown in the following figure.

	2Q23			3Q23			Change		
	Available Stable Funding	Required Stable Funding	NSFR	Available Stable Funding	Required Stable Funding	NSFR	Available Stable Funding	Required Stable Funding	NSFR
< 6 months	1,046,181	224,240		1,098,585	222,276		5.0%	-0.9%	
From 6 months to < 1 year	20,825	51,423		15,304	37,333		-26.5%	-27.4%	
> 1 year	73,106	576,151	<b>133.8%</b>	52,599	617,246	<b>133.0%</b>	-28.1%	7.1%	-0.6%

#### 4.9. Main Causes of NSFR Results

The solid levels of the Net Stable Funding Ratio are supported not only by the strength of Banorte's Tier 1 capital, reinforced by a strong long-term funding structure derived from the issuance of subordinated debt, but also, by the stability of customer deposits, which allow a natural coverage of asset balance, from high-quality liabilities.

#### 4.10. Liquidity Risk in foreign currency

In order to quantify and monitor the liquidity risk, in the specific case of the foreign currency denominated portfolio, Banorte uses the criteria established by the Banco de México for the assessment of the foreign currency Liquidity Coefficient.

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

#### 4.11. Liquidity Gaps

As part of the Bank's liquidity analysis, 30-day liquidity gaps are analyzed for the institution's assets and liabilities (obligations). The results for the Bank at the end of 3Q23 are shown in the following table:

Concept (Million Pesos)	2Q23	3Q23	Var. vs. 2Q23
Cumulative 30-day Gap	(123,167)	(4,297)	(96.5%)
Liquid Assets	144,209	186,423	29.3%

The mismatch between inflows and outflows (gaps) for the next 30 days is covered by liquid assets. In addition, a more granular breakdown of the liquidity gaps is presented, remaining as follows for 3Q23:

Concept (Million pesos)	1 day	7 days	1 month	3 months	6 months	12 months
Natural Gap	(4,609)	20,590	(20,278)	34,176	35,358	57,221
Accumulated Gap	(4,609)	15,981	(4,297)	29,879	65,237	122,458

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

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

#### 4.13. Contingency Funding Plan

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

#### 4.14. Balance Risk

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

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

##### 4.14.1. Financial Margin Sensitivity

Financial Margin sensitivity is a static metric that considers a twelve-month period. Only the bands with a duration of less than 1 year are affected by stimulated interest rate fluctuations. Relevant considerations behind margin sensitivity calculations are:

- Consideration of repricing outcomes for all financial assets and liabilities on the balance sheet.
- Separate trading book surveillance.
- Considers the behavior for all balance sheet models, such as mortgage prepayments and deposit survival.
- The balance sheet is considered static and constant over time. It does not take into account organic growth, interest rate structure, or product mix changes or strategies.

The following table shows the Financial Margin Sensitivity for Banorte Bank:

Margin Sensitivity (Million Pesos)	2Q23	3Q23	Change vs. 2Q23
Local Currency Balance	865	650	(24.9%)
Foreign Currency Balance	1,018	880	(13.6%)

At the end of 3Q23, the local currency balance sensitivity for a 100bps shift in reference rates, changed from Ps 865 million in 2Q23 to Ps 650 million. The foreign currency balance sensitivity for a 100bps shift in reference rates changed from Ps 1,018 million to Ps 880 million. It is important to highlight that the Financial Markets positions immunize, via intermediation results, the impact of lower rates on the Balance. The Available for Sale portfolio had a balance of Ps 149.88 billion at the end of 3Q23, with an average balance of Ps 140.06 billion.

#### 4.14.2. Economic Value of Equity

The economic value of Equity (EVE) is a long-term economic measure that contrasts the difference in the present value of assets and the present value of liabilities, under different interest rate scenarios. This measure also considers the previously mentioned assumptions for the sensitivity of the financial margin.

The following table shows the economic value of equity for Banco Banorte, in a parallel scenario of +100 bps.

Economic Value of Equity (Bsp)	3Q23
Generalized Increase	185

#### 4.15. 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. In order 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 Casa de Bolsa Banorte, 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 3Q23.

Liquidity Ratio (Million Pesos)	Casa de Bolsa Banorte	Arrendadora y Factor Banorte
Cumulative 30 days Gap	5,347	(446)
Liquid assets	5,254	42

## 5. OPERATIONAL RISK

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

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

The objectives of Operational Risk Management are to:

- a) Enable and support the organization in achieving its institutional objectives through prevention and management of operational risks.
- b) Ensure that the existing operational risks and the required controls are properly identified, assessed, and aligned with the organization's risk strategy.
- c) Ensure that operational risks are properly quantified in order to adequately allocate capital by Operational Risk.

### 5.1. Policies, Objectives and Guidelines

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

The Operational Risk Management Directors maintain close communication and coordination with the Regulatory Comptrollership in order to facilitate effective Internal Control in which proper procedures and controls are established to mitigate Operational Risk between processes and are monitored by the Internal Audit Department.

The Regulatory Comptrollership, as part of the Internal Control System, carries out the following activities to mitigate risk:

- a) Validation of internal controls.
- b) Management and control of Institutional regulations.
- c) Monitoring of the operating processes' internal control by means of control indicators reports, that are reported by the process comptrollers in the various areas.
- d) Money Laundering Prevention process management.
- e) Control and monitoring of the regulatory provisions.
- f) Analysis and assessment of the operating processes and projects with the participation of the responsible Directors for each process in order to ensure adequate internal control.

### 5.2. Quantitative and Qualitative Measuring Tools

#### 5.2.1. Operational Losses Database

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

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

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

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

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

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

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

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

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

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

An internal system called “Legal Risk Issues Monitoring System” (SMARL by its acronym in Spanish) has been developed to record and monitor legal, administrative and tax issues that may arise as a result of adverse ruling. This system enables the central data supplying areas to directly and online record such events, which are then classified by company, sector and legal issue, among others.

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

### **5.3. Risk Management Model**

GFNorte achieves its defined objectives, through various plans, programs and projects. Compliance with such objectives may be adversely affected due to operational risks, therefore it is imperative to provide a methodology for managing them within the organization. Consequently, Operational Risk Management is now an institutional policy defined and supported by senior management.

To perform Operational Risk Management, each of the operational risks involved in the processes must be identified in order to analyze them. In this regard, the risks identified by the Regulatory Comptrollership with the support of Process Comptrollership, are processed in order to eliminate or mitigate them (seeking to reduce their severity or frequency), and if applicable, define tolerance levels.

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

In accordance with the current Capitalization for Operational Risk Regulations, the Institution has adopted the Business Indicator Method, which is estimated and reported periodically to the authorities.

### **5.5. Information Systems, Measurement and Reporting of Operational Risk**

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

Operational Risk management is supported by various information and risk measurement systems, which comply with regulatory standards and are aligned with the best international practices in Risk Management. It is worth mentioning that the information contained in the risk systems as well as the reports generated by them, are continuously backed up following institutional information security procedures.

### **5.6. Technology Risk**

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

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

The functions established by the CNBV (Comisión Nacional Bancaria y de Valores) for Technology Risk Management are performed by the Institution under the regulatory and Integrity Committee guidelines.

To address the Operational 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 of the above, cover 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 resulting from non-compliance with the applicable legal and administrative provisions, the issuance of indisputable unfavorable court rulings, and the application of penalties related to the operations performed by the Institution.

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

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

## **6. SECURITIZATIONS PERFORMED BY GFNORTE**

The primary objective of the Group's securitization operations, is to transfer risks and benefits of certain financial assets to third parties.

GFNorte has carried out the following securitization:

- On October 11<sup>th</sup>, 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, since the conditions for the risk 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 for ensuring that each of the assigned loans meet the eligibility criteria at the time of their respective allocation. If the fiduciary, the common representative or the financial guarantor identify any non-eligible loans, they may require Banorte to replace such loan or if replacement is not possible, to make payment for the "non-replaced ineligible loan" in question. If Banorte identifies any non-eligible loan, it must be notified and replaced or make the corresponding payment.

The Institution's Board of Directors does not have pre-determined policies for the issuance of securitizations; authorization for any new issuance must be requested.

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

There are several risk factors associated with securitizations that may affect the trust's assets. If these risks materialize, payment to market certificates' holders could be adversely affected. The main risks to which these financial instruments are exposed to are credit, market, liquidity, and operational risk, as described in the previous sections.

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



Banorte is the settlor and trustee of trusts for the conducted securitizations. At the same time, it acts as underwriter on each issue, offering bonds to investors. Additionally, the Institution also performs the duties of administrator in each of the trusts.

As of September 30<sup>th</sup>, 2023 GFNorte does not have any 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%

The ratings assigned by each rating agency as of the end of the quarter for each market certificate issued by the aforementioned trust are as follows:

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

As of September 30<sup>th</sup>, 2023 the amounts of the underlying assets of the securitization were as follows:

Securitization (Million pesos)	Amount		
	Performing	Non-performing	Total
97_FCASACB_06U	Ps 54	Ps 97	Ps 152

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

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

### 6.1 Applied Accounting Policies

All securitization operations conducted by the Institution were recognized as sales in accordance with criterion C-1 *Recognition and Disposal of Financial Assets*. 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 indicates that the entity substantially transfers all the risks and benefits inherent with ownership of the financial assets. Registration of profits from sales conforms to the provisions in paragraph 31 of criterion C-1, which states:

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

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

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

- Non-compliance rate: cash flows to be received from loan portfolios are adjusted by a determined percentage of the outstanding portfolio amount that is estimated to fall into non-compliance. That percentage is estimated

- using historical performance information of this portfolio. This percentage is applied to flows greater than 12 months.
- 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 fiduciary, the common representative, the placement agent, the guarantor or guarantors in the case, or anyone else. The stock certificates have not been guaranteed or endorsed by any of the persons involved in the issuance therefore none of them are obligated to make payments to the certificate holders, except for the fiduciary, whose payments may be charged to the fiduciary's account in accordance with the trust agreement.

## 7 POSITION IN SHARES

At the end of 3Q23, Banco Mercantil del Norte held shares for an amount of Ps 758.9 million, with gains of Ps 375.8 million accumulated.

During the third quarter of the year, there were no gains from the purchase and sale of securities.

The capital requirement for Market Risk was Ps 227.47 million.

Institution	Type of Trading	Accounting Classification	Capitalization Treatment	Market Value 3Q23	Gains / Losses Cumm.	Profit / Loss Sales / Purchases
Banorte	Public Trading	Negotiation	Market Risk	5.2	(51.2)	0
Banorte	Public Trading	Negotiation	Capital Deduction	199.5	98.9	0
Banorte	w/o Public trading	Negotiation	Market Risk	552.9	327.8	0
Banorte	w/o Public trading	Negotiation	Market and Credit Risk	1.3	0.3	0
			<b>Total</b>	<b>758.9</b>	<b>375.8</b>	<b>0</b>

As of 3Q23 a position of Ps 631.5 million is held in Casa de Bolsa Banorte with cumulative gains of Ps 221.6 million.

During the quarter, there were gains of Ps 3.59 million from purchases and sales of securities.

Regarding Market Risk Capital Requirement, the amount was Ps 189.44 million of the total position in shares of Banorte.

Institution	Type of Trading	Accounting Classification	Capitalization Treatment	Market Value 2Q23	Gains / Losses Cumm.	Profit / Loss Sales / Purchases
Casa de Bolsa Banorte	Public	Negotiation	Market Risk	559.4	263.1	3.14
			<b>Total</b>	<b>559.4</b>	<b>263.1</b>	<b>3.14</b>

## APPENDIX

### 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, GFNorte 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 (excluding states, municipalities and financial entities), and individuals (sole proprietorships), both with annual sales greater than or equal to 14 million UDIs.

The methodology used by the Institution for estimating parameters and calculating capital and reserves includes two approaches: IRB for capital calculation and IFRS9 for reserves calculation, based on the guidelines established by the banking regulator CNBV (Comisión Nacional Bancaria y de Valores by its acronym in Spanish), 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 and Annex 15 BIS.

According to these guidelines (CUB and its Annex 15 and Annex 15 BIS), it is necessary to carry out at least every 18 months 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 (Comisión Nacional Bancaria y de Valores) to use Internal Models (IM) for credit card rating for reserves and regulatory capital calculation by credit risk with an Advanced Approach (Document 111-3/706/2017). 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 January 19, 2021 (Document 111-2/155/2021). In view of the regulatory changes in place since January 1, 2022, the Internal Model for capital requirements was re-certified on December 17, 2021 (Document 111-2/272/2021) and the use of the Internal Model for reserves constitution based on NIF-C16 was approved by the Board of Directors in October 2021. The Internal Model for capital requirements was re-certified for an 18 month period on December 15, 2022 (Document 111-2/948/2022) and the use of the Internal Model for reserves constitution based on NIF-C16 was approved for an 18-month period by the Board of Directors in October 2022.

Likewise, on November 30th, 2018, GFNorte received authorization from the banking regulator CNBV (Comisión Nacional Bancaria y de Valores) to use the Internal Model (IM) for Commercial Loans for 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). In view of the regulatory changes in place since January 1, 2022, in Banorte, the Internal Model for capital requirements was re-certified on December 17, 2021 (Document 111-2/269/2021) and the use of the Internal Model for reserves generation based on NIF-C16 was approved by the Board of Directors in October 2021. For Arrendadora y Factor, the Internal Model for capital requirements was re-certified on December 17, 2021 (Document 111-2/267/2021) and the use of the Internal Model for reserves constitution was approved by the Board of Directors in July 2021. The Internal Model for capital requirements was re-certified for an 18-month period on December

15, 2022 (Document 111-2/938/2022)) and the use of the Internal Model for reserves generation was approved by the Board of Directors in July 2022. For Arrendadora y Factor, the Internal Model for capital requirements based on NIF-C16 was re-certified on December 17, 2021 (Document 111-2/939/2022) and the use of the Internal Model for reserves constitution based on NIF-C16 was approved by the Board of Directors in July 2022. The period of use for the reserve model is also for 18 months.

Subsequently, on November 25, 2019, GFNorte received approval from the banking regulator (Comisión Nacional Bancaria y de Valores) to use Internal Models (IM) for Auto Loans for reserves and regulatory capital calculation by credit risk with an Advanced Approach (Document 111/678/2019). The models were re-certified on September 30, 2020 (Document 111-2 / 085/2020) and September 29, 2021 (Document 111-2/243/2021). Given the changes in the regulation in place since January 1, 2022, the Internal Model for capital requirements was re-certified on September 28, 2022 (Document 111-2/917/2022) and the use of the Internal Model for reserves constitution was approved by the Board of Directors in July 2022 for an 18-month period.

Subsequently, on July 27, 2023, GFNorte received approval from the banking regulator (Comisión Nacional Bancaria y de Valores) to use the Internal Model for capital requirements for Mortgages Loans (Document 111-2/1628/2023) and the use of the Internal Model for reserves constitution based on NIF-C16 was approved for an 18-month period by the Board of Directors in April 2023.

### **3. Internal Models Implementation**

In October 2016, the Board of Directors approved the implementation plan for the Internal Models for estimating reserves and capital requirements, on all applicable portfolios, which was dispatched to CNBV in the same year. In accordance with this implementation plan, the models for the Credit Card, Commercial Loans and Auto Loans portfolios were certified.

At the end of 2018, the CNBV released the project to migrate Standard and Internal Methodologies under the IFRS9 approach, but it was not until March 2020 that the definitive rule for Internal Methodologies of reserves based on NIF C-16 (IFRS9), effective as of January 2021, was published in the Federation Official Journal (DOF by its acronym in Spanish). However, due to the COVID-19 pandemic, the CNBV issued a communiqué in April 2020 stating that the rule would be effective as of January 2022.

Therefore, GF Banorte complied with the new regulation and adopted the Internal Reserve Methodologies based on NIF C-16, for which the Risk Policies Committee (CPR by its acronym in Spanish) and the Board of Directors were requested in April 2021 to approve the new Implementation Plan (Capital and Reserves), which was authorized by the CNBV in January 2022 through Document 111-2/852/2022.

### **4. Internal Models Statements**

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

The Internal Models allow for a comprehensive credit risk management, taking into account 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.

#### **4.1.1. 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 according with the General Provisions Applicable to Credit Institutions described in the Single Bank Circular (Circular Única de Bancos CUB).

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

#### **4.1.2. Coverage Management Process**

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

#### 4.1.3. 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.

The following independent areas are engaged in the Control processes for Rating Systems:

- 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's 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 and Technical Evaluation in accordance with Section XII of Annex 15 BIS, and Fraction II of Article 139 Bis 3 of the CUB.
- Support areas: All the areas involved throughout the different stages of the project, such as Planning, Certification Office, Risks, Audit and Comptroller, among others.

### 5. Internal Rating Process

GF Banorte uses Internal Rate Based Methodologies for Capital Calculation (IRB) and IFRS9 for Reserves Calculation (in Mexico NIF-C-16), which includes the following approaches:

- Capital Calculations includes a long-term estimation Through the Cycle, according to Annex 15 in CUB.
- Reserves Calculations considers the current behaviors "Point in Time", PIT and future macroeconomic expectations, according to Annex 15 BIS in CUB. Additionally, the portfolio must be classified into 3 risk stages.

#### 5.1.1. Commercial Loans

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

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

$$EL = PD * SL * EAD$$

The Regulatory capital for credit risk is estimated according to the formula established in Article 2 BIS 71 of the CUB, using the PI determined under the Internal Models and the other parameters using the standard methodology.

#### 5.1.2. Credit Cards Portfolio

In the Credit Card portfolio, the Rating System scale allows the Institution to better manage credit risk 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.

The 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.

The Regulatory capital for credit risk is estimated according to the formula established in Article 2 BIS 83 of the CUB, using the parameters determined by the Internal Models.

#### 5.1.3. Auto Loans Portfolio

The scale of the Rating System for the Auto portfolio allows Banorte to own an efficient credit risk management that takes into account the actual risk, in order to continuously monitor 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.

The 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.

The Regulatory capital for credit risk is estimated in accordance with the formula established in Article 2 BIS 83 of the CUB, using the parameters determined by the Internal Models.

## **6. Internal Models' Variable Estimation**

### **6.1.1. Probability of Default**

The Probability of Default (PD) shows the likelihood that a borrower will default on its contractual obligations within twelve months starting after the month being rated. Default is defined as loans that are 90 or more days past-due. In the case of Corporations, a materiality criterion is applied, which consists on recording 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 to obtain a score, which is mapped to a master rating measuring risk level.

### **6.1.2. Loss Given Default**

Loss Given Default. Measures the intensity of the loss upon default expressed as a percentage of the Exposure at Default (EAD), after considering the 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.

### **6.1.3. 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 specific 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.