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2020 FINANCIAL STATMENTS

GRUPO FINANCIERO BANORTE

CONTENTS

AUDIT AND CORPORATE PRACTICES COMMITTE ANNUAL REPORT

Mexico City, March 25, 2021.

To the Board of Directors of Grupo Financiero Banorte, S.A.B. de C.V.

In accordance with the provisions of Articles 58 of the Law to Regulate Financial Groups, 43 of the Securities Market Law and 33 of the General Provisions Applicable to the Holding Companies of Financial Groups, all of which regulate External Audit services of basic financial statements and were issued by the respective national supervisory authorities, the Audit and Corporate Practices Committee (the Committee) hereby presents its annual report of activities for fiscal year 2020.

The content of this report refers to Grupo Financiero Banorte (GFNorte) and the following relevant entities: Banco Mercantil del Norte, S.A., Banorte Ahorro y Previsión S.A. de C.V., Casa de Bolsa Banorte, S.A. de C.V, Arrendadora y Factor Banorte, S.A. de C.V. Sofom ER, Seguros Banorte, S.A. de C.V. and Pensiones Banorte, S.A. de C.V.

I. The Audit:

a) With respect to our assessment of the status of the Internal Control System (ICS) of GFNorte and its relevant entities, the Committee remained in continuous communication with Management and was supported by reports received from the Comptrollership and Internal Audit areas as well as the Independent External Auditor, particularly the following:

1. Annual reports of the Chief Executive Officers of the relevant entities regarding their activities in the matter of Internal Control.

2. Report's of the activities of the Internal Comptrollers of the relevant entities containing their opinion on the functioning of the ICS, and reports on the results of any inspection visits made by the Regulatory Authorities with the chief observations made by them and corrective measures taken.

3. Management reports of the Internal Auditors with the results of their reviews, the main findings of those reviews and progress made toward the corrective measures taken, as well as their opinion on the effectiveness of the ICS.

4. Reports of the Independent External Auditors, including their opinion on the basic financial statements and the chief observations made as a result of their evaluation of the ICS.

5. We have also taken into account the opinions of the Statutory Auditors, the quarterly reports and minutes from meetings of the Audit Committees of the relevant entities.

Taking into consideration the aforementioned elements, in the opinion of the Committee, the ICS of GFNorte and its relevant entities functions, in general, effectively, and any deficiencies, discrepancies or aspects that require improvement correspond to isolated issues that were addressed or for which corrective measures are in place.

As regards the operation of Internal Auditing, the Committee ensured that it maintained its independence and complied reasonably with the work program authorized, performing its activities in accordance with best practices, including following up on the implementation of any measures necessary to address any observations made.

b) During the last quarter of the year, the National Banking and Securities Commission conducted its ordinary 2020 inspection visit of Banco Mercantil del Norte, and at its conclusion informed the Bank of its preliminary results, placing particular emphasis on observations regarding Selling Practices, calculation of the Capital Adequacy Index and Data Security aspects, all of which will be formally communicated in the corresponding notices.

c) During the fiscal year there were no investigations in connection with non-compliance with operating and bookkeeping guidelines and policies at GFNorte or its relevant entities.

d) With regard to the Independent Auditing Firm and the Independent Auditor who examined the basic financial statements, the Committee ascertained that these had the personal and professional qualifications and met the required standards of independence provided for in the Regulation, and obtained the Firm's statement regarding compliance with the quality control standard corresponding to the audited fiscal year.

   The Committee ensured the sufficiency of the resources proposed for conducting the external audit program, verified the knowledge and professional experience of the Independent External Auditor, the Manager and the person in charge of the audit, presented this cost for approval by the Board of Directors and participated in a review of the terms of this assignment.

   In the opinion of the Committee, the Independent Auditing Firm and the Independent Auditor and personal who participated in the audit of the basic financial statements maintained their independence, conducted their work in accordance with the work plan presented, applying best practices and with constant communication, and their reports, opinions and statements are of quality and useful to support this Committee.

e) During the fiscal year the Committee recommended that the following complementary and additional services be en gaged with the External Auditor, and ensured that these did not compromise its independence: work relating to the issuance programs of perpetuity bonds, structured bank bonds, warrants and securities certificates, vulnerability tests of critical applications, and the review of transfer prices, local taxes and the sustainability report.

   These services were supplied in keeping with the agreed-upon objectives and scope, the personnel assigned were sufficient to the task and with the appropriate skills and experience in keeping with its complexity; the results were delivered on the agreed-upon dates, and the teams remained in constant communication with Management.

f) The Committee reviewed the audited financial statements as of December 31 2020 together with Management and the Independent External Auditor, and the latter confirmed that it had carried out its work according to the plan presented, applied procedures to the areas of risk or significance identified that were sufficient to cover them, and that the audit provided a reasonable and consistent basis for his opinion.

As a result of this review, the Independent External Auditor concluded that there are no key audit issues that must be communicated, and issued an opinion without exceptions, noting that there were no deficiencies in his assessment of the Internal Control System nor need for substantive procedures or evaluation of other matters.

g) Modifications were approved to the accounting policies regarding investment in the Core Bancario technological platform, which went from an Intangible Asset to a Fixed Asset.

h) During the fiscal year there were no relevant observations regarding the shareholders, board members, senior officers or outside parties regarding the accounting, internal controls, internal or external audit or irregularities on the part of Management. In accordance with best practices, there is a channel for filing complaints and reports and the Committee is informed of them and of how they were duly addressed.

II. Corporate Practices:

a) In accordance with the reports received from the Comptrollership and Internal Audit areas, the Independent External Auditor and the results of inspection visits by the Authorities during the fiscal year, there were no observations regarding the performance of Senior officers, which was reflected in the evaluation by the Human Resources Committee when it approved the payment of deferred compensation.

b) Transactions with related parties were approved by the Board of Directors as follows: as of December 31, 2020, loans granted through Banco Mercantil del Norte totaled Ps. 14.84 billion, which is below the limit established by the applicable regulations, and inter-company transfers were performed at market prices, as verified by the Independent External Auditor, who reported no findings on this matter.

c) With regard to the compensation paid to the Chief Executive Officer and other members of Senior officers, there is a Compensation System approved by the Board of Directors which divides such compensation into ordinary and extraordinary, and includes rules for deferring payment of the later based on an evaluation of risk indicators established over a three year horizon.

As a result of the review by the Internal Audit area, it was determined that the abovementioned Compensation System was applied consistently and without exceptions, the changes in the weighting of its components was not the results of unexpected losses, and no significant aspects were identified that would affect the liquidity, solvency and stability of GFNorte and its relevant entities.

d) During the fiscal year, the Board of Directors did not grant any dispensation to any directors or relevant senior officers to take advantage of any business opportunities.

e) Neither the Shareholders' Meeting nor the Board of Directors requested that the Committee follow upon any resolution in particular.

f) Among other relevant activities, the Committee wishes to make special note of its follow-up on measures taken to protect personnel and customers during the COVID-198 pandemic, the implementation of actions to address the economic consequences of the pandemic, and the management of risks inherent to changes in processes to allow personnel to work remotely.

The Committee followed up on actions taken to strengthen the Internal Control System of the Trust area, to address areas of opportunity identified n the review of loans to suppliers of state-owned enterprises in the Infrastructure Credit area and the results of the credit reviews of Banco Mercantil del Norte and Arrendadora y Factor Banorte by specialized suppliers, with am emphasis on the effects of the current economic situation on the selective loan portfolio.

Management presented its strategic plans for the Banorte-Rappi alliance, the development of digital channels and media for service provision and what is called “Open Banking,” and follow-up was given to the current situation of the alliance with IBM to support a significant portion of technology services.

Before closing this Report, we would like to extend our gratitude to Mr. Héctor Reyes Retana y Dahl, who presided over this Committee since 2012, whose commitment and leadership in this position significantly contributed to strengthening the Corporate Governance of GFNorte, and who shall always be present in our thoughts and in our hearts.

Very truly yours,

Thomas S. Heather Rodríguez
Member of the Auditing and Corporate Practices Committee
Grupo Financiero Banorte, S.A.B. de C.V.

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF

Grupo Financiero Banorte, S.A.B. de C.V.

Opinion

We have audited the consolidated financial statements of Grupo Financiero Banorte, S.A.B. de C.V. and its subsidiaries (the Holding Company), which comprise the consolidated statement of financial position as of December 31, 2020 and 2019, the consolidated statements of income, the consolidated statements of changes in stockholders' equity and the consolidated statements cash flows for the years ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Holding Company as of December 31, 2020 and 2019, have been prepared, in all material respects, in accordance with the accounting criteria established by the National Banking and Securities Commission (the Commission) through the "General Provisions applicable to Holding Companies of Financial Groups subject to the Supervision of the National Banking and Securities Commission" (the Accounting Criteria).

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISA's). Our responsibilities under those standards are further described in the *Independent Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Holding Company in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* (IESBA Code) together with the Code of Ethics issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit matters, which should be communicated in our report.

- **Preventive estimates for credit risks (See notes 4 and 11 to the consolidated financial statements)**

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

In addition, arising from the uncertainty surrounding credit risk and the global and national economic environment caused by the COVID-19 pandemic, the Holding Company administration decided to constitute additional reserves, these reserves are based on the projection of certain credit indicators such as risk cost, overdue portfolio index, punishments, default rates and overdue portfolio coverage.

A key audit matter has been considered due to the importance of the book value of the credit portfolio and its corresponding preventive estimates for credit risks, and because the process for determining the estimate is complex and requires consideration of the integrity and accuracy of the source information used, in addition to updating each of the credit risk factors mentioned above in the calculations of those estimates. Due to the nature of the additional reserves and because the constitution of the reservations depends on estimates and assumptions used by the administration, there may be a risk in determining them.

Our audit procedures to cover this key audit matter included:

a) Test the design and implementation, and operational effectiveness of the relevant controls regarding the valuation of the Preventive Estimate for credit risks of the Holding Company.

b) Recalculate the estimate for portfolio valuation considering the appropriate methodologies used, historical and up-to-date risk factors, the inputs used and their supporting documentation, the special accounting criteria to support bank debtors and validate the correct accounting record.

c) Our tests were developed with the involvement of our team of Regulatory Compliance specialists, who ensured that the models for determining the preventive estimates used by the Holding company were in accordance with the models stipulated by the Commission.

d) Test, in conjunction with our team of specialists, the reasonableness of the additional reserves recorded to recognize the loss of value of your future credit portfolio that is not yet covered by the STANDARD CNBV methodology, by testing the reasonableness of assumptions, verifying arithmetic calculations and their accounting record under the economic environment derived from COVID-19.

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

Emphasis Paragraphs

As mentioned in Note 2 to the consolidated financial statements, on March 24, 2020, the Association of Banks of Mexico, A.C. (ABM), requested the CNBV to establish temporary special accounting criteria to support those bank debtors who were unable to meet their credit commitments as a result of the pandemic. Therefore, the measures taken in general by the Holding Company envisaged not requiring the minimum payment of capital and interest for up to 6 months to customers who requested it and qualified it under the rules of the program, without affecting in Credit Bureau, nor collection expenses or interest for non-payment.

As mentioned in Note 4 to the consolidated financial statements, the Holding Company took into account changes arising from the internal transformation and environment of the banking industry, in assessing the filing policies of the various transactions it carries out related to investment and developments in technology. This is intended to improve the quality of financial information and to reflect the actual economic substance of its operations. Based on the analysis carried out, the internal developments of the banking core grouped to this day as an intangible asset were considered to be a substantial part of the technology platform and should be considered jointly as part of the fixed asset.

Other Matters

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

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

The Administration is responsible for the other information. The other information will include the information that will be incorporated in the annual report to be submitted to the Commission and the Mexican Securities Exchange (but does not include the consolidated financial statements or our audit report). The annual report is expected to be available for reading after the date of this audit report.

Our opinion of the consolidated financial statements will not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility will be to read the other information mentioned, when available, and when doing so, consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or that it appears to contain a material misstatement. If, based on the work we have performed, we conclude that the other information contains a material misstatement, we would have to report this fact.

The information shown in the attached consolidated financial statements as unaudited is presented at the requirements of the Accounting Criteria issued by the Commission.

Responsibilities of the Administration and Corporate Governance Managers of the Holding Company in Relation to the Consolidated Financial Statements

Management is responsible for the preparation and reasonable presentation of the attached consolidated financial statements in accordance with the Accounting Criteria issued by the Commission, and for internal control that the administration deems necessary to enable the preparation of consolidated financial statements free of material error, due to fraud or error.

In the preparation of the consolidated financial statements, management is responsible for assessing the Holding Company's ability to continue as a going concern, disclosing as appropriate, business-related issues underway and using the basic business postulate underway, unless the administration intends to liquidate the Holding Company or cease operations , or there is no other realistic alternative.

The Holding Company's corporate governance officials are responsible for overseeing the Holding Company's financial reporting process.

Independent Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Holding Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Holding Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Holding Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Holding Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

C.P.C. Héctor García Garza
Monterrey, Nuevo León, Mexico
March 5, 2021

CONSOLIDATED BALANCE SHEETS

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES AS OF DECEMBER 31, 2020 AND 2019
(In millions of Mexican pesos)

	2020	2019
ASSETS		
CASH AND CASH EQUIVALENTS	Ps. 109,306	Ps. 62,797
MARGIN SECURITIES	18,099	5,926
INVESTMENTS IN SECURITIES		
Trading securities	223,390	233,832
Securities available for sale	244,823	202,685
Securities held to maturity	193,652	150,606
	661,865	**587,123**
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	4,036	3,070
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	48,233	22,295
For hedging purposes	2,043	162
	50,276	**22,457**
VALUATION ADJUSTMENTS FOR ASSET HEDGING	54	69
PERFORMING LOAN PORTFOLIO		
Commercial loans		
Business loans	325,183	293,499
Financial institution's loans	11,172	7,389
Government loans	161,563	173,988
Consumer loans	116,484	117,680
Mortgage loans		
Medium and residential	184,980	166,921
Low-income housing	4	9
Loans acquired from INFONAVIT or FOVISSSTE	2,752	3,156
TOTAL PERFORMING LOAN PORTFOLIO	**802,138**	**762,642**
PAST-DUE LOAN PORTFOLIO		
Commercial loans		
Business loans	2,530	6,511
Financial institutions' loans	-	4
Financial institutions' loans	37	4
Consumer loans	4,705	4,314
Mortgage loans		
Medium and residential	1,429	1,786
Low-income housing	1	-
Loans acquired from INFONAVIT or FOVISSSTE	229	187
TOTAL PAST-DUE LOAN PORTFOLIO	**8,931**	**12,806**
LOAN PORTFOLIO	**811,069**	**775,448**
(Minus) Allowance for loan losses	(20,004)	(17,639)
LOAN PORTFOLIO, net	**791,065**	**757,809**
ACQUIRED COLLECTION RIGHTS	1,617	1,601
TOTAL LOAN PORTFOLIO, net	**792,682**	**759,410**
ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net	2,756	2,279
PREMIUM RECEIVABLES, net	4,353	4,474
ACCOUNTS RECEIVABLE FROM REINSURANCE, net	7,269	7,787
RECEIVABLES GENERATED BY SECURITIZATIONS	110	139
OTHER ACCOUNTS RECEIVABLE, net	42,481	31,202
MERCHANDISE INVENTORY	946	677
FORECLOSED ASSETS, net	1,553	1,154
PROPERTY, FURNITURE AND EQUIPMENT, net	32,627	18,763
PERMANENT STOCK INVESTMENTS	14,805	14,554
DEFERRED TAXES, net	-	626
OTHER ASSETS, net		
Deferred charges, advance payments and intangibles	39,439	52,115
Other short-term and long-term assets	5,247	5,388
TOTAL ASSETS	**Ps. 1,787,904**	**Ps. 1,580,010**

MEMORANDUM ACCOUNTS (Note 36)

These balance sheets, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to Accounting Principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the balance sheet dates above.

As of December 31, 2020, the stockholders' equity amounts to Ps. 9,964.

The accompanying consolidated balance sheets have been approved by the Board of Directors in accordance with the responsibility assigned to them.

"The attached Notes are an integral part of these consolidated financial statements."

	2020	2019
LIABILITIES AND STOCKHOLDERS' EQUITY		
DEPOSITS		
Demand deposits	Ps. 520,283	Ps. 416,548
Time deposits		
General public	252,271	260,828
Money market	14,248	18,122
Senior debt issued	32,325	26,907
Global account of deposits without movements	2,585	2,085
	821,712	**724,490**
INTERBANK AND OTHER LOANS		
Demand loans	-	500
Short-term loans	22,499	22,286
Long-term loans	13,522	14,275
	36,021	**37,061**
TECHNICAL RESERVES	**187,846**	**154,487**
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	**353,094**	**345,959**
COLLATERAL SOLD OR PLEDGED		
Repurchase or resale agreements (creditor balance)	13	106
Loans of securities (creditor balance)	8	-
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	44,097	20,752
For hedging purposes	4,990	4,221
	49,087	**24,973**
ACCOUNTS PAYABLE TO REINSURERS, net	**2,269**	**1,505**
OTHER ACCOUNTS PAYABLES		
Income tax	4,365	3,588
Employee profit sharing	538	508
Creditors from settlements of transactions	4,892	9,972
Creditors from collaterals received in cash	6,860	2,492
Sundry creditors and other payables	35,915	30,204
	52,570	**46,764**
SUBORDINATED DEBENTURES	**57,152**	**48,050**
DEFERRED TAXES, net	**1,618**	**-**
DEFERRED CREDITS AND ADVANCED COLLECTIONS	**1,410**	**617**
TOTAL LIABILITIES	**1,562,800**	**1,384,012**
STOCKHOLDERS' EQUITY		
PAID-IN CAPITAL		
Common stock	14,919	14,992
Additional paid-in capital	48,269	47,979
	63,188	**62,971**
OTHER CAPITAL		
Capital reserves	9,215	6,486
Retained earnings from prior years	118,773	90,084
Result from valuation of securities available for sale	3,801	1,763
Result from valuation of instruments for cash flow hedging	(887)	(2,246)
Result from valuation of reserve for unexpired risks variations in rates	(231)	(85)
Result from conversions	134	77
Defined remedies for employees benefits	(2,259)	(1,861)
Net income	30,508	36,528
	159,054	**130,746**
MINORITY INTEREST	**2,862**	**2,281**
TOTAL STOCKHOLDERS' EQUITY	**225,104**	**195,998**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**Ps. 1,787,904**	**Ps. 1,580,010**

Act. José Marcos Ramírez Miguel
CEO

Eng. Rafael Arana de la Garza
Managing Director – COO and Finance

C.P. Isaías Velázquez González
Managing Director – Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director – Controller

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

CONSOLIDATED INCOME STATEMENTS

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In millions of Mexican pesos)

		2020		2019
Interest income	Ps.	133,593	Ps.	150,514
Premium revenue, net		36,849		32,537
Interest expense		(47,898)		(68,693)
Increase in technical reserves		(17,793)		(15,003)
Casualty rate, claims and other contractual obligations, net		(21,920)		(18,778)
NET INTEREST INCOME		**82,831**		**80,577**
Provisions for loan losses		(21,930)		(15,347)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES		**60,901**		**65,230**
Commission and fee income		24,003		24,063
Commission and fee expense		(10,784)		(10,052)
Brokerage revenues		4,854		5,289
Other operating income (expenses)		2,982		4,264
Non-interest expense		(43,013)		(40,678)
		(21,958)		**(17,114)**
OPERATING INCOME		**38,943**		**48,116**
Equity in earnings of unconsolidated subsidiaries and associated companies		2,003		1,716
INCOME BEFORE INCOME TAX		**40,946**		**49,832**
Current income tax		(9,247)		(10,524)
Deferred income taxes, net		(802)		(2,271)
		(10,049)		**(12,795)**
INCOME BEFORE DISCONTINUED OPERATIONS		**30,897**		**37,037**
Minority interest		(389)		(509)
NET INCOME	**Ps.**	**30,508**	**Ps.**	**36,528**

These Income Statements, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to Accounting Principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the consolidated income statement dates above.

The accompanying consolidated income statements have been approved by the Board of Directors in accordance with the responsibility assigned to them.

The attached notes are an integral part of these consolidated income statements.

Act. José Marcos Ramírez Miguel
CEO

Eng. Rafael Arana de la Garza
Managing Director – COO and Finance

C.P. Isaías Velázquez González
Managing Director – Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director – Controller

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(In millions of Mexican pesos)

	PAID IN CAPITAL		OTHER CAPITAL										
	Common Stock	Additional paid-in capital	Capital reserves	Retained earnings from prior years	Result from valuation of securities available for sale	Result from valuation of Instruments for cash flow hedging	Result in the valuation of unexpired risk reserves due to changes in rates	Cumulative foreign currency translation adjustment	Defined remedies for employees benefits	Net income	Total majority interest	Total minority interest	Total stockholders' equity
Balances, January 1, 2019	**Ps. 14,962**	**Ps. 47,904**	**Ps. 5,207**	**Ps. 76,550**	**Ps. (2,136)**	**Ps. (3,369)**	**Ps. 28**	**Ps. 1,751**	**Ps. (576)**	**Ps. 31,958**	**Ps. 172,279**	**Ps. 2,185**	**Ps. 174,464**
TRANSACTIONS APPROVED BY STOCKHOLDERS:													
Share repurchase for executive shares' plan payable in equity instruments	30	80	833	-	(10)	-	-	-	-	-	933	-	933
Transfer of prior year's result	-	-	-	31,958	-	-	-	-	-	(31,958)	-	-	-
Creation of reserves as per General Stockholders' meeting on April 30, 2019	-	-	62	(62)	-	-	-	-	-	-	-	-	-
Dividends declared at the General Stockholders' meetings on: May 30, 2019	-	-	-	(15,954)	-	-	-	-	-	-	(15,954)	-	(15,954)
Effect due to clearance of subsidiary Banorte USA	-	-	-	-	-	-	-	(1,632)	-	-	(1,632)	-	(1,632)
Sale of share of Operadora de Fondos Banorte	-	-	384	(384)	-	-	-	-	-	-	-	-	-
Total transactions approved by stockholders	**30**	**80**	**1,279**	**15,558**	**(10)**	**-**	**-**	**(1,632)**	**-**	**(31,958)**	**(16,653)**	**-**	**(16,653)**
COMPREHENSIVE INCOME:													
Net income	-	-	-	-	-	-	-	-	-	36,528	36,528	-	36,528
Result from valuation of securities available for sale	-	-	-	-	3,909	-	-	-	-	-	3,909	-	3,909
Effect of subsidiaries, affiliates and mutual funds	-	(5)	-	(41)	-	-	-	(42)	-	-	(88)	-	(88)
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	1,123	-	-	-	-	1,123	-	1,123
Result from valuation of reserve for unexpired risks variations in rates	-	-	-	-	-	-	(113)	-	-	-	(113)	-	(113)
Defined remedies for employees benefits	-	-	-	-	-	-	-	-	(1,285)	-	(1,285)	-	(1,285)
Interest on subordinated debentures	-	-	-	(1,983)	-	-	-	-	-	-	(1,983)	-	(1,983)
Total comprehensive income	**-**	**(5)**	**-**	**(2,024)**	**3,909**	**1,123**	**(113)**	**(42)**	**(1,285)**	**36,528**	**38,091**	**-**	**38,091**
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	96	96
Balances, December 31, 2019	**14,992**	**47,979**	**6,486**	**90,084**	**1,763**	**(2,246)**	**(85)**	**77**	**(1,861)**	**36,528**	**193,717**	**2,281**	**195,998**
TRANSACTIONS APPROVED BY STOCKHOLDERS:													
Share repurchase for executive shares' plan payable in equity instruments	(73)	295	(1,441)	-	(4)	-	-	-	-	-	(1,223)	-	(1,223)
Transfer of prior year's result	-	-	-	36,528	-	-	-	-	-	(36,528)	-	-	-
Creation of reserves as per General Stockholders' meeting on April 24, 2020	-	-	6	(6)	-	-	-	-	-	-	-	-	-
Effect due to clearance of subsidiary Banorte USA	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of share of Operadora de Fondos Banorte	-	-	4,164	(4,164)	-	-	-	-	-	-	-	-	-
Total transactions approved by stockholders	**(73)**	**295**	**2,729**	**32,358**	**(4)**	**-**	**-**	**-**	**-**	**(36,528)**	**(1,223)**	**-**	**(1,223)**
COMPREHENSIVE INCOME:													
Net income	-	-	-	-	-	-	-	-	-	30,508	30,508	-	30,508
Result from valuation of securities available for sale	-	-	-	-	2,042	-	-	-	-	-	2,042	-	2,042
Effect of subsidiaries, affiliates and mutual funds	-	(5)	-	(327)	-	-	-	57	-	-	(275)	-	(275)
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	1,359	-	-	-	-	1,359	-	1,359
Result from valuation of reserve for unexpired risks variations in rates	-	-	-	-	-	-	(146)	-	-	-	(146)	-	(146)
Defined remedies for employees benefits	-	-	-	-	-	-	-	-	(398)	-	(398)	-	(398)
Interest on subordinated debentures	-	-	-	(3,342)	-	-	-	-	-	-	(3,342)	-	(3,342)
Total comprehensive income	**-**	**(5)**	**-**	**(3,669)**	**2,042**	**1,359**	**(146)**	**57**	**(398)**	**30,508**	**29,748**	**-**	**29,748**
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	581	581
Balances, December 31, 2020	**Ps. 14,919**	**Ps. 48,269**	**Ps. 9,215**	**Ps. 118,773**	**Ps. 3,801**	**Ps. (887)**	**Ps. (231)**	**Ps. 134**	**Ps. (2,259)**	**Ps. 30,508**	**Ps. 222,242**	**Ps. 2,862**	**Ps. 225,104**

These statements of changes in stockholders' equity, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the dates above. "These consolidated statements of changes in stockholders' equity were approved by the Board of Directors in accordance with the responsibility assigned to them."

The attached notes are an integral part of these consolidated statements of changes in stockholders' equity.

Act. José Marcos Ramírez Miguel
CEO

Eng.Rafael Arana de la Garza
Managing Director – COO and Finance

C.P. Isaías Velázquez González
Managing Director – Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director – Controller

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

CONSOLIDATED CASH FLOW STATEMENTS

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In millions of Mexican pesos)

		2020		2019
Net income	Ps.	**30,508**	Ps.	**36,528**
Items not requiring (generating) resources:				
Depreciation and amortization		2,287		2,087
Technical reserves		17,793		15,003
Other provisions		124		1,484
Current and deferred income tax		10,049		12,795
Equity in earnings of unconsolidated subsidiaries and associated companies		(1,614)		(1,207)
		59,147		**66,690**
OPERATING ACTIVITIES:				
Changes in margin accounts		(12,172)		(4,469)
Changes in investments in securities		(74,742)		12,984
Changes in debtor balances under repurchase and resale agreements		(966)		(2,048)
Changes in asset position of derivatives		(25,924)		5,803
Change in loan portfolio		(33,257)		13,802
Changes in acquired collection rights		(15)		816
Changes in accounts receivable from insurance and annuities, net		(476)		(38)
Changes in debtor premiums, (net)		121		(639)
Changes in reinsurance and surety agencies (net) (asset)		517		1,169
Changes in receivables generated by securitizations		28		(78)
Change in foreclosed assets		(399)		(259)
Change in other operating assets		(7,669)		(15)
Change in deposits		97,222		(31,811)
Change in interbank and other loans		(1,040)		(21,697)
Change in creditor balances under repurchase and sale agreements		7,136		(23,499)
Collateral sold or pledged		(84)		103
Change in liability position of derivative financial instruments		23,345		(2,853)
Change in technical reserves (net)		15,567		(1,395)
Changes in reinsurance and surety agencies (net) (liability)		764		180
Change in subordinated debentures		9,102		14,489
Change in other operating liabilities		6,648		(4,712)
Change in hedging instruments related to operations		(1,112)		(6,748)
Income tax		(7,034)		(8,818)
Net cash flows provided by operating activities		**54,707**		**6,957**
INVESTING ACTIVITIES:				
Proceeds on disposal of property, furniture and equipment		2,884		1,406
Payments for acquisition of property, furniture and equipment		(7,435)		(4,578)
Collections by disposal of subsidiaries and associates and agreements by joint control		-		68
Payment on acquisitions of subsidiaries and associated companies		(139)		(101)
Charges for cash dividends		1,969		1,265
Net cash flows used in investing activities		**(2,721)**		**(1,940)**
FINANCING ACTIVITIES:				
Collections for issue of shares		-		108
Dividends paid		-		(15,954)
Repurchase of shares		(2,146)		-
Interest on subordinated debentures paid		(3,342)		(1,983)
Net cash flow used in financing activities		**(5,488)**		**(17,829)**
Net increase (decrease) in cash and cash equivalents		46,498		(12,812)
Effects from changes in the value of cash and cash equivalents		11		(28)
Cash and cash equivalents at the beginning of the year		62,797		75,637
Cash and cash equivalents at the end of the year	Ps.	**109,306**	Ps.	**62,797**

These Cash Flow Statements, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect cash income and outlays derived from the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the dates above. "The accompanying consolidated cash flow statements have been approved by the Board of Directors in accordance with the responsibility assigned to them". The attached notes are an integral part of these consolidated cash flow statements.

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Executive Director – Accounting

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In millions of Mexican pesos, except exchange rates and Note 33)

1 – Activity and regulatory environment

Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries (the Financial Group or Holding Company) are authorized by Mexico's Ministry of Finance and Public Credit (SHCP) to operate as a Financial Group under the form and terms established by the Law Regulating Financial Groups, subject to the supervision and monitoring of the National Banking and Securities Commission (the Commission). Its main activities consist of acquiring and managing entities engaged in the financial services industry and supervising their activities, as defined in the above-mentioned law. The Financial Group is regulated, depending on its activities, by the Commission, the Mexican National Insurance and Bonding Commission (CNSF) (the Commissions), the Mexican Central Bank (Banco de México) and other applicable laws and regulations.

The main activity of its Subsidiaries is the execution of financial operations such as the provision of services of commercial banking, brokerage, leasing, financial factoring, warehousing services in general, pensions, life and damage insurance, as well as disposal, management, collection and negotiation, in any form, with credit rights.

The main regulating aspect compels the Financial Group to maintain a minimum capitalization ratio for market and loan risks, to meet certain acceptance limits for deposits, obligations and other types of funding that may be denominated in foreign currency, as well as to establish the minimum limits for paid-in capital and capital reserves. The Financial Group complies satisfactorily with all of the above as of December 31, 2020.

By legal requirements, the Financial Group has unlimited liability for the obligations assumed and losses incurred by each of its subsidiaries.

The powers of the Commission, in its capacity as regulator of the Financial Group and its subsidiaries, include reviewing the financial information and requesting modifications to such information.

The Financial Group performs its activities throughout Mexico and until March 2017, the United States of America.

The Financial Group's consolidated financial statements have been approved by the Board of Directors at its January 21, 2021 meeting in accordance with the responsibility assigned to this group.

2 – Significant events during the year

Impacts caused by the COVID-19 pandemic on financial information

In response to the environment that generated the health crisis and its foreseeable consequence in the expected deterioration of bank assets and the uncertain economic recovery outlook that took place in the middle of last year, the Financial Group decided to participate on 2 fronts; on the one hand, to support borrowers who have the need to reduce the charges generated by acquired loans, and, on the other hand, to solidify their balance sheet in the face of potential effects on loan assets. To achieve the first objective, several internal support and restructuring programs were generated through the different companies belonging to the Financial Group, which allowed the payment of principal and interest to be deferred to more than 630 thousand loans that were creditors of the benefit that mostly it was recently concluded and reports only 12% with a remaining balance; that is, 88% of the credits attached to the internal support programs, are paying regularly.

The effect on the ICAP of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple (Banorte) of the special programs is marginal, since, if the Special Accounting Criteria are not considered in the deferral of credits, the Capitalization Index it would have positioned itself at 20.10% with a Fundamental Capital of 13.85% compared to the real figures of 20.18% of ICAP and 13.90% of Fundamental Capital.

On the other hand, Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, ER granted facilities in term and rate, to clients who requested it, for an amount of Ps. 1,087, representing 3.12% of the portfolio. These programs do not put pressure on the institution's solvency structure, since it maintains solid capital levels, with an indicator of 19.12% at the end of December 2020, well above the applicable regulatory minimum of 10.50%. Without considering the effect of the Special Accounting Criteria, the ICAP would have had an impact of +88 bps, positioning itself at 20.00%.

Regarding the second objective, and in order to strengthen the balance sheet structure, the Financial Group recognized additional allowances for loan losses during 2Q20 and 4Q20, which together totaled Ps. 7,274; of which Ps. 5,000 correspond to additional reserves and $ 2,274 to anticipated charge-offs in the portfolio of the different products. Of the Ps. 5,000 of additional reserves, only 14% have been consumed during 4Q20. It is important to note that, of not having recorded additional reserves in the year, the provisioning requirement would have been 3% lower than in 2019 and consequently the risk-adjusted NIM, which stood at 4.1%, with a decrease of (89bp), it would have reflected 4.4% with recurring figures. In the same context, profit with recurring figures would have been recorded at Ps. 35,583 in contrast to Ps. 30,508 recorded at the end of 2020.

Failure to consider the effect of additional reserves on Banorte's capital indices would have contributed 50 bps to the ICAP and 52 bps to the Fundamental Capital, positioning it at 20.68% and 14.42% considering Special Accounting Criteria and 20.60% and 14.37% without said criteria, which above is compared to the actual reported figures of 20.18% for ICAP and 13.90% for Fundamental Capital.

Regarding the IIN of the Banorte Insurance and Pensions companies, it stands out that it grows 8% derived from a 22% growth in net interest income despite the impact on the technical result, which reflects an increase of Ps. 4,312 in premium income that cannot be offset by the increase in technical reserves, mainly in pensions and the 17% increase in claims, mainly due to claims associated with the pandemic.

Casa de Bolsa Banorte S.A de C.V. is not subject to the exemptions in matters of capital and liquidity published by the Commission and Banco de México. However, even in the event of having been subject to the aforementioned dispensations, it is not considered that they would have been applied. The foregoing given the solvency and liquidity levels reflected by the institution, with an ICAP of 14.08% and a regulatory liquidity indicator of 98.49%, both above the applicable regulatory minimums of 10.50% and 20.00%, respectively.

On the other hand, the liquidity strategy of the Financial Group has been oriented, through Banco Mercantil del Norte, S.A. (Banorte), in maintaining adequate levels according to the prevailing circumstances. In this sense, given the current contingency, it was decided to strengthen liquidity levels through the funding structure with clients, as well as through the issuance of Notes AT1 Perp NC10 for USD 500 million in July 2020.

Considering the foregoing, the Financial Group, through Banorte, has not used nor plans to use the Ordinary or Extraordinary Facilities of Banco de México, beyond the reduction of the Monetary Regulation Deposit, and the waivers in the calculation of outflows for derivatives (LBA) and the impairment of liquid assets, which contributed marginally 1%, 0.5% and 0.6%, respectively, to the liquidity indicator called CCL. In the same sense, the use of the liquidity facility consisting of the possibility of keeping the CCL below 100% is not contemplated and at a prudential and management level there is an objective of keeping the indicator above 100% at all times. The foregoing has been reported to the Board of Directors in its sessions of April 2020, July 2020, September 2020 and January 2021.

Finally, with regards to the capital dispensation related to 50% of the buffer to leave the minimums at 6.20% for the Fundamental Capital, 7.70% for the Basic Capital and 9.70% for the ICAP, the fact that Banorte's Fundamental Capital levels are 600bps above the regulatory minimum without waivers shows that its use has not been contemplated and in the same sense it has been reported to the Board of Directors.

Additionally, during 2020, we continued with the development of activities related to strengthening the control environment, risk assessment and management, the establishment and monitoring of controls, and the assurance of information quality and security, including effectiveness tests related to the Business Continuity Plan. Regarding this matter, regarding the global contingency represented by COVID 19, the Continuity Plan was activated under its Pandemic section.

The actions implemented throughout the year in different aspects of the operation have responded to the considerations of each moment and are in accordance with the assessment of an incremental risk derived from the pandemic. Derived from the above, and despite the fact that the contingency had an impact on the growth of the business and on the estimated results at the beginning of 2020, at the end of the year and taking into account the solidity shown by the institutional balance, the capitalization indicators, the results of the support programs, the quality of the assets and stability of the deposits and a panorama of national and international recovery that is reinforced with the progress in the vaccination processes, the Administration has no doubts about the ability to continue as a business on going.

Issuance of capital notes Tier 1 for USD 500 (Subordinated debentures)

On July 9, 2020, Banorte issued Perpetual Capital Notes, Non-preferred, Non-Accumulating (Tier 1) in the international market for a global amount of USD 500 million. The Capital Notes (Tier 1) were issued in a Series, NC10 Notes PERP for USD 500 million, prepayable in the tenth year and with a coupon rate of 8.375%. The ratings given to the series by rating agencies Moody's and S&P were Ba2 and BB-, respectively. The issuance expenses of the perpetual, non-preferred, non-accumulative capital notes amounted to $ 68, as of December 31, 2020.

Merger between Inmobiliaria Mobinter, Interdiseño, Interorbe, Interin and Banorte

On September 1, 2020, the merger of Banorte (the surviving merger) and Inmobiliaria Mobinter S.A. took effect. de C.V, Inmobiliaria Interdiseño S.A de C.V, Inmobiliaria Interorbe, S.A. de C.V and Inmobiliaria Interin S.A de C.V (merged that are extinguished) the percentage of participation of the Financial Group in the stockholders' equity of the merging company is 98.2617%.

Merger between Sólida Administradora de Portafolios and Arrendadora and Factor Banorte

On July 1, 2020, the merger between Sólida Administradora de Portafolios, S.A. de C.V., SOFOM, E.R. (Sólida, subsisting merger) and Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, E.R., (AyF, merged that is extinguished) took effect.. Additionally, Sólida changed its name to become Arrendadora and Factor Banorte; The Parent's participation percentage in the stockholders' equity of the merging company is 99.9058%.

Alliance signing with Rappi

On June 22, 2020, the Financial Group signed a strategic alliance agreement with Rappi through which both companies, subject to obtaining the applicable regulatory authorizations from the financial and economic competition authorities, will be shareholders (50%-50%) of, and will participate in the same proportions in the board of directors of, a newly created company that will offer digital financial services, initially, mainly aimed at Rappi's clients. Through this agreement, the Financial Group agreed to make available to the new company, up to Ps. 4,000 in a period of 18 months.

Pensiones Banorte acquires the pension portfolio of Pensiones SURA

During the month of May 2020, Pensiones Banorte acquired the entire annuity portfolio of Pensiones SURA S.A. de C.V. The operation includes the transfer of more than 15 thousand policies for a value of Ps. 14,000.

3 – Basis of presentation

Presentation of consolidated financial statements

The accompanying consolidated financial statements as of December 31, 2020 and 2019 have been prepared by Management assuming that the Financial Group will continue to operate as a going concern due to the uncertainty and duration of the pandemic in accordance with the accounting criteria established by the Commission.

Monetary unit of the consolidated financial statements

The consolidated financial statements and notes for the years ended December 31, 2020 and 2019 include balances and transactions in Mexican pesos of purchasing power of such dates.

As of December 31, 2020 and 2019, the recording currency and functional currency of the Holding Company is the Mexican peso.

Recognition of the effects of inflation in financial consolidated information

Inflation recognition is done pursuant to MFRS B-10, "Inflation Effects," which considers two types of economic environments: a) inflationary, when the accumulated inflation of the three previous years is 26% or over, in which case the inflation effects must be acknowledged; b) non-inflationary, when in the same period inflation is less than 26%; in this case the effects of inflation should not be recorded in the consolidated financial statements.

The cumulative Mexican inflation over the three years prior to 2020 and 2019 was 15.03% and 15.71%, respectively. Therefore, the Mexican economy is considered as non-inflationary. However, assets, liabilities and stockholders' equity as of December 31, 2020 and 2019 include the restatement effects recorded up through December 31, 2007. The cumulative Mexican inflation over the three years including the year ended December 31, 2019 was 11.31%.

The Mexican inflation rates for the years ended December 31, 2020 and 2019 were 3.23% and 2.77%, respectively.

Consolidation of financial statements

The accompanying consolidated financial statements include those of Grupo Financiero Banorte, S.A.B. de C.V. and its subsidiaries mentioned below. All significant intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2020 and 2019, the Grupo Financiero Banorte S.A.B. de C.V.'s consolidated subsidiaries and its equity ownership is as follows:

Entity	2020	2019
Banco Mercantil del Norte, S.A. and Subsidiaries (Banorte)	98.26%	98.26%
Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, ER and Subsidiaries (AyF)	99.91%	99.98%
Almacenadora Banorte, S.A. de C.V. and Subsidiary	99.99%	99.99%
Banorte Ahorro y Previsión, S.A. de C.V. and Subsidiaries	99.99%	99.99%
Casa de Bolsa Banorte, S.A. de C.V. and Subsidiary	99.99%	99.99%
Operadora de Fondos Banorte, S.A. de C.V.	99.99%	88.84%
Ixe Servicios, S.A. de C.V.	99.99%	99.99%

Equity investments in mutual funds and investments in associated companies are valued under the equity method according to the accounting principles established by the Commission.

* The permanent investment in AyF includes the participation in the Trusts created in conjunction with GEO, URBI and HOMEX, constituted for the construction of real estate developments (the Trusts). As of December 31, 2020, AyF consolidated the financial statements of said trusts.

Conversion of financial statements of foreign subsidiary

In order to consolidate the financial statements of Banorte Financial Services, INC., they are first adjusted to the recording and functional currency (U.S. dollar) to conform to the accounting criteria established by the Commission. The financial statements are then converted to the reporting currency (Mexican pesos) according to the following methodology:

Foreign operations whose recording and functional currency are one and the same convert their financial statements using the following exchange rates for the year-end rate for assets and liabilities (19.9087 for 2020), historical rate for non-monetary assets and liabilities as well as stockholders' equity, and the weighted average rate of the period for income, costs and expenses (21.4936 for 2020). The conversion effects are presented in the Institution's stockholders' equity.

Comprehensive income

This is the change in stockholders' equity during the year, for items other than distributions and activity in contributed common stock, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity and do not affect the consolidated income statements, in accordance with the accounting practices established by the Commission. In 2020 and 2019, comprehensive income includes the net income of the year, the result from valuation of securities available for sale, the effect of subsidiaries, affiliates and mutual funds, the effect of subsidiaries, remeasrement gain (loss) for employee benefits, modification of provisions on consumer loans rating, affiliates and mutual funds, the cumulative conversion effect, interest on subordinated debentures, commission special accounting criteria and the result from the valuation of cash flow hedging instruments.

4 – Significant accounting policies

The significant accounting policies of the Holding Company are in conformity with practices prescribed by the Commission through issued accounting standards and other applicable laws, which require Management to make certain estimates and use certain assumptions to determine the valuation of certain items included in the consolidated financial statements and make the required disclosures therein. Even though they may differ in their final effect, management considers the estimates and assumptions to have been adequate under the current circumstances.

Pursuant to accounting criteria A-1, "Basic Framework of the Accounting Criteria Applicable to Banking Institutions", prescribed by the Commission, the Institutions' accounting will adhere to Mexican Financial Reporting Standards, (MFRS or individually referred to as Normas de Informacion Financiera (NIFs)) defined by the Mexican Board of Financial Reporting Standards (previously the Mexican Board for Research and Development of Financial Reporting Standards (CINIF)), except when the Commission deems it necessary to apply a specific accounting standard or Circular, considering the fact that financial institutions perform specialized operations.

Explanation for translation into English

The accompanying consolidated financial statements have been translated from Spanish into English for the convenience of users. These consolidated financial statements are presented on the basis of accounting practices prescribed by the Commission. Certain accounting practices applied by the Holding Company may not conform to Mexican Financial Reporting Standards ("MFRS") or other accounting principles generally accepted outside of Mexico.

Changes in accounting policies

A. NIF D-3, Employee Benefits

On December 31, 2015, the Commission published a resolution amending the Provisions regarding the application of NIF D-3 Employee Benefits. The purpose of this provision is to publish the transitory articles that identify the options that institutions have to recognize the accounting effects as result of the entry into force of the new NIF.

Based on the above, the Holding Company took the option established in the third transitional article to progressively recognize in the stockholders' equity the changes by reformulation referred to in NIF D-3, issued by the CINIF, which became effective on January 1, of 2016, which was duly informed to the Commission in accordance with the deadlines established in the Provisions.

The recognition of the balances indicated in the NIF D-3, began in 2016 by recording 20% of the balances in that year and 20% additional in each of the subsequent years, reaching 100% in a maximum period of 5 years.

The total amounts to be recognized were determined using the corporate bonds' discount rate for market valuation of the Defined Benefit Obligation under the new Mexican NIF D-3, in the following terms:

I. The balance of changes to the plan not yet recognized is progressively recorded, recording 20% during the year 2020, which affected the items "Earnings from prior years" and correspondingly "Provision for employee benefits" and in liabilities "Sundry creditors and other payables", as follows:

Discount rate		Total balance to be applied		Anual application 20%		Gradual recognition as of 4Q20
Corporate Bonds	Ps.	183	Ps.	Ps. 36.6	Ps.	183

II. In the case of the accumulated balance of gains or losses of the plan to be recognized (broker approach), it is progressively recorded, recording 20% during the year 2019, which affected the items "Provision for employee benefits" and correspondingly " Other creditors & accounts payable" and in liabilities " Remeasurements of defined benefits for employees within "Earned Capital", as follows:

Discount rate		Total balance to be applied		Anual application 20%		Gradual recognition as of 4Q20
Corporate Bonds	Ps.	2,728.7	Ps.	485.5	Ps.	2,727.7

The application of 20% per year is recognized on a monthly and proportional basis.

The amounts that would have been recognized and presented in the balance sheet as of December 31, 2020, had the aforementioned option not been applied in the affected items are

Concept		Amount
Other assets and short and long term	Ps.	35,915
Total of assets		**1,562,801**
Retained earnings from prior years		118,773
Reimbursement for benefits to employees		(2,259)
Total stockholders' equity		**225,104**
Total liabilities and stockholders' equity	**Ps.**	**1,787,904**

(1) In this item, the "Provision for employee benefits" account is netted to show "Net Asset for defined benefits" arising from the prepayments made by the Holding Company.

Special accounting treatment of the support programs granted by the Institution derived from the COVID-19 Contingency

Given the negative impact generated in various activities of the economy derived from the epidemic by the SARS-CoV2 virus (COVID-19) in Mexico, the Holding Company has determined to support its clients by implementing various support programs that will be applicable to all customers who subscribe to the program from March 25 to July 31, 2020, as follows:

Credit card:

- The support consists of not requiring the minimum payment of the card for 4 months, without affecting the credit bureau, nor generating collection expenses or interest for non-compliance (arrears); the foregoing, as soon as the client receives confirmation, via email, of having been enrolled in the program.

- The usual payment request resumes from the month immediately after the end of the support period, that is, August 2020.

- The balance maintained in the account during the support period generates ordinary interest that is calculated monthly, is reported to the client and is not capitalized.

- Payments can be made to the card at any time.

- The credit card enrolled in the support program remains available for purchases and cash withdrawals in accordance with applicable credit policies and current terms and conditions.

Payroll credit:

- Postpone the payment of capital, interest, insurance and commissions equivalent to 4 months, according to the periodicity of payment.

- The deferral applies from the moment the client receives confirmation, by email, that they have been enrolled in the program.

- At the end of the support period, the payment of the credit will be resumed for the same amount that the client was paying before the deferral.

- The client will not pay additional interest during the program or the extension of the term.

- Advance payments can be made at any time without penalty to settle your credit on the original date.

Personal credit:

- It consists of postponing the payment of capital, interest, insurance and commissions equivalent to 4 months, according to the periodicity of payment.

- The deferral applies from the moment the client receives confirmation, by email, that they have been enrolled in the program.

- At the end of the support period, the payment of the credit will be resumed for the same amount that the client was paying before the deferral.

- The client will not pay additional interest during the program or the extension of the term.

- Advance payments can be made at any time without penalty to settle your credit on the original date.

Auto credit:

- The support consists of deferring the payment of principal and interest on the loan for the next 4 months after receiving confirmation, via email, of having been enrolled in the aforementioned program.

- The payment of the 4 monthly payments is made at the end of the originally agreed term.

- The regular payment resumes as of the month immediately after the deferral period has ended.

- The delayed interest of the 4 months indicated does not generate additional interest or commission.

- You can make advance payments at any time without penalty to settle your credit on the original date.

Mortgage credit:

- The support consists of deferring the payment of the credit for the next 4 months after receiving confirmation, via email, of having been enrolled in the aforementioned program.
- The payment of the 4 monthly payments is made at the end of the originally agreed term.
- The regular payment resumes as of the month immediately after the deferral period has ended.
- The delayed interest of the 4 months indicated does not generate additional interest or commission.
- Prepayments can be made at any time without penalty.

SME credit:

a) In simple credits:

- The support consists of not requiring the monthly payment (principal and interest) for up to 4 months.
- Deferred monthly payments are completed at the end of the term.
- The credits that are to be concluded will be extended for up to 4 months.

b) In Current Account credits:

- The support consists of not requiring the monthly payment (interest) for up to 4 months and at the same time the term of the credit will be extended for up to 4 months.
- Interest is paid at the end of the term.
- Making the total or partial payment of the principal at the end of the original term of the loan or during its life, does not exempt the client from paying the deferred interest.
- The credits that are about to be concluded will have an extension of term according to the remaining months and the payment of the capital is carried out to the new expiration date.
- During the extension of the term, the corresponding interest payment must be covered according to the obligations of the credit contract.

By virtue of the foregoing, on March 27, 2020 by letter P285 / 2020, on April 15, 2020 by letter P293 / 2020 and by statement of June 26, 2020, the National Banking and Securities Commission (the " Commission "), issued Special Accounting Criteria, applicable to the Institution for the period of February 28, 2020 and until July 31, 2020, by which it authorized that those credits in force as of February 28, 2020, and the credits granted In March 2020, according to paragraph 12 of criterion B-6 "loan portfolio" (criterion B-6) to which the payment of principal and interest was deferred according to the program, they are not considered as restructured credits in terms of paragraphs 79 and 80, likewise, if the requirements established in paragraphs 82 and 84 of Criterion B-6 are not applicable to them, as appropriate, and for them to remain as a portfolio in force during the term agreed upon in said Program. Therefore, these loans are considered as a current portfolio for the determination of the preventive estimate.

Additionally, the loans for which their payments will be deferred will not be considered as restructured in accordance with the provisions of paragraph 40 of Criterion B-6, nor should they be reported as overdue loans before the credit information companies.

The amounts that would have been recorded and presented both in the consolidated balance sheet and in the consolidated income statement by type of portfolio, if the special accounting criterion had not been applied, as well as the detail of the concepts and amounts by type of portfolio, for the which the accounting effects have been made due to the application of the special accounting criteria as of December 31, 2020, are shown below:

Concept		Balances with COVID assitance		Effects on portfolio and estimates		Balances without COVID assistance
PERFORMING LOAN PORTFOLIO						
Commercial loans	Ps.	497,918	Ps.	(564)	Ps.	497,354
Consumer loans		116,484		(773)		115,711
Mortgage loans		187,736		(1,118)		186,618
TOTAL PERFORMING LOAN PORTFOLIO		**802,138**		**(2,455)**		**799,683**
PAST-DUE LOAN PORTFOLIO						
Commercial loans		2,567		564		3,131
Consumer loans		4,705		773		5,478
Mortgage loans		1,659		1,118		2,777
TOTAL PAST-DUE LOAN PORTFOLIO		**8,931**		**2,455**		**11,386**
LOAN PORTFOLIO		**811,069**		**-**		**811,069**
(Less) Allowance for loan losses		(20,004)		(731)		(20,735)
LOAN PORTFOLIO		**791,065**		**(731)**		**790,334**
TOTAL ASSETS		**1,787,904**		**(731)**		**1,787,173**
Allowance for loan losses		21,930		731		22,661
NET INCOME		**30,508**		**(731)**		**29,777**
TOTAL STOCKHOLDERS' EQUITY		**225,104**		**(731)**		**224,373**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**Ps.**	**1,787,904**	**Ps.**	**(731)**	**Ps.**	**1,787,173**

As of December 31, 2020, the balance of credits subject to program support is Ps. 125,647.

Presentation of the Technology Platform of the Banking Core from intangible assets to fixed assets

In recent years, the Holding Company has made significant investments in its technological platform in the different technological components (tangible and intangible) to support its operations and banking products, these investments as a whole make up a technological platform, which becomes relevant as a strategic asset for current and future business.

The Holding Company took into consideration the changes derived from the internal transformation and the environment of the banking industry, to evaluate the presentation policies of the different transactions that it carries out related to investment and developments in technology. The foregoing, in order to improve the quality of financial information and to reflect the real economic substance of its operations.

Based on the analysis carried out, it is considered that the internal developments of the banking core grouped until today as intangible assets, are a substantial part of the technological platform and should be considered together as part of the fixed assets, since their essence is to operate and provide support to the banking business in conjunction with associated hardware.

As of December 31, 2020, the balance of capitalizable projects corresponding to Core Banking technology projects is Ps. 11,666.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value, except for precious metal coins, which are stated at fair value at the end of the period. Funds available in foreign currency are valued at the FIX exchange rate published by Banco de México at the consolidated balance sheet.

Margin securities

Margin securities on cash in transactions with derivative financial instruments in recognized markets are recorded at nominal value.

The cash is intended to ensure the compliance with the obligations corresponding to derivatives held in recognized markets and correspond to the initial margin, to partial or total settlements, additional contributions or withdrawals, returns generated by the account itself, as well as commissions that correspond to charge in the validity of the corresponding contracts.

Partial or total settlements deposited and withdrawn by the clearing house due to fluctuations in the prices of derivatives must be recognized within the margin account, affecting as a counterpart a specific account that may be of a debtor or creditor nature, and that It will reflect the effects of the derivative valuation prior to its liquidation. The counterpart of a debtor or creditor nature will represent an advance received, or, a financing granted by the clearing house prior to the liquidation of the derivative.

The amount of margin accounts granted and received in cash in derivative transactions not carried out in recognized markets or exchanges will be presented under other accounts receivable, while the account payable generated by the receipt of cash collateral It will be presented in other accounts payable.

Collaterals granted in such operations, other than restricted cash must remain in the same area from which they originate. The payable account, which represents the obligation of the assignee to return to the transferor the collateral other than cash that has been sold must be presented in the balance sheet, on collaterals sold or given as collateral. The amount of the collateral other than cash on which the right to sell or give as guarantee has been granted shall be presented in memorandum accounts in a specific item.

As of December 31, 2020 and 2019, the Holding Company maintained standardized derivative and future operations, so cash collateral (cash margin calls) were recognized to ensure compliance with the obligations corresponding to the operations held in markets recognized for the purpose to mitigate the default risk.

Trading securities

Trading securities are securities owned by the Financial Group, acquired with the intention of selling them for a profit derived from the price differences in short-term purchase and sale operations made by the Financial Group as a market participant.

At the time of the acquisition, they are initially recorded at fair value, which may include either a discount or premium.

These securities (including both capital and accrued interest) are stated at fair value, which is determined by the price vendor contracted by the Financial Group.

The trading securities valuation result is recorded in the results of the period.

Securities available for sale

Securities available for sale are debt or equity securities that are neither classified as trading nor held to maturity, therefore they represent a residual category, which means that, they are purchased with an intention different from trading or held to maturity.

They are valued in the same way as trading securities, but with unrealized gains and losses recognized in other comprehensive income in the consolidated statement of stockholders' equity.

If, in a subsequent period, the fair value of debt classified as available for sale were to be increased and such reversal of the impairment effect may be objectively related to an event occurring after the impairment were to be recognized in the results of the year, the loss due to impairment shall be reversed in the results of the year.

The loss due to impairment recognized in the consolidated income statement of securities classified as available for sale shall not be reversed.

Securities held to maturity

Securities held to maturity consist of debt instruments whose payments are fixed or can be determined with a set maturity, which are acquired with the intent and capability to hold them to maturity.

They are initially recorded at fair value and valued at amortized cost, which means that the amortization of the premium or discount (included in the fair value at which they were initially recorded), is part of the earned interest.

Transfers between categories

Reclassification of securities from held to maturity to available for sale is allowed, provided there is no intention or ability of holding them to maturity. In the case of reclassifications to securities held to maturity or from trading securities to available for sale securities, which can be done in extraordinary circumstances (lack of market liquidity, absence of an active market for such securities, among others), the Commission will evaluate such circumstances and, if it determines they are valid, it will issue its express authorization for their reclassification.

General valuation standards

Upon the sale of trading securities, the valuation result previously recorded in the year's results is reclassified as part of the gain or loss on the sale. Similarly, upon the sale of securities available for sale, the cumulative valuation result recorded in other comprehensive income in stockholders' equity is reclassified as part of the gain or loss on the sale.

Accrued interest on debt instruments is determined using the effective interest method and is recorded in the corresponding category of investments in securities and in the year's results.

Dividends on equity instruments are recorded in the corresponding category of investments in securities and in the year's results when the right to receive such dividends is established.

The foreign exchange gain or loss on investments in securities denominated in foreign currency is recorded in the year's results.

If securities held to maturity are reclassified as available for sale, the corresponding valuation result on the reclassification date is recorded in other comprehensive income within stockholders' equity.

In the case of debt instruments that have been authorized for reclassification from available for sale securities to held to maturity securities, the valuation result on the transfer date continues to be reported in stockholders' equity, and it is amortized based on such instrument's remaining life.

Regarding authorized reclassifications from trading securities to any other category, the valuation result on the reclassification date is already acknowledged in the year's results.

An impairment loss on a security is recorded against the year's results if there is objective evidence of such impairment as a result of one or more events, occurring after the initial recording of the security, that have had an impact on the estimated future cash flows that can be reliably determined. The effect of recording the impairment of securities is shown in Note 6.

A previously recorded impairment loss is reversed against the year's results if, in a later period, the amount of the loss decreases and such decrease is objectively associated with an event occurring after the impairment was recorded.

The Financial Group periodically verifies if its securities available for sale and held to maturity show any impairment loss, by means of an evaluation on the quarterly balance sheet date or whenever there are indications of an impairment loss.

Securities are deemed as impaired and therefore incurring an impairment loss if and only if there is objective evidence of the impairment loss as a result of a set of events that occurred after their initial value was recorded. Such events should have had an impact on the estimated future cash flows, which can be determined in a reliable manner.

These events may include: issuer's significant financial difficulties; likelihood of the issuer's filing for bankruptcy or financial reorganization; noncompliance with contractual clauses such as failure to pay interest or the principal; loss of an active market for the securities due to financial difficulties; lower credit rating and sustained decline in the issuance price, in combination with additional information.

In addition to the aforementioned events, objective evidence of impairment loss for a net asset instrument includes information about significant changes with adverse effects that occurred in the technological, market, economic or legal situation in which the issuer operates, and which indicates a possible loss of the cost of investing in the net asset instrument.

The events considered by the model are divided into:

a) Information that the Financial Group has about the securities (breach of contract covenants, financial, economic or legal problems).

b) Information that the Financial Group has about the issuer (issuer's probability of bankruptcy, financial reorganization and financial difficulties).

c) Information that the market has about the securities (rating assigned by Commission-approved agencies).

d) Information that the market has about the issuer (rating assigned by Commission-approved agencies).

The evaluation model that the Financial Group applies to determine impairment loss incorporates the aforementioned events according to their importance and rates them as per the severity percentage used to estimate the return on investment. Similarly, it incorporates the existence of guarantees, which contributes to lower impairment losses.

The investments on which impairment losses have been recognized are analyzed on a quarterly basis to identify the possible recovery of their value and, if applicable, reverse the recorded loss in the consolidated income statements for the year such recovery is achieved.

Customer repurchase agreements (repos)

This is a transaction through which the purchaser acquires ownership of credit securities for a sum of money and is obliged to transfer the property of another amount of securities of the same kind to the seller of the securities within the agreed term and in exchange for the same price plus a premium. The purchaser keeps the premium unless agreed otherwise.

Repurchase transactions are recorded according to their economic substance, which is financing with collateral, through which the Financial Group, acting as the purchaser, provides cash as financing in exchange for financial assets as guarantee in case of non-compliance.

On the repurchase agreement transaction contract date, the Financial Group, acting as the seller, records the cash inflow, or else a settlement debtor account as well as a payable account at its fair value, initially at the agreed price, which represents the obligation to reimburse the cash to the purchaser. The account payable is subsequently valued over the term of the repurchase agreement at amortized cost by recognizing the interest from the repurchase agreement in the year's results using the effective interest method.

As to the collateral granted, the Financial Group reclassifies the financial asset in the consolidated balance sheet as restricted and values it according to the criteria mentioned earlier in this note until the maturity of the repurchase agreement.

The Financial Group, acting as the purchaser, on the repurchase transaction contract date records cash and cash equivalents or a creditor settlement account, with an account receivable at its fair value, initially at the agreed price, which represents the right to recover the cash that was delivered. The receivable is subsequently valued over the life of the repurchase agreement at amortized cost by recognizing the repurchase agreement interest in the year's results using the effective interest method.

As to the collateral received, the Financial Group records it in off balance sheet memorandum accounts until the repurchase agreement's maturity, following the guidelines of Circular B-9, "Asset Custody and Management", issued by the Commission.

Derivatives financial instruments

The Financial Group is authorized to perform two types of transactions involving derivatives financial instruments:

<u>Transactions to hedge the Financial Group's open risk position:</u> Such transactions involve purchasing or selling derivatives financial instruments to mitigate the risk resulting from one or a group of given transactions.

<u>Transactions for trading purposes:</u> The Financial Group enters into such transactions as a market participant for reasons other than to hedge its exposed position.

Transactions with derivatives financial instruments are presented in assets or liabilities, as applicable, under the heading "Derivatives financial instruments", separating derivatives for trading purposes from those for hedging purposes.

When entering into transactions involving derivatives financial instruments, the Financial Group's internal policies and norms require an assessment and if necessary determination of different risk exposures for each counterparty in the financial system that have been authorized by Banco de México to enter into these types of transactions. Regarding corporate customers, a preauthorized credit line by the National Credit Committee must be granted or liquid guarantees must be given through a securitized collateral contract before entering into these types of transactions. Medium and small sized companies and individuals must provide liquid guarantees established in securitized collateral contracts with this type of transactions.

The recognition or cancellation of assets and/or liabilities resulting from transactions involving derivatives financial instruments occurs when these transactions are entered into, regardless of the respective settlement or delivery date of the goods.

<u>Forward and futures contracts</u>

Forward and futures contracts with trading purposes establish an obligation to buy or sell a financial asset or an underlying at a future date in the quantity, quality and prices pre-established in the contract. Future contracts are recorded initially by the Financial Group in the consolidated balance sheets as an asset and a liability at fair value, which represents the price agreed in the contract in order to acknowledge the right and obligation of receiving and/or delivering the underlying, as well as the right and obligation of receiving and/or delivering the cash equivalent to the underlying, object of the contract.

The derivatives are presented in a specific item of the assets or liability depending on whether their fair value (as a consequence of the rights and/or obligations it establishes) corresponds to the debtor balance or creditor balance Such debtor or creditor balances in the consolidated balance sheets are offset when the Financial Group has the contractual right to offset the stated amount, the intention of liquidating the net amount or to realize the asset and cancel the liability simultaneously.

In the case of transactions for trading purposes, their balance represents the difference between the fair value of the contract and the established “forward” price.

Option contracts

Through paying a premium, options contracts grant the right but not the obligation to buy or sell a financial asset or underlying instrument at a given price within an established term.

Options are divided into: options to buy (calls) and options to sell (puts). Both can be used as trading or hedging instruments.

Options can be executed on a specific date or within a certain period of time. The price is agreed in the option and may be exercised at the discretion of the buyer. The instrument used to establish the price is the reference or underlying value.

The premium is the price the holder pays to the issuer for the option rights.

The holder of a call option has the right, but not the obligation, to purchase from the issuer a certain financial asset or underlying instrument at a fixed price (transaction price) within a certain term.

The holder of a put option has the right, but not the obligation, to sell a certain financial asset or underlying instrument at a fixed price (transaction price) within a certain term.

The Financial Group records the option premium as an asset or liability at the transaction date. The fluctuations resulting from market valuation of the option’s premium are recorded by affecting the consolidated income statement in the account “Trading results” and the corresponding consolidated balance sheet account.

Swaps

These are two-party contracts through which a bilateral obligation is established to exchange a series of cash flows for a certain period of time on pre-set dates at a nominal or reference value.

They are recorded at fair value which corresponds to the net amount between the asset and liability portion for the rights and obligations agreed upon; they are subsequently valued at fair value using the present value of the future flows to receive or grant according to the projections for future implicit applicable rates, discounting the market rate on the valuation date with yield curves given by the price provider. The result of such valuation is recorded in the year’s results.

Management’s risk policy regarding hedging contracts is to protect the Financial Group’s consolidated balance sheets and to anticipate interest and exchange rate fluctuations, thereby protecting the stockholders’ equity.

For hedging derivatives, the Financial Group applies the fair value and cash flow hedging methods and the accumulated compensation method to measure effectiveness. Such methods are approved by current accounting standards. In case ineffective hedges are detected, they are recorded in the year’s results.

The Financial Group documents hedging transactions from the moment that derivatives instruments are designated as hedging transactions. A file for each transaction is created in order to have documented proof as per Circular B-5, paragraph 72 “Derivatives financial instruments and hedging transactions” (B5) issued by the Commission, which establishes conditions for the use of hedging accounting.

Accordingly, the Financial Group documents its cash flow's hedging transactions based on the following guidelines:

a. The effective portion of the hedging instrument's gain or loss is recorded as a component of other comprehensive income in stockholders' equity using an asset or liability account called derivatives financial instruments'' with an offsetting account in liquid assets or liabilities. The portion determined as ineffective is measured through retrospective testing, and when it results in over-hedging, it is immediately recognized in the period's results under "Trading results".

b. The effective hedging component recognized in stockholders' equity associated with the hedged item is adjusted to equal the lowest (in absolute terms) of:

    i. The accumulated gain or loss of the hedging instrument from its inception.
    ii. The accumulated change in fair value (present value) of the hedged expected future cash flows from the beginning of the transaction.

Valuation techniques

Since the derivatives used by the Financial Group are considered as conventional ('"Plain Vanilla'') standard valuation models contained in the derivative transaction systems and the Financial Group's risk management are used.

All of the valuation methods that the Financial Group uses result in fair value of the transactions and are periodically adjusted. Furthermore, they are audited by internal and external auditors as well as by the financial authorities.

Valuation of the positions is done on a daily basis and a price provider generates the input used by the transaction and risk management systems. The price provider generates these valuations based on daily market conditions.

The valuation methods are based on the market's accepted and commonly used principles. At present, derivatives are valued by the cash flow present value method, except in the case of options. This method consists of estimating future derivative flows, using the difference between the derivative's fixed level and the forward market curves on the valuation date, and then discounting such flows and updating them to the present value. Options are valuated under the Black_ Scholes model, which in addition to the present value calculation, involves the volatility and probability of occurrence for calculating the premium. Once the option's market value is obtained, it is compared to the original premium accrued on the valuation date.

Cancellation of hedging accounting

A cash flow hedging relation is cancelled when:

1. The hedging instrument expires or is sold, terminated or enforced;
2. The hedging fails to meet the requirements of documentation, evaluation and effectiveness measuring;
3. The projected transaction is not expected to occur;
4. The hedging designation is revoked.

For cases 1 and 2, the profit or loss recorded in net income stays in that account until the projected transactions occurs. For case 3, the profit or loss recorded in net income should be immediately restated in results; and for case 4, if the hedging is on a projected transaction, the loss or profit stated in net income should stay in that account until the projected transactions is realized. Otherwise, it should be immediately restated in results.

A fair value hedging relation is canceled when:

1. The hedging instrument expires or is sold, terminated or enforced;
2. The hedging fails to meet the requirements of documentation, evaluation and effectiveness measuring;
3. The hedging designation is revoked.

Any adjustment to the result from the valuation adjustment of the hedged item attributable to the covered risk, should be amortized in the period's results. The amortization begins as soon as the adjustment turns up, and under no circumstance after the hedged item is no longer adjusted due to changes in the fair value attributable to the risk covered. The adjustment should be amortized in full on the due date of the hedged item.

Operation strategies

Trading

The Financial Group participates in the derivatives market with trading purposes, and the risk exposures generated are computed within its overall VaR limit.

The trading strategy is submitted on a weekly basis to the Financial Group's Treasury Committee, which analyzes the current risks and takes any necessary decisions.

The trading strategy is carried out according to market levels and expectations, maximizing the circumstances to obtain a benefit by trading, margin and volatility. Each trading strategy is submitted to the Treasury Committee on a weekly basis for its consideration. The Risk Policies Committee analyzes the risks and then decides accordingly.

Hedging

The hedging strategy is determined annually and when market conditions require it. Hedging strategies are submitted to the Risk Policies Committee.

Hedging transactions comply with the applicable norm set forth in Circular B-5, "Derivatives and hedging transactions", issued by the Commission. This implies, among other things, that the hedge's effectiveness must be evaluated both prior to its arrangement (prospective) as well as thereafter (retrospective). These tests are performed on a monthly basis.

The hedging strategy is determined annually and each time the market conditions require. Hedges are used to reduce foreign exchange risks, through both, exchange rate forwards and currency swaps, as well as interest rates by means of interest rate swaps. This is performed with the purpose of setting the rates paid on debt issued by the Financial Group, thereby ensuring the debt servicing, as well as to make investments that generate greater value for the customers. The main strategy is to ensure that the Financial Group's future income and expenses are covered, maximizing its profitability.

Hedging derivatives can be restated completely or partially due to hedging inefficiencies, maturity or sale of primary position.

Contingencies

To enter the derivatives market, the Financial Group is bound by agreement to deliver its financial information in a timely manner and to abide by the applicable laws, regulations and provisions, as well as to provide written notice to the affected parties in case that an event arises that could be considered as early termination, which could lead to a credit contingency. These include the following: bankruptcy filing, payment suspension, restructuring, intervention, liquidation, dissolution or other similar judicial or extra-judicial proceedings that affect the Financial Group; if the statements stipulated in the contract are incorrect; the Financial Group's failure to fulfill its obligations and/or payments; breach of contract; the Financial Group's consolidates or merges with another entity thereby transferring a substantial portion of its assets; failure to provide the guarantees that were agreed in the event of noncompliance with obligations or if such guarantees expired or diminished in value; the Financial Group's falls into insolvency, lower credit quality or illegality due to changes in the tax or legal legislation; the existence of a ruling, proceeding or embargo against the Financial Group that could substantially affect its ability to fulfill its obligations in a timely manner; or general noncompliance with obligations. Each ground for early termination is subject to the counter-party's consideration in order to determine its importance and significance regarding the Financial Group's ability to comply.

At present, no such contingency situations have arisen.

Embedded derivatives

Embedded derivatives are those contract components that do not intend to explicitly originate a derivative financial instrument but rather that the implicit risks generated or hedged by those components differ in their economic and risk features from those of the contract, and therefore display a behavior and features similar to those of a common derivative.

Identified embedded derivatives are separated from the host contract for valuation purposes and are treated as a derivative when they meet the features outlined in Circular B-5 paragraph 22, unless the implicit derivative is denominated in a currency commonly used for the purchase and sale of non-financial items in the economic environment where the transaction takes place. The main embedded derivatives recognized by the Financial Group prior to January 2011 are from service and leasing contracts established in US dollars.

Loan portfolio

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

The unpaid loan balance is classified as past-due portfolio as follows:

- Loans with bullet payment of principal and interest at maturity: 30 calendar days after being overdue.
- Loans involving a single principal payment at maturity, but with periodic interest payments: 90 calendar days after interest payment overdue, 30 calendar days after principal payment overdue.
- Loans for which the payment of principal and interest is agreed based on partial periodic payments, 90 calendar days after the first payment is due.
- In the case of revolving loans, whenever payment is outstanding for two billing periods or when they are 60 or more days overdue.
- Overdrawn customer checking accounts are considered as part of the past-due portfolio when such situations arise.

Interest is recognized and accrued as income when earned. The accrual of interest income is suspended when loans are transferred to the past-due portfolio.

The fees charged the initial granting, restructuring and renewal of loans will be recorded as a deferred credit, which will be amortized as interest income, using the straight line method over the loan's contractual term, except those originating from revolving loans, which are amortized over a 12-month period.

Annual credit card fees, whether the first annual charge or subsequent of a renewal, are recorded as a deferred credit and amortized over a 12-month period against the year's results in the commission and fee income line item.

The costs and expenses associated with the initial granting, restructuring and renewal of a loan are stated as a deferred charge, which is amortized against the year's earnings as interest expense for the duration of the loan, except those originating from revolving loans and credit cards as they are amortized over a 12-month period.

Restructured past-due loans are not considered in the performing portfolio until evidence of sustained payment is obtained; this occurs when credit institutions receive three timely consecutive payments, or a payment is received for periods exceeding 60 days.

The restructured credits are renewed with single payment of principal at maturity, regardless of whether the payment of interests is periodic or at maturity, it is considered that there is sustained payment of credit when, The accredited has covered at least 20%t of the original amount of the loan at the time of the restructuring or renewal, Or, has covered the amount of accrued interest in accordance with the scheme of payments by restructuring or renewal for a period of 90 days.

Accrued interest during the period in which the loan was included in the past-due portfolio is recognized as income when collected.

The recognition of interest income is renewed when the portfolio is no longer considered past-due, which occurs when the outstanding balances, including the principal, interest and any other item, are paid in full.

Restructured loans are those whose terms have been modified due to the borrowers' financial difficulties, and it was decided to grant them a concession. Such modifications may include reductions in the interest rate, debt discount or term extensions.

The Financial Group regularly evaluates whether a past-due loan should remain in the balance sheet or be written off. Such write-offs are done by canceling the outstanding loan balance against the allowance for loan losses. The Financial Group may opt to eliminate from its assets those past-due loans that are 100% provisioned according to the following parameters:

- Commercial loans – Must be classified in past-due loans, with an E risk rating, 100% reserved, unsecured by any fund.
- Consumer loans – 180 days or more overdue.
- Mortgage loans – 270 days or more overdue.

Allowance for loan losses

Internal methodology for credit portfolio, consumer credit rating and other revolving credits

On November 15, 2017, the Holding Company received approval from the banking regulator to use Internal Models (IM) for credit card rating for reserves and regulatory capital generation by credit risk with an advanced focus (Document 111-3/706/2017).

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

The internal methodology describes that the determination of the rating and estimation of the reservation of the credit card consumption portfolio and other revolving credits are considered as the following credit risk parameters:

Ri =PIi * SP * EIi

Where:
Ri = Loan reserves to record for EIi credit
PIi = Probability of default for EIi credit
SPi = Severity of the los for EIi credit
EIi = Expose to default for i – estimated credit

For the determination of the reserve is necessary to use the probability of default, the severity of the loss and the exposure to breach, agree to the following:

1. Probability of default of the Internal Model

The probability of default (PI) measures how likely it is that an accredited leave to comply with their contractual obligations and is assigned with the information in the following table according to their risk level previously determined by the internal model of Credit Card.

Risk level	PI
A-01	0.00646233
A-02	0.00668129
A-03	0.00770357
A-04	0.00899237
B-01	0.01008105
B-02	0.01538093
B-03	0.01962636
B-04	0.02590753
C-01	0.03379690
C-02	0.04619679
C-03	0.06073381
C-04	0.08180872
D-01	0.11804428
D-02	0.17143767
D-03	0.30358352
D-04	0.71565748
E	1

2. Severity of the loss

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

Clasification	Overdue payments	SP
Payed	0 - 3	87.16%
Unpayed	4	87.16%
	5	90.30%
	6 and more	100%

3. Probability of Default

Probability of Default (PD) shows the likelihood that a borrower defaults on its contractual obligations within twelve months after the month being rated. Default is defined when loans present 90 or more days past-due.

The credit conversion factor (FCC) assignment to estimate the EI is performing according to the following table:

Delay	Factor
01	1.8475
02	2.0624
03	1.2974
04	1.1693
05	1.2167
06	1.0985
11	1.2583
12	1.1074
13	1.0398
14	1.0790
15	1.0247
21	1.1145
22	1.0907
23	1.0385
24	1.0161
25	1.0241
31	1.0129
32	1.0086
33	1.0053
5	0.6549

Delay segment in defined in the internal model.

The value of the Factor assigned to each segment proceeds to rate the exposure to non-compliance.

When the account balance is greater than zero: EI = Factor_Arbol * Accountant balance

When the account balance is less than or equal than zero and the limit credit is empty: EI = 0.6549 * Credit limit.

Application of new portfolio rating criteria

The loan portfolio is classified according to the rules issued by the SHCP and the methodology established by the Commission. Internal methodology authorized by such Commission may also be used.

Such provisions also establish general methodologies for the rating and calculating the allowance for each type of loan, while also allowing credit institutions to classify and calculate allowances based on internal methodologies, when previously approved by the Commission.

The commercial loan portfolio rating procedure requires credit institutions apply the established methodology (general or internal) based on quarterly information for the periods ending in March, June, September and December of each year, while also recording the allowances determined at the close of each month in their financial statements. Furthermore, during the months following each quarterly close, financial institutions must apply the respective rating to any loan used at the close of the immediately preceding quarter, based on the outstanding balance in effect on the last day of the aforementioned months. The allowances for loan risks that have exceeded the amount required to rate the loan will be cancelled against the period's results on the date of the following quarterly rating. Additionally, recoveries on the previously written-off loan portfolios are recorded in the period's results.

General description of rules established by the Commission

The rules for rating the consumer, mortgage and commercial loans (excluding loans to financial intermediaries and loans intended for investment projects having their own source of payment) indicate that their allowance for loan loss should be determined based on the estimated expected loss of the loans over the next twelve-month period.

Such methodologies stipulate the estimate of such loss evaluates the probability default, the severity of the loss and the exposure to non-compliance. The result of multiplying these three factors is the estimated expected loss that is the same as the amount of the reserves needed in order to face the loan risk.

Depending on the type of loan, the probability default, severity of the loss and exposure to non-compliance are determined by considering the following:

Probability of breach of contract

- Non-revolving consumer loan – takes into account the current delay, the payments made on the past due balances, how many times the original value is paid, the type of loan, the remaining terms, among others.

- Revolving consumer loan – considers the current situation and historical behavior regarding the number of outstanding payments, how old the accounts are, the payments on the balance, as well as what percentage of the authorized line of credit has been used.

- Mortgage loan – considers the current delay, maximum number of delays over the last four periods, willingness to pay and the value of the property with respect to the loan balance.

- Commercial loans – consider the type of debtor, payment experience, INFONAVIT payment history, rating agencies' evaluation, financial risk, social-economical risk, financial soundness, country and industry risk, market positioning, transparency, standards and corporate governance.

Severity of the loss

- Revolving and non-revolving
- Consumer loan – depends on the number of outstanding payments.
- Mortgage loan – considers the amount of the property sub-account, unemployment insurance and the state where the loan was granted.
- Commercial loans – consider actual financial and non-financial guarantees as well as personal guarantees.

Exposure to non-compliance

- Non-revolving consumer loan – loan balance at the rating date.
- Revolving consumer loan – considers the current use of the credit line to estimate how much its use would increase in the event of non-compliance.
- Mortgage loans – loan balance at the rating date.
- Commercial – for revocable loans, the loan balance at the rating date is considered. For irrevocable loans, the current use of the credit line to estimate how much its use would increase in the event of non-compliance is considered.

The Commission's rules for rating commercial loan debtors for loans intended for investment projects having their own source of payment, indicate that the rating must be done by analyzing the risk of projects in the construction and operation stage evaluating the project's cost overrun and cash flows.

General Description of Internal Methodologies

<u>Internal models ratings for reserves and regulatory capital constitution</u>

Applicable Portfolio

The Holding Company owns a Rating Internal Model for Revolving Consumer portfolio for the constitution of reserves and capital under an Advanced Approach, estimating the three parameters required for its calculation: Probability of Default (PD), Severity of Loss (SL) and Exposure at Default (EAD). Additionally, owns a Rating Internal Model for Corporations portfolio, for the constitution of reserves and capital under a Basic Approach, estimating only the Probability of Default (PD) parameter.

The exposures considered in the Commercial Loans portfolio are those pertaining to corporations (other than states, municipalities and financial entities), and individuals (sole proprietorships), both with annual sales higher or equal to 14 million UDIs.

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

On November 15, 2017, the Holding Company received approval from the banking regulator CNBV to use Internal Models (IM) for credit card rating for reserves and regulatory capital generation by credit risk with an advanced focus (Document 111-3/706/2017).

Likewise, on November 30, 2018, the Holding Company obtained authorization from the banking regulator CNBV (Comisión Nacional Bancaria y de Valores) to use the Internal Model (IM) for Commercial Loans for reserves generation and regulatory capital requirements by credit risk with a Basic Approach, as per Document 111-3/1472/2018 in Banco Mercantil del Norte, and on March 1, 2019 for Arrendadora y Factor Banorte, Sólida Administradora de Portafolios, as per Documents 111-1/160/2019 y 111-1/161/2019 respectively.

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

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

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

Internal Rating Process

Commercial Loans

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

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

EL = PD * SL * EAD

Credit Cards Portfolio

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

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

Auto Loans

Since January 2020, the Financial Group has been authorized to use an internal methodology under an advanced approach for the Auto portfolio. This methodology is used to estimate reserves and capital requirements for credit risk, in accordance with what is established in the regulation.

The probability of default, the severity of the loss and the exposure to default of this methodology is determined considering the following:

Probability of Default

It takes into account overdue payments, seniority in the institution and the age of the loan, as well as external behavior variables: maximum delinquency and use in other financial institutions observed in different time windows.

Loss Severity

There are differentiated models for each segment based on the ratio of the book balance / amount of the guarantee that, through different time windows, brings the costs associated with the recovery (recoveries, deductions and discounts) to present value, and are expressed as a percentage of the exposure at default.

Exposure to Default

As it is a non-revolving credit, the amount of the accounting balance is taken at the time of qualification.

Internal Models' Variable Estimation

Probability of Default

Probability of Default (PD) shows the likelihood that a borrower defaults on its contractual obligations within twelve months after the month being rated. Default is defined when loans present 90 or more days past-due.

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

Severity of Loss

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

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

Exposure at Default

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

Its estimate is based on the conversion factor, which considers the relationship between the current balance and the remain amount of the credit lines.

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

Probability of Default

- There are differentiated models according to the current delay, which take into account aspects such as use, internal transactionality, the client's confidence with the institution, age of the account and external behavior variables such as maximum delinquency and use in other financial institutions observed in different time windows.

Acquired collection rights

This balance is represented by the acquisition cost of the various loan asset packages acquired by the Financial Group, which are subsequently valued by applying one of the three following methods:

Cost recovery method – Payments received are applied against the acquisition cost of the loan portfolio until the balance equals zero. Recoveries in excess of the acquisition cost are recognized in current earnings.

Interest method – The result of multiplying the acquired portfolio's outstanding balance by the estimated yield is recorded in current earnings. Differences between the Financial Group's collection estimates and actual collections are reflected prospectively in the estimated yield.

Cash basis method – The amount resulting from multiplying the estimated yield times the amount actually collected is recorded in the consolidated income statements provided it is not greater than the amount obtained by the interest method. The difference between the recorded amount and the amount collected reduces the outstanding portfolio balance, once the entire initial investment has been amortized. Any subsequent recovery will be recorded in the consolidated income statements.

For the portfolios valued using the interest method, the Financial Group evaluates them twice a year to verify if the cash flow estimate of its collection rights is consistent with actual recoveries and therefore considered to be effective. The Financial Group uses the cost recovery method on those collection rights in which the expected cash flow estimate is not highly effective. The expected cash flow estimate is considered as "highly effective" if the result of dividing the sum of the flows collected by the sum of the expected cash flows is between 0.8 and 1.25 when such effectiveness is evaluated.

Loan asset impairment – The Financial Group carries out an expected cash flow assessment periodically while collection rights are still effective, and if based on the events and information gathered, it determines that said cash flows will drop, it develops an estimate of non-recoverability or doubtful accounts vs. the period's results in the amount in which said expected cash flows are lower than the book value of the account receivable.

Premium receivables

This balance represents the premiums pending collection on the balance date. Pursuant to the provisions of the General Law of Institutions and Mutual Insurance Companies (the Law) and the Mexican National Insurance Commission CNSF, premiums over 45 days old should be cancelled against the year's earnings including, if applicable, the technical reserves, acquisition cost and relative reinsurance granted, and should not be considered in the coverage of technical reserves.

Based on the internal policy approved by the CEO, the administration authorized excluding the cancellation process for certain policies with a premium over 45 days old and that has not been collected totally or partially. These accounts are indeed collectible and negotiations with the insured are currently underway, excluding debts under federal public administration's and entities' charge. The non-accrued net premium, fees and reinsurance should be subtracted from such amount to determine its net effect on earnings. This amount was not computed for the coverage of technical reserves.

Reinsurance

According to the rules of the CNSF, a portion of the insurance contracted by the Financial Group is ceded in reinsurance to other insurance or reinsurance companies. Therefore they are part of both the premiums and the casualty rate cost.

Securitization involving transfer of ownership

Through securitization transactions involving the transfer of ownership in mortgage and government loans, the Financial Group transfers those financial assets to a trust so that it may publicly issue securities through an intermediary. The securities represent the right to the yield on the securitized portfolio and, as compensation; the Financial Group receives cash and a record, which grants it the right over the trust's residual cash flows after settling the certificates to their holders. This record is recorded at its fair value under "Receivables generated by securitizations".

The Financial Group provides administration services for the transferred financial assets and records the revenue thereof in the period's earnings when accrued. These revenues are recorded under "Other Operating Income (expenses)".

The valuation of the benefits to be received from securitization operations is recorded in the consolidated income statement under "Other revenues", as applicable.

Other accounts receivable and payable

The Financial Group performs a study to quantify the different future events that could affect the amount in accounts receivable over 90 days and thus determine the percentage of non-recoverability in order to calculate its allowance for doubtful accounts, as per the provisions. The remaining balance of accounts receivable is reserved at 90 calendar days from the initial recognition.

The balances of asset and liability settlement accounts represent transactions involving the sale and purchase of currency and securities, recorded when entered into and are settled within 48 hours.

The investment projects' balances represent financing to investment projects' trusts (especially in the development of social housing). The Financial Group acknowledges a yield from the trust financing disposal, which is related to the construction project's progress compliance and/or sale as stated in each trust's agreement. Failure to meet the construction project's progress and/or sale as stipulated in the agreement, the Financial Group stops recording the funding yield.

To assess investment projects, each project's expected value is determined according to the expected flow of the sale of investment project's potential inventory or that of a portfolio of investment projects of the Financial Group based on the current business plan.

The impairment of fiduciary rights will be determined based on the projection of cash flows to be recovered discounted at present value using a corresponding interest rate, in accordance with the policy mentioned in note 3.

Merchandise inventory

This is comprised mainly of finished goods and is restated to the lower of replacement cost or market. Cost of sales, included in "Other Operating Income (expenses)" in the consolidated income statements is restated using the replacement cost at the time of the sale.

Impairment of the value of long-lived assets and their disposal

The Financial Group has established guidelines to identify and, if applicable, record losses derived from the impairment or decrease in value of long-lived tangible or intangible assets, including goodwill.

Foreclosed assets, net

Foreclosed property or property received as payments in kind are recorded at the lower of their cost or fair value minus the strictly necessary costs and expenses disbursed in the foreclosure. Cost is determined as the forced-sale value established by the judge upon foreclosure or, in the case of payments in kind, the price agreed between the parties involved.

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is higher than the foreclosed property, the difference is recorded in the period's results under "Other operating income (expenses)".

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is lower than the foreclosed property, its value is adjusted to the asset's net value.

The carrying value is only modified when there is evidence that the fair value is lower than the recorded carrying value. Reductions in the carrying value of the loan are recorded in the current earnings as they occur.

The provisions applicable to the new valuation methodology for the allowance for loan losses mentioned above define the valuation methodology for reserves related to either foreclosed property or those assets received as payment in kind, establishing that additional quarterly provisions must be created to recognize the potential decrease in value over time of property awarded under legal proceedings, out-of-court or received as payment in kind and the investments in securities received as foreclosed goods or payment in kind, based on the following guidelines:

I. In the case of collection rights and movable property, the provisions referenced in the preceding paragraph must be treated as follows:

Movable property reserves	
Time elapsed as of award date or receipt as payment in kind (months)	Reserve percentage
Up to 6	-%
More than 6 and up to 12	10%
More than 12 and up to 18	20%
More than 18 and up to 24	45%
More than 24 and up to 30	60%
More than 30	100%

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the value of collection rights or foreclosed property, received as payment in kind or awarded in a court proceeding.

II. Investments in securities must be valued in accordance with the provisions of the Commission's accounting Circular B-2, using annual audited financial statements and monthly financial information of the issuer.

Following the valuation of foreclosed assets or those received as payment in kind, the reserves resulting from applying the percentages established in the table of Section I above to the estimated value, must be created.

III. In the case of real estate property, provisions must be created as follows:

Real estate property reserves	
Time elapsed as of award date or receipt as payment in kind (months)	Reserve percentage
Up to 12	-%
More than 12 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the awarded value of the property based on the accounting criteria. Furthermore, when problems are identified regarding the realization of the value of the foreclosed property, the Financial Group records additional reserves based on management's best estimates. On December 31, 2020, there ware no reserves other than those created by the percentage applied based on the accounting criteria that could indicate realization problems with the values of the foreclosed properties.

If appraisals subsequent to the foreclosure or payment in kind result in the recording of a decrease in the value of the collection rights, securities, movable or real estate property, the reserve percentages contained in the preceding table can be applied to the adjusted value.

Property, furniture and equipment

Property, furniture and equipment are recorded at acquisition cost. The balances of acquisitions made up to December 31, 2007 are restated using factors derived from the value of the UDI of that date.

Depreciation is calculated using the straight-line method based on the useful lives of the assets as estimated by independent appraisers.

Permanent stock investments

The Financial Group recognizes its investments in associated companies where it has significant influence but not control using the equity method, based on the book values shown in the most recent financial statements of such entities.

Income taxes

Income tax (ISR) is recorded in the year it is incurred. Deferred income taxes are calculated by applying the corresponding tax rate to the applicable temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carryforwards and certain tax credits. The deferred income tax assets are recorded only when there is a high probability of recovery.

The net effect of the aforementioned items is presented in the consolidated balance sheet under the "Deferred Income taxes, net" line.

Intangible assets

Intangible assets are recognized in the consolidated balance sheets provided they are identifiable and generate future economic benefits that are controlled by the Financial Group. The amortizable amount of the intangible asset is assigned on a systematic basis during its estimated useful life. Intangible assets with indefinite lives are not amortized and their value is subject to the annual impairment tests.

The intangible assets related to the technological platform of the banking core are identified and presented under the heading of "Property, furniture and equipment, net".

Goodwill

The Financial Group records goodwill when the total fair value of the acquisition cost and the Minority Interest is greater than the fair value of the net assets of the acquired business, pursuant to NIF B-7, "Business acquisitions." As goodwill is considered an intangible asset with an indefinite life, it is subject to impairment tests at least annually according to NIF C-15, "Impairment in the value of long-lasting assets and their disposal." No indicators of impairment of goodwill have been identified as of December 31, 2020 and 2019.

Deposits

Liabilities derived from deposits, including promissory notes settled at maturity, are recorded at their funding or placement cost plus accrued interest, determined according to the number of days elapsed at each monthly close, which are charged against results when accrued as an interest expense.

Interbank and other loans

These loans are recorded based on the contractual value, recognizing the interest in the year's earnings as accrued. The Financial Group records in this item the direct loans obtained from domestic and foreign banks, loans obtained through bids with Banco de Mexico and development funds' financing. Furthermore, this includes discounted loan portfolios from funds provided by banks specializing in financing economic, productive or development activities.

Technical reserves

According to the Commission, all technical reserves must be audited by independent actuaries on a yearly basis. On February 9, 2021 and February 13, 2020, the actuaries have confirmed that in their opinion, the amounts of the reserves recorded by the Financial Group as of December 31, 2020 and 2019 are reasonably acceptable based on its liabilities, and are within the parameters that the actuarial practice indicates and comply with the criteria considered by the authorities in the matter.

Technical reserves are constituted pursuant to the terms set forth by the Law, as well as to the provisions issued by the CNSF. To value the technical reserves, the Insurance Company used the valuation methods of the provisions set forth in Chapter 5, "Technical Reserves" in the CUSF published in the Official Gazette on December 19, 2014.

1) Unexpired risk reserve:

In terms of the provisions of section I of article 217 of the LISF, the unexpired risk reserve is intended to cover the expected value of future liabilities arising from the payment of claims, benefits, guaranteed securities, dividends, acquisition and administrative costs, as well as any future liability arising from insurance contracts.

The unexpired risk reserve will include the amount of premiums issued in advance, understanding that a premium issued in advance is when it is ssued on a date prior to the effective date of the policy to which said premium corresponds.

The reserve for insurance operations is determined in accordance with actuarial formulas, considering the characteristics of policies in force, reviewed and approved by the Commission.

The unexpired risk reserve is valued in accordance with the following:

I. The amount of the unexpired risk reserve shall be equal to the sum of the best estimate and a risk margin, which shall be calculated separately.

II. The best estimate will be equal to the expected value of the future flows of liabilities, understood as the weighted average probability of these flows, considering the time value of t money based on the risk-free market interest rate curves for each currency or monetary unit provided by the price provider with which they maintain a contract.

III. The calculation of the best estimate shall be based on timely, reliable, homogeneous and sufficient information as well as realistic assumptions and shall be made using actuarial methods and statistical techniques based on the application of the actuarial practice standards referred to in Chapter 5.17 of the CUSF. For these purposes, when an Insurance Institution or Mutual Society does not have reliable, homogeneous and sufficient information of its own, it must use the corresponding market information.

IV. The projection of future flows used in the calculation of the best estimate will consider the total of gross revenues and expenses (without deducting Reinsurance Recoveries), which are necessary to meet the obligations of the insurance and reinsurance contracts throughout their period of validity, as well as other liabilities that the Insurance Institution or *Sociedad Mutualista* assumes in relation to them.

V. The future income flows will be determined as the best estimate of the expected value of the future income that the Insurance Institution or *Sociedad Mutualista* will have for premiums that, according to the payment method established in the contracts that are in force at the time of valuation, will mature in the future time of validity of such contracts, as well as recoveries and adjustments of less than the estimates of claims. Future premiums for these effects will not be considered as premiums due and unpaid at the time of valuation, or the fractional payments that are accounted for under the concept of debtor for the premium.

VI. Future outflows will be determined as the best estimate of the expected value of future payments and expenses to be incurred by the Insurance Institution or *Sociedad Mutualista* as a result of claims and adjustments of having more derivatives vs. the risks covered, dividend payments, redemptions, administrative and acquisition costs for contracts in force at the time of valuation. Future outflows must also consider all other payments to the insured and beneficiaries, as well as the expenses that the Insurance Institution or Sociedad Mutualista will incur in order to meet the obligations of the insurance and reinsurance contracts, as well as the effect of the exchange rate and inflation, including that relating to expenses and claims.

VII. In the constitution and valuation of the unexpired risk reserve, the amount of the guaranteed assets, as well as the possible options for the insured or beneficiary included in the insurance contracts, should be considered. Any hypothesis used by the Insurance Institution or Sociedad Mutualista with respect to the likelihood that the insured or beneficiaries will exercise the contractual options, including those related to resolution, termination and redemption, must be realistic and based on timely, reliable, homogeneous and sufficient information. The assumptions must consider, explicitly or implicitly, the consequences that future changes in financial and other conditions may have on the exercise of such options;

VIII. The risk margin will be calculated in accordance with the provisions of Chapter 5.4 of the CUSF.

IX. In the valuation and constitution of unexpired risk reserves, the liabilities should be segmented into homogeneous risk groups.

X. The short-term and long-term liabilities should be segmented in the valuation and constitution of the unexpired risk reserve so that the Institutions maintain an adequate balance in the investments of resources in the short and long term, and these hold are coherent with the nature of the liabilities to which they are related, and

XI. Processes and procedures should be established to ensure that the best estimate, as well as the assumptions underlying its calculation, is periodically compared with its previous experience. When such a comparison reveals a systematic deviation between the experience and the best estimate, the Insurance Institution or *Sociedad Mutualista* shall make the necessary adjustments to the actuarial methods or assumptions used. For these purposes, it will be understood that there is a systematic deviation when, in a given class or type of insurance, it is observed that the best estimate of the obligations differs by a reasonable amount from the actual value that the liabilities have attained, in a number of times Such that, by statistical criteria, it is determined that such number of times exceeds the maximum number of times that such estimate could have been deferred. The methodology for the estimation of Reinsurance Recovery should be included as part of the actuarial method.

2) Contractual obligations:

a) Claims and expirations - Claims for life, accidents, health and damage are recorded as soon as they are reported. Life insurance claims are based on the insured sums. Accident, illness and damage claims are adjusted based on the estimate of the amount of the obligations, and, at the same time, the pay back is recorded in the ceded reinsurance. Expirations are payments for expired endowments set forth in the insurance contract.

b) Unreported claims – This reserve is intended for recognizing the amount of actual claims not yet reported to the Financial Group. The estimate is based on prior years' casualty rate, adjusting the actuarial calculations on a quarterly basis, pursuant to the methodology approved by the cap.5.4 CNSF.

c) Dividends on policies - This reserve is determined based on actuarial studies, considering the casualty rate. The dividends are established in the insurance contract.

d) Insurance funds under management - These are the dividends on policies earned by the insured and withheld by the Financial Group to manage, as established in the insurance contract.

e) Security premiums - They are the amounts of segmented collections on the policies.

3) Catastrophic reserve:

The reserve for catastrophic risks is intended to cover the Financial Group's obligations assumed under insurance policies for earthquakes or other catastrophic risks. This reserve is increased as per the bases and percentages established by the CNSF. CNSF authorization is required to release this reserve.

4) Special Technical Reserve

In the operation of insurance that, due to its nature, special characteristics or lack of experience, experimental rates are used, the Insurance Institutions and Mutual Societies must constitute, by indication or prior authorization of the Commission, a technical reserve special for use of experimental rates.

Provisions

Provisions are recognized when the Financial Group has a current obligation resulting from a past event and is likely to result in the use of economic resources and can be reasonably estimated.

Employee retirement obligations

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

Defined benefit plan

The Financial Group records a liability for seniority premiums, pensions and post-retirement medical services as incurred based on calculations by independent actuaries using the projected unit credit method, using nominal interest rates. Accordingly, this recognizes the liability whose present value will cover the obligation from benefits projected to the estimated retirement date of the Holding Company overall employees, as well as the obligation related to retired personnel.

Derived from the entry into force of the New MFRS D-3, "Employee Benefits" (MFRS D-3), the Financial Group adopted the transitory third article published by the Commission to gradually recognize in the stockholders' equity the changes by reformulation referred to in MFRS D-3. In this way, the Institution gradually recognizes in a period of 5 years, as of 2016, the initial balance of actuarial gains or losses in other comprehensive income, as well as, the initial balance of the improvements to the plan in retained earnings from prior years.

At the end of 2020, actuarial earning / losses were generated in all benefits; these amounts are integrated into the other comprehensive income account and will be recycled to results during the future working life of the workers according to the benefit.

The Financial Group applies the provision of NIF D-3 related to the recognition of the liability for severance payments for reasons other than restructuring, which is recorded using the projected unit credit method based on calculations by independent actuaries.

Defined contribution plan

As of January 2001, the Holding Company provided defined contribution pension plan in place. The participating employees are those hired as of this date as well as those hired prior to such date that enrolled voluntarily. The pension plan is invested in a fund, which is included in "Other assets".

Employees who were hired prior to January 1, 2001 and who decided to enroll voluntarily in the defined contribution pension plan received a contribution from the Financial Group for prior services equivalent to the actuarial benefit accrued in their previous defined benefit plan that was cancelled. The initial contribution was made from the plan assets that had been established for the original defined benefit plan and participants were immediately assigned 50% of such amount with the remaining 50% to be assigned over 10 years.

The initial payment to the defined contribution plan for past services was financed with funds established originally for the defined benefit plan as a result of the early termination of its obligations and recognized in accordance with the provision guidelines.

The labor obligations derived from the defined contribution pension plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan's participants.

Provisions for PTU are recorded in the results of the year in which they are incurred as administrative expenses. The Financial Group determines employee statutory profit sharing based on the criteria established in the guidelines set forth by the Mexican Constitution.

Foreign currency conversion

Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate at the close of each period. The exchange rate used to establish Mexican peso equivalence is the FIX exchange rate published by Banco de México. Foreign exchange fluctuations are recorded in the results of operations.

Interest from outstanding subordinated debentures

Accrued interest from outstanding subordinated debentures is recognized as it is accrued and translated according to the exchange rate in effect at each monthly close.

Transfer of financial assets

The Financial Group can act as the assignor o assignee, as applicable, in this type of transactions. Moreover the Financial Group evaluates whether or not to retain the risks and benefits associated with the asset property to determine whether or not there was a transfer of property in a transaction. In transactions involving the transfer of ownership in financial assets, the assignor yields control and substantially transfers all the risks and benefits over such assets. Therefore, the assignor derecognizes such assets and records the consideration received from the transaction. Conversely, the assignee recognizes such financial assets and the transfer consideration in its accounting records.

Share-based payments

The Financial Group grants stock options to key officers through different payment schemes based on stocks. The Financial Group has established trusts to manage the plans and contributes the necessary funds so that shares can be purchased directly from the market at the initiation of each plan.

The Financial Group records its stock option plans according to the guidelines of NIF D-8, "Share-based payments." The compensation expense is recorded at fair value as of the date the stock options are granted. Pursuant to NIF D-8 and given that the Financial Group grants its own stock options, the Financial Group records the expense as if the plan were payable in cash. This expense is then restated at a fair value in each reporting period as per the provisions known on such date.

The fair value of each share is estimated as of the date granted using the Black-Scholes option pricing model or the forwards valuation model, depending on the plans' features.

Memorandum accounts

Memorandum accounts are used to record assets or commitments that are not part of the Financial Group's general balance sheet, as no rights are acquired on the assets and such commitments are not acknowledged as liabilities until they materialize, respectively. The accumulated amounts in the memorandum accounts have only been subject to audit tests when their information is derived from an accounting record. The memorandum accounts not audited are indicated in each case:

- Contingent assets and liabilities (unaudited):

  It records the amount of economic penalties imposed by the administrative or judicial authorities until such payments are made, as a motion for revocation has been filed. It also records the exposure to risk line item for its participation in the Expanded Use Electronic Payments System.

- Loan commitments (unaudited):

  The balance represents the amount of the letters of credit granted by the Financial Group that are considered as irrevocable commercial loans not disposed by the borrowers. It includes the lines of credit granted to clients that were not disposed.

- Assets in trust or mandate (unaudited):

  For the assets in trust, the value of the goods is recorded and any information related to their individual administration is recorded independently. For assets under mandate, the declared value of the assets, subject to the mandates executed by the Financial Group is recorded.

- Assets in custody or under management (unaudited):

  This account records the movement of others' assets and securities that are received in custody or are to be managed by the Financial Group.

- Collateral received:

  The balance represents all the collateral received in securities repurchase agreement operations when the Financial Group is the buyer.

- Collateral received and sold or given as a pledge:

  The balance represents all the collateral received in securities repurchase agreements when the Financial Group is acting as the buyer and which in turn are sold by the Financial Group acting as the seller.

Main subsidiaries' income recognition

Banco Mercantil del Norte

- Income from cash equivalents, securities' investments, repurchasing operations, hedging transactions and loan interest is recorded as income when accrued.
- The fees charged for the initial granting, restructuring and renewal of loans will be recorded as a deferred credit, which will be amortized as interest income.
- Securities purchase-sales results are recorded when performed.
- The revenues from loan asset recovery are recorded when accrued, collected or both agree to the Valuation Method.
- Permanent stock investments in affiliates are originally recorded at their acquisition cost and are valued using the equity method based on the last available financial statements.

Casa de Bolsa Banorte

- Recognition of income from services, financial advisory and securities intermediation fees and commissions generated by customer securities' operations are recorded as they are performed.
- Income from financial advisory is recorded when accrued as per the contract.
- Securities intermediation results are recorded when performed.
- Income and expenses - are recorded as generated or accrued as per the relative contracts.
- Share dividends - share dividends are recorded at zero value in investments; therefore they only affect the results when the shares are sold.
- Permanent stock investments in affiliates – they are originally recorded at their acquisition cost and are valued using the equity method based on the last available financial statements.

Arrendadora y Factor Banorte

- Credit from financial leasing operations, net – financial leasing operations are recorded as direct financing, wherein the account receivable is the total amount of the settled rents, and potential profit is the difference between such amount and the cost of the leased properties. Net financed capital is recorded on the consolidated balance sheet, deducting the total of rents from the potential profit.
- Loans from operating leasing operations – represent company assets given to a third party for the latter's temporary use and enjoyment for a given term equal to or over six months. The operating leasing contract rents are recorded as revenues when accrued.
- Loans from factoring operations, net – funded or non-funded factoring is recorded as follows:
    - Ceded portfolio – the amount is recorded in loan portfolios, minus the difference between loans and the financed amount.
    - Profit from acquired documents (interest) - calculated in advance, per month completed and upon maturity, recorded in factoring, and both are applied to results when accrued.
- Recognition of income – interest from leasing and financial factoring is recognized as income when accrued; however the accumulation of interest is suspended whenever the uncollected interest and/or total loan is transferred to past-due loans. Accrued, normal and past-due interest during the period the loan is considered past-due is recognized as income when collected.
- Profits to be realized from financial leasing are recognized as income when accrued. The final value of the good in financial leasing is recognized as income when purchased.
- The fees for credit opening in leasing and factoring operations are recognized as income as accrued.

Banorte Ahorro y Previsión (Seguros y Pensiones)

Income from premiums – Recognized as follows:

- The premium revenue for group and collective life insurance is recorded in income as the segmented payment receipt is issued, deducting the premiums ceded in reinsurance.
- Premium revenue for accidents, health and damage is recorded in terms of the policies contracted in the year, even though their term is for over one year, deducting the premiums ceded in reinsurance.
- The rights on premiums are recognized in the income at the time of issuance except for the policies that the Insurer agrees with the insured, where the right policy is fractioned in each of the receipts in this scheme, the right policy is recognized in income as it accrues. Revenue from surcharges on policyholders is recognized in income at the time of accrual and the unearned portion is recorded as deferred credits.
- Premium income is recorded at the time premiums are settled

Sólida Administradora de Portafolios

- The revenues from loan asset recovery are recorded: a) as collected, simultaneously recording the associated collection costs; b) the amount product of multiplying the outstanding balance times the estimated yield rate, thereby affecting the account receivable by the difference between the revenue and the collected amount; and c) the amount product of multiplying the estimated yield rate times the amount actually collected – the difference between the result and the collected amount affects the account receivable.

- Loan interest is recognized as accrued.

- Moreover the Financial Group recognizes an income from the trust's return on equity based on fulfilling the construction project's progress and/or sale, and suspends recording such income when the progress is not as expected in the plan included in the trust's contract. Impairment of investment projects is determined based on time for those projects not in development.

5 - Cash and cash equivalents

As of December 31, 2020 and 2019, cash and cash equivalents are as follows:

		2020		2019
Cash	Ps.	26,710	Ps.	23,842
Banks		82,525		38,884
Other deposits and available funds		71		71
	Ps.	**109,306**	**Ps.**	**62,797**

"Banks" is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de México of Ps. 19.9087 and Ps. 18.8642 as of December 31, 2020 and 2019, respectively, and is made up as follows:

	Mexican pesos				USD				Total			
		2020		2019		2020		2019		2020		2019
Call money	Ps.	8,124	Ps.	3,412	Ps.	-	Ps.	-	Ps.	8,124	Ps.	3,412
Deposits with foreign credit institutions		-		-		21,465		661		21,465		661
Domestic banks		6,924		3,008		-		-		6,924		3,008
Banco de México		45,071		31,251		941		552		46,012		31,803
	Ps.	**60,119**	**Ps.**	**37,671**	**Ps.**	**22,406**	**Ps.**	**1,213**	**Ps.**	**82,525**	**Ps.**	**38,884**

In June 2014, Banco de Mexico issued Circular 9/2014, which establishes banking institutions' obligation to constitute a new monetary regulation deposit, and modifies the interest rate such deposits pay. As of December 31, 2020 and 2019, the Financial Group had made monetary regulation deposits of Ps. 25,920 and Ps. 33,122, respectively.

As of December 31, 2020 and 2019, the total sum of restricted cash and cash equivalents is de Ps. 34,044 and Ps. 33,122, respectively. This includes monetary regulation deposits, futures placed in the domestic and foreign market, call money and contracted transactions pending liquidation in 24 and 48 hours. As of December 31, 2020 and 2019, the balance with Banco de México are Ps. 19,978 and Ps. 29,709, respectively, related to the deposit auctions.

As of December 31, 2020 and 2019, "Other deposits and available funds" includes:

		2020		2019
Minted metals in gold and silver	Ps.	39	Ps.	45
Cashable checks received, pending payment at a 3-day term		13		25
Remittances		19		1
	Ps.	**71**	**Ps.**	**71**

The exchange rates used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 924.28 and Ps. 587.01, per unit, respectively, in 2020; and Ps. 702.80 and Ps. 392.85, per unit, respectively, in 2019.

6 - Investments in securities

a. Trading securities

As of December 31, 2020 and 2019, trading securities are as follows:

		2020								2019
		Aquisition cost		Interest income		Valuation increase (decrease)		Book value		Book value
Government securities	**Ps.**	**187,912**	**Ps.**	**743**	**Ps.**	**122**	**Ps.**	**188,777**	**Ps.**	**176,279**
Not restricted		**23,304**		**129**		**117**		**23,550**		**14,255**
D Bonds		-		-		-		-		(199)
M Bonds		(303)		-		3		(300)		(110)
BPA		-		-		-		-		(187)
CEBUR – Government		12		-		2		14		103
CEBUR – Municipality		-		-		-		-		-
CETES		19,181		123		12		19,316		10,299
Eurobonds		-		-		-		-		-
UDIBONOS		4,414		6		100		4,520		4,349
Restricted		**164,608**		**614**		**5**		**165,227**		**162,024**
D Bonds		27,275		32		(14)		27,293		10,668
M Bonds		6,443		34		79		6,556		1,336
BPA		126,766		545		(60)		127,251		145,840
CEBUR – Government		-		-		-		-		3,124
CEBUR – Municipality		-		-		-		-		124
CETES		1,343		-		1		1,344		759
UDIBONOS		2,781		3		(1)		2,783		173
Bank securities		**23,928**		**36**		**5**		**23,969**		**49,023**
Not restricted		**3,124**		**-**		**-**		**3,124**		**4,083**
Bank Acceptances		4		-		-		4		4
CEBUR – development bank		3		-		-		3		3
CEBUR – bank		40		-		-		40		42
CEDES		370		-		-		370		388
Other bank securities		156		-		-		156		81
Promissory Notes		2,551		-		-		2,551		3,565
Restricted		**20,804**		**36**		**5**		**20,845**		**44,940**
Bank Acceptances		1,634		4		-		1,638		2,761
CEBUR – development bank		4,631		12		(2)		4,641		17,289
CEBUR – bank		13,699		18		1		13,718		24,538
Other bank securities		840		2		6		848		352
Private securities		**9,492**		**22**		**1,130**		**10,644**		**8,530**
Not restricted		**9,367**		**22**		**1,130**		**10,519**		**7,946**
Shares		743		-		584		1,327		782
Investment funds		6,234		-		355		6,589		3,887
CEBUR – corporate		1,357		3		69		1,429		1,439
Eurobonds		1,033		19		122		1,174		1,838
Restricted		**125**		**-**		**-**		**125**		**584**
Shares		125		-		-		125		147
CEBUR – corporate		-		-		-		-		437
	Ps.	**221,332**	**Ps.**	**801**	**Ps.**	**1,257**	**Ps.**	**223,390**	**Ps.**	**233,832**

During 2020 and 2019, the Holding Company recognized under "Brokerage revenues" a loss of (Ps.106) and Ps. 344, respectively, for the fair value valuation of these instruments.

As of December 31, 2020 and 2019, there are Ps. 186,197 and Ps. 207,548, respectively, in restricted trading securities associated mainly with repurchase operations.

b. Securities available for sale

As of December 31, 2020 and 2019, securities available for sale are as follows:

	2020								2019	
		Aquisition cost		Interest income		Valuation increase (decrease)		Book value		Book value
Government securities	Ps.	**180,335**	Ps.	**1,725**	Ps.	**5,215**	Ps.	**187,275**	Ps.	**174,026**
Not restricted		**30,871**		**319**		**1,737**		**32,927**		**36,527**
BREMs		7,778		6		-		7,784		7,786
CEBUR - Government		2,061		6		10		2,077		484
CEBUR - Municipality		178		4		50		232		202
CETES		635		-		-		635		613
Eurobonds		20,219		303		1,677		22,199		27,442
Restricted		**149,464**		**1,406**		**3,478**		**154,348**		**137,499**
D Bonds		3,025		-		1		3,026		-
M Bonds		3,461		60		18		3,539		537
BPA		105,466		909		39		106,414		100,814
CEBUR - Government		3,031		9		(52)		2,988		4,298
CEBUR - Municipality		2,540		4		24		2,568		2,434
CETES		2,442		-		2		2,444		48
Eurobonds		29,492		424		3,445		33,361		29,368
UDIBONOS		7		-		1		8		-
Bank securities		**37,711**		**91**		**263**		**38,065**		**6,901**
Not restricted		**26,998**		**71**		**255**		**27,324**		**6,901**
CEBUR - development bank		1,836		20		90		1,946		1,758
CEBUR - bank		2,272		5		113		2,390		1,420
CEDES		20,799		42		6		20,847		2,057
Promissory Notes		531		-		36		567		479
Promissory Notes		300		-		-		300		-
Other bank securities		1,260		4		10		1,274		1,187
Restricted		**10,713**		**20**		**8**		**10,741**		**-**
CEBUR - development bank		10,713		20		8		10,741		-
Private securities		**19,312**		**370**		**(199)**		**19,483**		**21,758**
Not restricted		**16,899**		**323**		**(175)**		**17,047**		**20,183**
Shares		31		-		50		81		67
Investment funds		902		-		30		932		4,305
CEBUR - BORHIS		77		-		(77)		-		20
CEBUR - corporate		6,711		29		(285)		6,455		6,659
Eurobonds		9,178		294		107		9,579		9,132
Restricted		**2,413**		**47**		**(24)**		**2,436**		**1,575**
Eurobonds		1,744		46		(24)		1,766		1,575
CEBUR - corporate		669		1		-		670		-
	Ps.	**237,358**	Ps.	**2,186**	Ps.	**5,279**	Ps.	**244,823**	Ps.	**202,685**

As of December 31, 2020 and 2019, there are Ps. 167,525 and Ps. 139,075, respectively, in restricted securities available for sale, mainly associated with securities repurchasing transactions.

As of December 31, 2020 and 2019, the balance of BREMSR amounted to 77,783,110 securities, acquired in May 2016, these BREMSRs were initially classified as securities available due to the legal impossibility to classify them as trading securities since they did not have a secondary market, ie they are not subject to trading operations. They could not be classified as securities held to maturity because this category was restricted in accordance with paragraph 13 of criterion B-2. In addition, it is contemplated to hedge these securities through cash flow hedging operations on TIIE28 interest rate, which is feasible only in the category of securities available for-sale in accordance with paragraph 60 of the Criterion B-5.

c. Securities held to maturity

As of December 31, 2020 and 2019, securities held to maturity are as follows:

	2020						2019	
		Aquisition cost		Interst income		Book value		Book value
Government securities	Ps.	**186,203**	Ps.	**608**	Ps.	**186,811**	Ps.	**143,173**
Not restricted		**170,789**		**505**		**171,294**		**127,216**
M Bonds		243		2		245		245
CEBUR – Government		1,615		23		1,638		1,681
CEBUR – Municipality		2,111		43		2,154		2,163
CEBUR – Udizados		223		2		225		229
CETES – Specials		591		-		591		568
UDIBONOS		152,017		331		152,348		122,330
Eurobonds - Government		13,989		104		14,093		-
Restricted		**15,414**		**103**		**15,517**		**15,957**
M Bonds		12,554		93		12,647		12,654
CEBUR – Municipality		2,557		10		2,567		2,582
UBIBONOS		303		-		303		721
Bank securities		**1,284**		**940**		**2,224**		**2,109**
Not restricted		**1,284**		**940**		**2,224**		**2,109**
CEBUR – Bank		804		17		821		795
CEDES		300		734		1,034		969
Promissory Notes		180		189		369		345
Private securities		**3,802**		**815**		**4,617**		**5,324**
Not restricted		**2,259**		**812**		**3,071**		**3,409**
CEBUR – corporate		990		812		1,802		2,095
CEBUR – BORHIS		-		-		-		2
Other private securities		1,269		-		1,269		1,312
Restricted		**1,543**		**3**		**1,546**		**1,915**
CEBUR – Corporate		1,543		3		1,546		1,915
	Ps.	**191,289**	Ps.	**2,363**	Ps.	**193,652**	Ps.	**150,606**

As of December 31, 2020 and 2019, there are Ps. 17,063 and Ps. 17,872, respectively, in restricted trading securities associated mainly with repurchasing operations.

As of December 31, 2020, the maturities of the securities (expressed at their acquisition cost), are as follows:

		More than one and up to 5 years		More and 5 and up to 10 years		More than 10 years		Total
M Bonds	Ps.	-	Ps.	12,892	Ps.	-	Ps.	12,892
CEBUR – Bank		-		820		-		820
CEBUR – BORHIS		-		-		2		2
CEBUR – Corporate		771		78		2,499		3,348
CEBUR – Government		11,299		1,214		3,218		15,731
CEBUR – Municipality		-		-		4,721		4,271
CEBUR – Udizados		75		107		43		225
CEDES		1,034		-		-		1,034
CETES – Specials		176		416		-		592
Promissory Notes		369		-		-		369
Other private securities		-		-		152,650		152,650
UDIBONO		-		-		1,268		1,268
	Ps.	**13,724**	**Ps.**	**15,527**	**Ps.**	**164,401**	**Ps.**	**193,652**

Some of the investments in securities are given as collateral in derivative transactions without any restriction; therefore, the receiver has the right to trade them and offer them as collateral.

d. Collateral

The fair value of the collateral given in derivative transactions as of December 31, 2020 and 2019 is as follows:

				2020		
				Fair value in millions		
Type of collateral:	**Instrument category**		**Pesos**		**USD**		**EUR**
Cash	-	Ps.	2,516	Ps.	923	Ps.	38
		Ps.	**2,516**	**Ps.**	**923**	**Ps.**	**38**

					2019		
					Fair value in millions		
Type of collateral:	**Instrument category**		**Pesos**		**USD**		**EUR**
Cash	-	Ps.	102	Ps.	546	Ps.	38
		Ps.	**102**	**Ps.**	**546**	**Ps.**	**38**

As of December 31, 2020 and 2019, the Holding Company had no instruments received as collateral.

As of December 2020 and 2019, interest income is as follows:

Concept		**2020**		**2019**
Trading securities	Ps.	20,330	Ps.	25,018
Securities available for sale		11,395		13,532
Securities held to maturity		1,387		921
	Ps.	**33,112**	**Ps.**	**39,471**

e. Impaired negotiable instruments

The objective evidence that a negotiable instrument is impaired includes observable information on, among others, the following events:

a) considerable financial difficulties of the instrument's issuer;

b) the issuer may be declared bankrupt or in some other financial reorganization;

c) breach of contractual clauses, such as failure to pay interest or the principal;

d) unavailability of an active market for the instrument in question due to financial difficulties; or

e) a measurable reduction in future estimated cash flows of a group of instruments from the initial recording of such assets, although the reduction cannot be identified with individual instruments of the group, including:

i. adverse changes in the payment status of the issuers in the group, or
ii. local or national economic conditions that are correlated with the groups defaults.

During 2020 and 2019, there was no recorded impairment of securities available for sale.

During 2020 and 2019, no interest income was recorded related to the impairment securities.

7 - Creditor balances under repurchase and resale agreements

As of December 31, 2020 and 2019, creditor balances under repurchase and resale agreements are as follows:

Acting as seller of securities

	2020				2019			
Instrumento	Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference	Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference
CEBUR – Government	Ps. 3,867	Ps. 3,867	Ps. -	Ps. -	Ps. 3,690	Ps. 3,784	Ps. -	Ps. 95
CETES	196	196	-	-	-	-	-	-
BONDES	31,913	30,837	1,089	13	-	-	-	-
CEBUR – Developement Bank	1,590	1,590	-	-	2,571	2,571	-	-
UMS (Fix) Bondes - Goverment	1,916	-	1,916	-	1,871	-	1,871	-
IPAB Bonds	19,402	19,286	116	-	2,760	2,760	-	-
Quarterly Bonos IPAB	60,138	59,613	525	-	43,211	43,075	145	8
Semi-annual IPAB Bonds	34,872	34,487	385	-	24,921	24,921	-	-
CEBUR	-	-	-	-	15,936	14,889	1,050	3
20 years Bonds	10,120	10,115	5	-	4,500	4,500	-	-
Government securities	**164,014**	**159,991**	**4,036**	**13**	**99,460**	**96,500**	**3,066**	**106**
CEDES	7,206	7,206	-	-	10,613	10,613	-	-
Bank Bonds	245	245	-	-	213	209	4	-
CEBUR - Bank	9,274	9,274	-	-	8,676	8,676	-	-
Bank securities	**16,725**	**16,725**	**-**	**-**	**19,502**	**19,498**	**4**	**-**
CEBUR Short-Term	5,274	5,274	-	-	4,336	4,336	-	-
Private securities	**5,274**	**5,274**	**-**	**-**	**4,336**	**4,336**	**-**	**-**
	Ps. 186,013	**Ps.181,990**	**Ps. 4,036**	**Ps. 13**	**Ps.123,298**	**Ps.120,334**	**Ps. 3,070**	**Ps. 106**

With the Holding Company acting as the vendor, accrued premiums were charged to the results of operations as of December 31, 2020 and 2019 for Ps. 2,792 and Ps. 3,519, respectively, which are presented in the "Interest Expenses heading."

During 2020, the period of repurchase transactions carried out by the Holding Company in its capacity as vendor ranged in term from 1 to 365 days.

As of December 31, 2020 the amount of the delivered and received securities as collateral in repurchase transactions that represent a transfer of ownership, amount to Ps. 421,090 and Ps. 282,054, respectively, and as of December 31, 2018, the collaterals delivered was Ps. 304,448 and the collaterals received was Ps. 213,885.

Acting as securities purchaser

Instrument		**2020**		**2019**
CETES	Ps.	2,988	Ps.	157
CEBUR		3,300		7,422
CEBUR – Development Bank		1,638		2,760
UMS (FIX) Bonds Government		19,343		19,310
D Bonds		32,921		7,626
IBAP (BPAG28) Bonds		147,874		34,438
IPAB (BPAG91) Bonds		52,524		177,367
Semi-Annual IPAB (BPAT182) Bonds		29,334		33,123
Government Bonds – Fix Rate		23,267		14,133
UDIBONOS		2,624		97
Goverment securities		**315,813**		**296,433**
CEDES – Fixed Exchange Rate		15,387		17,293
CEBUR – Bank		13,731		24,542
Multilateral Financial Organizations Securities		848		357
Bank securities		**29,966**		**42,192**
Sort- term CEBUR		7,315		7,334
Private securities		**7,315**		**7,334**
	Ps.	**353,094**	**Ps.**	**345,959**

With the Holding Company acting as the purchaser, accrued premiums charged to the results of operations as of December 31, 2020 and 2019 were Ps. 21,755 and Ps. 31,841, respectively, which are presented in the "Interest Income" Heading.

During 2020, repurchase transactions carried out by the Financial Group in its capacity as purchaser ranged in term from 1 to 12 years.

8 - Derivative financial instruments

Transactions carried out by the Financial Group involving derivatives correspond mainly to futures, swaps and options contracts. These transactions are done to hedge various risks and for trading purposes.

As of December 31, 2020, the Financial Group has evaluated the effectiveness of derivatives' transactions for hedging purposes and has concluded that they are highly effective.

As of December 31, 2020 and 2019, positions in derivatives financial instruments are as follows:

Asset position		2020		2019
Forwards				
Foreign currency forwards	Ps.	746	Ps.	96
Options				
Interest rate options		219		262
Foreign currency options		499		390
Swaps				
Interest rate swaps		41,601		17,186
Foreign currency swaps		5,015		4,190
Credit swaps		153		171
Total trading		**48,233**		**22,295**
Swaps				
Exchange rate swaps		546		162
Interest rate swaps		1,497		-
Total hedging		**2,043**		**162**
Total position	**Ps.**	**50,276**	**Ps.**	**22,457**

Liability position		2020		2019
Forwards				
Foreign currency forwards	Ps.	106	Ps.	176
Options				
Interest rate options		161		200
Foreign currency options		430		729
Swaps				
Interest rate swaps		36,410		12,715
Foreign currency swaps		6,990		6,932
Total trading		**44,097**		**20,752**
Swaps				
Interest rate swaps		-		273
Foreign currency swaps		4,990		3,948
Total hedging		**4,990**		**4,221**
Total position	**Ps.**	**49,087**	**Ps.**	**24,973**

The following are notional bonds in different currencies, depending on the type of product, by December 31, 2020:

Trading instruments:

Instrument		MXN		USD		EUR		CHF
Foreign currency forwards	Ps.	8,234	Ps.	361	Ps.	-	Ps.	-
Interest rate options		52,855		1,155		-		-
Foreign currency swaps (receiving leg)		52,422		976		-		-
Foreign currency swaps (paying leg)		12,809		2,407		254		-
Interest rate swaps (receiving leg)		448,692		8,611		-		-
Interest rate swaps (paying leg)		448,692		8,611		-		-
Credit swaps		-		54		-		-

Hedging instruments

Instrument		MXN		USD		EUR		GBP
Foreign currency swaps (receiving leg)	Ps.	4,490	Ps.	10	Ps.	-	Ps.	-
Foreign currency swaps (paying leg)		13,954		483		157		128
Interest rate swaps (receiving leg)		23,506		6,000		-		-
Interest rate swaps (paying leg)		23,506		6,000		-		-

The hedging instruments operated and their main underlying instruments are as follows

Forwards	Options	Swaps	CCS
Fx-USD	Fx-USD	TIIE 28	TIIE 28
Fx-EUR	TIIE 28	TIIE 91	TIIE 91
Fx-CAD	TIIE 91	CETES 91	LIBOR
Fx-CHF	LIBOR	LIBOR	Euribor

The risk management policies and internal control procedures for managing risks inherent to derivatives are described in Note 34.

Transactions carried out for hedging purposes have maturities from 2020 to 2031 and are intended to mitigate the financial risk derived from long-term loans offered by the Financial Group at fixed nominal rates, as well as the exchange rate risk generated by market instruments in the Financial Group's portfolio.

As of December 31, 2020 and 2019, the collateral was comprised mainly of cash. Their fair value is shown in Note 6 d).

During 2020 and 2019, the net earnings from the valuation and realization of derivative financial instruments were Ps. 1,994 and Ps. 1,503, respectively.

The net amount of estimated gains or losses originated by transactions or events recorded in "Comprehensive income" to date in the consolidated financial statements and that are expected to be reclassified to earnings within the next 12 months total (Ps. 209).

As of December 31, 2020 and 2019, the main positions hedged by the Holding Company and the derivatives designated to cover such positions are:

Cash flow hedging:

- Forecast funding using TIIE rate Caps and Swaps.
- Recorded assets in foreign currency using Cross Currency Swaps.
- Recorded liabilities in foreign currency using Cross Currency Swaps.

As of December 31, 2020, there are 105 hedge files related to hedging transactions. Their effectiveness ranges 100%, well within the range established by the accounting standards in effect (80% to 125%). Furthermore, there is no over hedging on any of the derivatives; therefore as of December 31, 2020, there are no ineffective portions that are recorded at the market value that the Financial Group has to record in earnings.

The following are the Financial Group's hedged cash flows as of December 31, 2020, expected to occur and affect earnings:

Concept		Up to 3 months		More than 3 months and up to 1 year		More than 1 and up to 5 years		More than 5 years
Forecast funding	Ps.	62	Ps.	191	Ps.	1,003	Ps.	131
Monetary regulation deposits		359		1,161		5,007		3,513
UDI Emission		10		10		76		86
		-		4		1		7
Assets denominated in USD		54		157		609		-
Assets denominated in Euros		56		170		511		-
Assets denominated in GBP		178		572		2,475		171
	Ps.	**719**	**Ps.**	**2,265**	**Ps.**	**9,682**	**Ps.**	**3,908**

The fair value of the instruments designated as cash flows hedging, recognized in overall earnings in stockholders' equity as of December 31, 2020 and 2019 totaled Ps. 448 and (Ps. 1,275), respectively. Furthermore, (Ps. 266) and (Ps. 71), respectively, were reclassified from stockholders' equity to results.

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

The following table shows the cash flows hedging valuation balance:

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

9 - Loan portfolio

As of December 31, 2020 and 2019, the loan portfolio by loan type is as follows:

	Performing loan portfolio				Past-due loan portfolio				Total			
		2020		2019		2020		2019		2020		2019
Commercial loans												
Denominated in domestic currency												
Commercial	Ps.	262,164	Ps.	231,862	Ps.	2,339	Ps.	4,927	Ps.	264,503	Ps.	236,789
Rediscounted portfolio		9,001		6,760		-		-		9,001		6,760
Denominated in USD												
Commercial		52,611		53,912		191		1,584		52,802		55,496
Rediscounted portfolio		1,407		965		-		-		1,407		965
Total commercial loans		**325,183**		**293,499**		**2,530**		**6,511**		**327,713**		**300,010**
Loans to financial institutions		11,172		7,389		-		4		11,172		7,393
Consumer loans												
Credit card		36,651		39,700		3,120		2,287		39,771		41,987
Other consumer loans		79,833		77,980		1,585		2,027		81,418		80,007
Mortgage loans												
Denominated in domestic currency		187,655		169,983		1,647		1,960		189,302		171,943
Denominated in UDIS		81		103		12		13		93		116
Government loans		161,563		173,988		37		4		161,600		173,992
		476,955		**469,143**		**6,401**		**6,295**		**483,356**		**475,438**
Total loan portfolio	**Ps.**	**802,138**	**Ps.**	**762,642**	**Ps.**	**8,931**	**Ps.**	**12,806**	**Ps.**	**811,069**	**Ps.**	**775,448**

Restructured loans

The restructured loans on December 31, 2020 and 2019 that modified their terms and rates are shown below:

	2020				2019			
		Vigente		Vencida		Vigente		Vencida
Commercial loans								
Business loans	Ps.	21,756	Ps.	2,956	Ps.	24,539	Ps.	4,565
Consumer loans		4,663		1,021		481		97
Mortgage loans		1,219		520		178		278
	Ps.	**27,638**	**Ps.**	**4,497**	**Ps.**	**25,198**	**Ps.**	**4,940**

As of December 31, 2020, past-due loans showed the following periods of delinquency:

		From 1 to 180 days		From 181 to 365 days		From 366 days to 2 years		More than 2 years		Total
Commercial loans	Ps.	1,938	Ps.	485	Ps.	105	Ps.	39	Ps.	2,567
Consumer loans		4,604		100		-		1		4,705
Mortgage loans		1,076		583		-		-		1,659
	Ps.	**7,618**	**Ps.**	**1,168**	**Ps.**	**105**	**Ps.**	**40**	**Ps.**	**8,931**

As of December 31, 2019, past-due loans showed the following periods of delinquency:

		From 1 to 180 days		From 181 to 365 days		From 366 days to 2 years		More than 2 years		Total
Commercial loans	Ps.	1,586	Ps.	1,440	Ps.	1,306	Ps.	2,183	Ps.	6,515
Consumer loans		4,099		204		2		9		4,314
Mortgage loans		1,127		850		-		-		1,977
	Ps.	**6,812**	**Ps.**	**2,494**	**Ps.**	**1,308**	**Ps.**	**2,192**	**Ps.**	**12,806**

Past due loan movements for the years ended on December 31, 2020 and 2019 are shown below:

		2020		2019
Balance at the beginning of the year	Ps.	12,806	Ps.	13,263
Liquidations		(2,253)		(2,987)
Write-offs*		(19,643)		(15,581)
Renewals		(578)		(635)
Discounts		(1,742)		(1,680)
Foreclosures		(79)		(305)
Consumer loans		(6,309)		(7,233)
Mortgage loans		26,557		28,029
Fluctuation from foreign exchange rate		340		(65)
Sales loans		(168)		-
Year-end balance	**Ps.**	**8,931**	**Ps.**	**12,806**

* Corresponds to 100% hedged loans.

As of December 31, 2020, the balance of deferred loan origination fees was Ps. 2,363 and the amount recorded in results was Ps. 1,440. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 3,533, and the amount recorded in results was Ps. 1,156.

As of December 31, 2019, the balance of deferred loan origination fees was Ps. 3,187 and the amount recorded in results was Ps. 1,406. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 2,489, and the amount recorded in results was Ps. 1,160.

The collected fees and costs are presented net in the line item of "Deferred credits and advance collections" within the consolidated balance sheets as well as in Interest Income and Interest Expenses, respectively, in the consolidated income statements.

The average terms of the portfolio's main balances are: a) commercial, 2.03 years; b) financial institutions, 3.49 years; c) mortgage, 18.81 years; d) government loans, 10.02 years; and e) consumer, 3.51 years.

During the years ended December 31, 2020 and 2019, the balance of written off loans that had been fully reserved as past due was Ps. 19,643 and Ps. 15,997, respectively.

On December 31, 2020 and 2019, revenues from recoveries of previously written-off loan portfolios were Ps. 2,137 and Ps. 2,006, respectively.

The loans granted per economic sectors as of December 31, 2020 and 2019 are shown below:

		2020			2019	
		Amount	Concentration percentage		Amount	Concentration percentage
Private (companies and individuals)	Ps.	327,713	40.41%	Ps.	300,010	38.69%
Financial institutions		11,172	1.38%		7,393	0.95%
Credit card and consumer		121,189	14.94%		121,994	15.73%
Mortgage		189,395	23.35%		172,059	22.19%
Government loans		161,600	19.92%		173,992	22.44%
	Ps.	**811,069**	**100.00%**	**Ps.**	**775,448**	**100.00%**

Policies and procedures for granting Loans

The granting, control and recovery of loans are regulated by the Financial Group's Credit Manual, which has been authorized by the Board of Directors. Accordingly, administrative portfolio control is performed in the following areas:

I. Business Areas (includes Corporate, Commercial, Business, Governmental and Consumer Banking), primarily through the branch network.
II. Operations Areas
III. General Comprehensive Risk Management
IV. Recovery Management

Similarly, the Financial Group has manuals establishing the policies and procedures to be utilized for credit risk management purposes.

The structure of the credit management process is based on the following stages:

a) Product design
b) Promotion
c) Evaluation
d) Formalization
e) Operation
f) Administration
g) Recovery

Procedures have also been implemented to ensure that past-due loans are timely transferred and recorded in the accounting, and those loans with recovery problems are properly and promptly identified.

Pursuant to the Commission Circular B6, "Loan Portfolio", the distressed portfolio is defined as the commercial loans which, based on the current information and facts as well as on the loan revision process, are very unlikely to be fully recovered (both principal and interest) pursuant to the original terms and conditions. The performing and past due portfolios are susceptible to be identified as a distressed portfolio. D and E risk degrees of the commercial loans' ratings are shown below as distressed loans:

		2020		2019
Distressed commercial loans	Ps.	3,172	Ps.	7,381
Performing		857		1,084
Past-due		2,315		6,297
Commercial loans		**534,748**		**508,890**
Performing		534,495		505,677
Past-due		253		213
Total rated commercial loans		**537,920**		**513,271**
Total portfolio	**Ps.**	**847,102**	**Ps.**	**805,617**
Distressed commercial loans/total portfolio		**0.37%**		**0.92%**

The Holding's Treasury Department is the central unit responsible for balancing resource requirements and eliminating the interest rate risk derived from fixed rate transactions through the use of hedging and arbitrage strategies.

10 - Loans restructured in udis

As of December 31, 2020 and 2019, the Holding Company has no mortgage loans restructured in UDIS.

Early termination of mortgage loan borrower support programs

On June 30, 2010, the Federal Government through the SHCP and Banking Institutions signed an agreement for the early termination of the mortgage loan debtors support programs (Final Point and UDIS trusts) (the Agreement); consequently as of January 1, 2011, the Financial Group absorbed its part of the early discount granted to mortgage loan debtors participating in the program.

The Agreement established a series of obligations for the Federal Government payable in 5 annual amortizations with a due date of June 1, 2015, which is when the last payment of Ps. 29 was received. Such payment included the monthly financial cost from the day immediately following the cut-off date and up to closing of the month immediately preceding the due date.

As of December 31, 2020, the remaining balance of SPECIAL CETES not repurchased by the Federal Government is Ps. 594 with maturities between 2022 and 2027.

11 - Allowance for loan losses

The Financial Group's portfolio classification, which serves as the basis for recording the allowance for loan losses, is detailed below:

	2020						
		Required allowances for losses					
Risk category	**Loan portfolio**	**Companies**	**Government**	**Financial institutions' loans**	**Consumer portfolio**	**Mortgage portfolio**	**Total**
Risk A1	Ps 701,736	Ps. 1,009	Ps. 486	Ps. 70	Ps. 649	Ps. 259	Ps. 2,473
Risk A2	46,696	181	163	7	339	33	723
Risk B1	31,411	77	54	2	837	17	987
Risk B2	10,866	52	23	3	282	19	379
Risk B3	20,261	113	337	3	485	12	950
Risk C1	11,982	124	101	-	675	53	953
Risk C2	10,461	116	135	-	944	140	1,335
Risk D	10,413	959	16	-	2,572	397	3,944
Risk E	4,683	318	-	-	2,722	88	3,128
Unclassified	(1,407)	-	-	-	-	-	-
	Ps. 847,102	**Ps. 2,949**	**Ps. 1,315**	**Ps. 85**	**Ps. 9,505**	**Ps. 1,018**	**Ps. 14,872**
Less: Recorded allowance	**-**	**-**	**-**	**-**	**-**	**-**	**20,004**
Reserve supplement*							**Ps. 5,132**

Risk category	Loan portfolio	2019 Required allowances for losses: Companies	Government	Financial institutions' loans	Consumer portfolio	Mortgage portfolio	Total
Risk A1	Ps. 659,853	Ps. 909	Ps. 557	Ps. 67	Ps. 631	Ps. 220	Ps. 2,384
Risk A2	37,291	159	77	15	304	30	585
Risk B1	31,638	60	86	-	859	17	1,022
Risk B2	13,292	64	4	-	382	28	478
Risk B3	25,899	112	372	9	851	15	1,359
Risk C1	8,598	96	92	-	269	78	535
Risk C2	9,676	95	101	-	870	163	1,229
Risk D	14,564	2,113	-	2	2,195	491	4,801
Risk E	6,516	1,072	-	-	3,260	87	4,419
Unclassified	(1,711)	-	-	-	-	-	-
	Ps. 805,616	**Ps. 4,680**	**Ps. 1,289**	**Ps. 93**	**Ps. 9,621**	**Ps. 1,129**	**Ps. 16,812**
Less: Recorded allowance	**-**	**-**	**-**	**-**	**-**		**17,639**
Reserve supplement*							**Ps. 827**

* The recorded reserves supplement conforms to the Provisions to cover 100% of the past-due interest and for the effects of inquiries in the credit bureau. Additionally, within the reserve supplement there is Ps. 4,300 to face the possible deterioration of the loan portfolio due to the COVID-19 contingency. The complementary reserves created obey the general provisions applicable to credit institutions, and contemplate the additional allowances anticipating portfolio impairment effects due to COVID-19 described above in "Provisions for Credit".

As of December 31, 2020 and 2019, the provisions to cover 100% of the rating base for loan portfolios includes Ps. 20,776 and Ps. 14,573, respectively, for Granted Guarantors and Loan Acquisitions, which were recorded in memorandum accounts. Ps. 15,257 and Ps. 15,320 were also added for loans to related parties.

As of December 31, 2020 and 2019, the estimated allowance for loan losses is determined based on portfolio balances at those dates.

As of December 31, 2020 and 2019, the allowance for loan losses represents 224% and 138%, respectively, of the past-due portfolio.

The estimated allowance includes the classification of loans granted in foreign currency, which are evaluated at the exchange rate in effect as of December 31, 2020 and 2019.

According to the current regulation, as of December 31, 2019, the Institution rated under the regulatory methodologies based on expected losses the commercial portfolios (except credits destined to investment projects with own payment source), Mortgage portfolio and non-revolving consumer portfolio. In the case of the revolving consumption portfolio, beginning January 2019, the Institution uses an internal methodology authorized by the Commission.

Below are shown for each type of portfolio, the exposure to default, probability of breach of contract, and severity of the loss as of December 31, 2020.

Type of portfolio	Exposure to Default	Weighted Probability of Non-compliance	Weighted Severity of Loss
Commercial*	Ps. 421,157	4.3%	21.2%
Mortgage	189,394	2.9%	18.7%
Non-revolving consumer	81,424	8.6%	68.2%
Revolving Consumer loan	55,510	9.8%	87.0%

* Loans to financial intermediaries and loan intended for investment projects having their own source of payment are not included.

Movements in allowance for loan losses

An analysis of the movements in allowance for loan losses is detailed below:

		2020		2019
Balance at the beginning of the year	Ps.	17,639	Ps.	18,844
Increase charged to results		24,067		17,392
Discounts and write-offs		(21,914)		(18,547)
Rebates granted to housing debtors		(7)		(7)
Others		219		(43)
Year-end balance	**Ps.**	**20,004**	**Ps.**	**17,639**

As of December 31, 2020, the net amount of preventive loan loss reserves charged to the consolidated income statement totals Ps. 21,930, and is presented net of Ps. 2,088 paid to which is recorded in "Other income or (expenses,)", and due to the variation of the USD (Ps. 49) exchange rate; such amounts are offset against results and comprised of Ps. 24,067 credited directly to the provision.

As of December 31, 2019, the net amount of preventive loan loss reserves charged to the consolidated income statement totals Ps. 15,347, and is presented net of Ps. 2,088 paid to which is recorded in "Other income or (expenses,)", and due to the variation of the USD (Ps. 43) exchange rate; such amounts are offset against results and comprised of Ps. 17,392 credited directly to the provision.

12 - Acquired collection rights

The acquired collection rights are comprised as follows:

Valuation Method		2020		2019
Cash basis method	Ps.	647	Ps.	1,010
Cost recovery method		970		590
Interest method		-		1
	Ps.	**1,617**	**Ps.**	**1,601**

As of December 31, 2020, derived from applying the valuation methods (described in Note 4), the Financial Group recognized income from credit asset portfolios of Ps. 626, coupled with the corresponding amortization of (Ps. 378), the effects of which were recognized under the "Other income (expense)" heading in the consolidated income statement. For the year ended December 31, 2019, the Holding Company recognized income of Ps. 598, together with the respective amortization of (Ps. 396).

The Holding Company performs an analysis based on events or information to estimate the amount of expected cash flows to determine the estimated rate of return used in applying the valuation method for the amortization of the accounts receivable. If based on current events information, the analysis demonstrates that the expected future cash flows will decrease to the degree that they will not cover the book value, it will constitute an estimate for non-recoverability or difficult collection against the year's results for the amount that such expected cash flows are lower than the book value of the accounts receivable.

Assets different from cash that the Financial Group has received as part of portfolio collection or recovery have been mainly in real estate property.

The main feature considered for segmenting acquired portfolios has been the type of loan.

13 – Premium receivables, net

This item is made up as follows:

		2020		2019
Maritime and transportation	Ps.	14	Ps.	28
Automobile		1,306		1,300
Various		966		506
Accidents and health		831		1,596
Life		856		568
Pensions		366		414
		4,339		**4,412**
Federal public administration agencies' indebtedness		14		62
	Ps.	**4,353**	**Ps.**	**4,474**

14 – Accounts receivable from reinsurance

This item is made up as follows:

		2020		2019
Insurance and annuities	Ps.	2,594	Ps.	2,690
Reinsurers' participation for pending claims		4,120		4,481
Reinsurers' participation for current risk		422		446
Other participations		177		194
Preemptive credit risk assessment of Foreign Reinsurers Foreing		(2)		(2)
Estimate for punishments		(42)		(22)
	Ps.	**7,269**	**Ps.**	**7,787**

15 - Other accounts receivable, net

This item is made up as follows:

		2020		2019
Loans to officers and employees	Ps.	3,123	Ps.	2,899
Debtors from liquidation settlements		10,552		10,162
Debtors from cash collateral		21,823		11,212
Real estate property portfolios		1,460		1,743
Sundry debtors in Mexican pesos		4,268		4,833
Sundry debtors in foreign currency		832		330
Others		708		486
		42,766		**31,665**
Allowance for doubtful accounts		(285)		(463)
	Ps.	**42,481**	**Ps.**	**31,202**

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

16 - Foreclosed assets, net

As of December 31, 2020 and 2019, the foreclosed assets balance is as follows:

		2020		2019
Moveable property	Ps.	529	Ps.	288
Real estate property		3,535		3,333
Goods pledged for sale		108		236
		4,172		**3,857**
Allowance for losses on foreclosed assets		(240)		(234)
Allowance for losses on foreclosed real estate assets		(2,322)		(2,332)
Allowance for losses on assets pledged for sale		(57)		(137)
		(2,619)		**(2,703)**
	Ps.	**1,553**	**Ps.**	**1,154**

As of December 31, 2020, aging of the reserves for foreclosed assets is made up as follows:

Concept / Months	18 to 24	More than 24	Total
Moveable property	Ps. 6	Ps. 234	Ps. 240

Concept / Months	12 to 24	24 to 30	30 to 36	36 to 42	42 to 48	More than 48	Total
Real estate property	Ps. 41	Ps. 15	Ps. 16	Ps. 21	Ps. 21	Ps. 2,208	Ps.2,322
Goods pledged for sale	2	-	1	3	-	51	57
	Ps. 43	**Ps. 15**	**Ps. 17**	**Ps. 24**	**Ps. 21**	**Ps. 2,259**	**Ps.2,379**

As of December 31, 2019, aging of the reserves for foreclosed assets is made up as follows:

Concept / Months	18 to 24	More than 24	Total
Moveable property	Ps. -	Ps. 234	Ps. 234

Concept / Months	12 to 24	24 to 30	30 to 36	36 to 42	42 to 48	More than 48	Total
Real estate property	Ps. 25	Ps. 20	Ps. 10	Ps. 22	Ps. 20	Ps. 2,235	Ps.2,332
Goods pledged for sale	-	-	-	-	-	137	137
	Ps. 25	**Ps. 20**	**Ps. 10**	**Ps. 22**	**Ps. 20**	**Ps. 2,372**	**Ps.2,469**

17 - Property, furniture and equipment, net

This item is made up as follows:

		2020		2019
Furniture and equipment	Ps.	37,493	Ps.	16,897
Property intended for offices		9,704		9,666
Installation costs		9,178		7,908
		56,375		**34,471**
Less - Accumulated depreciation and amortization		(23,748)		(15,708)
	Ps.	**32,627**	**Ps.**	**18,763**

Depreciation recorded in the results of 2020 and 2019 was Ps. 2,287 and Ps. 2,087, respectively.

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

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

18 - Permanent stock investments

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

	Share %		2020		2019
Afore XXI-Banorte, S.A. de C.V.	50%	Ps.	14,102	Ps.	14,060
Capital I CI-3, S.A.P.I. de C.V.	50%		10		25
Maxcom Telecomunicaciones, S.A.B. de C.V.	3.69%		31		30
F-741723 - Valle de San Pedro	20%		27		-
Controladora PROSA, S.A. de C.V.	19.73%		117		118
PAYCLIP INC	2.62%		208		101
Sociedades de Inversión Ixe Fondos	Various		111		116
Fondo Chiapas, S.A. de C.V.	11.11%		13		15
Fideicomiso de Coinversión F/2504 (CKD)	Various		32		32
Fideicomiso 73789-Banco Monex	4.88%		13		5
Fideicomiso 11769-Carretera Lerma	4.88%		23		23
Fideicomiso 12040-La Gloria	4.88%		5		5
Fideicomiso Actinver 3650	4.88%		1		3
Fideicomiso F/3937	4.88%		5		17
Fideicomiso F/4280	4.88%		4		2
Others	Varios		103		2
		Ps.	**14,805**	**Ps.**	**14,554**

The Holding Company exercises significant influence over its affiliates valued under the equity method through its representation in the board of directors or equivalent management body, as well as through significant intercompany transactions.

The relevant activities of the Afore are directed by both the Financial Group and the Mexican Institute of Social Security [Instituto Mexicano del *Seguro Social*], with equal rights and responsibilities. Therefore the Financial Group has no control over such entity and does not consolidate it.

19 - Deferred taxes, net

The tax reported by the Financial Group is calculated based on the current taxable result of the year and enacted tax regulations. However, due to temporary differences between how income and expenses are recognized for accounting and tax purposes, as well as the differences between the accounting and tax balance sheet accounts, the Financial Group has recognized a recoverable net deferred tax asset of Ps. 626 and Ps. 4,318 as of December 31, 2020 and 2019, respectively, as detailed below:

	2020				2019			
		Temporary Differences		Deferred Effect ISR		Temporary Differences		Deferred Effect ISR
<u>Temporary Differences - Assets</u>								
Allowance for loan losses	Ps.	1,151	Ps.	345	Ps.	1,482	Ps.	444
Tax loss carryforwards		2,694		808		4,326		1,298
Surplus allowances for credit risks over the net tax limit		19,464		5,839		17,083		5,125
Excess of tax over book value of foreclosed and fixed assets		2,085		639		3,064		915
PTU		529		159		498		150
Fees collected in advance		3,543		1,063		2,684		805
Accounting provisions		5,564		1,669		4,465		1,339
Other assets		1,089		327		1,934		581
Total assets	**Ps.**	**36,119**	**Ps.**	**10,849**	**Ps.**	**35,536**	**Ps.**	**10,657**

	2020				2019			
		Temporary Differences		Deferred Effect ISR		Temporary Differences		Deferred Effect ISR
Temporary Differences_- Liabilities								
Excess of tax over book value of foreclosed and fixed assets and expected payments	Ps.	525	Ps.	158	Ps.	473	Ps.	142
Adquisition of Portafolios		1,899		570		1,133		340
Capitalizable projects' expenses		20,243		6,073		18,271		5,481
Provisions		16,835		5,050		10,876		3,262
Financial instruments valuation		576		173		556		167
Intangible assets		1,159		348		1,231		369
Deferred from the IXE purchase method		185		54		536		161
Other		136		41		365		109
Total Liabilities	**Ps.**	**41,558**	**Ps.**	**12,467**	**Ps.**	**33,441**	**Ps.**	**10,031**
Deferred tax, net			**Ps.**	**(1,618)**			**Ps.**	**626**

As explained in Note 29, the applicable income tax rate is 30% for 2020, 2019 and later years.

At December 31, 2020, the tax loss carry forwards prescription is as follows:

Due date		Amount
2024	Ps.	613
2026		197
2027		154
2028		1,338
2029		374
2030		18
	Ps.	**2,694**

Banorte Financial Services's deferred tax assets and liabilities are determined using the liability method. According to this method, the net asset or liability of deferred taxes is determined based on the tax effects of temporary differences between the book and tax base of assets and liabilities. Due to the consolidation of Banorte Financial Services, as of December 31, 2020 and 2019, a net amount of Ps. 31 and Ps. 26, respectively, was added to deferred taxes determined at a rate of 21% as per the tax law of the USA.

20 - Other assets, net

This item is made up as follows:

		2020		2019
Net asset forecast from labor obligations and savings fund	Ps.	5,246	Ps.	73
Payments to amortize		21,091		36,471
Accumulated payment amortization		(8,371)		(5,741)
Goodwill		26,720		26,700
	Ps.	**44,686**	**Ps.**	**57,503**

As of December 31, 2020 and 2019, goodwill is as follows:

		2020		2019
Originated by the merger with Grupo Financiero Interacciones, S.A.B. de C.V.	Ps.	14,070	Ps.	14,070
Originated by the merger with Ixe Grupo Financiero, S.A.B. de C.V.		11,258		11,258
Originated by the merger with Banorte-Ixe Tarjetas, S.A. de C.V., SOFOM, ER		1,005		1,005
Originated by the merger with Uniteller Financial Services		387		367
	Ps.	**26,720**	**Ps.**	**26,700**

As mentioned in Note 4, goodwill is not amortized since 2007 and since then is subject to annual impairment tests. No impairment to goodwill value was detected as of December 31, 2020 and 2019.

21 - Deposits

Liquidity coefficient

The “Investment regime for transactions in foreign currency and conditions to be fulfilled during the term of transactions in such currency”, designed for credit institutions by Banco de México, establishes the mechanism for determining the liquidity coefficient of liabilities denominated in foreign currency.

In accordance with such regime, during 2020 and 2019, the Financial Group generated a liquidity requirement of USD 990,864 thousand and USD 1,122,418 thousand, respectively, and held investments in liquid assets of USD 2,378,899 thousand and USD 1,565,562 thousand, representing a surplus of USD 1,396,437 thousand and USD 444,987 thousand, respectively.

Deposits

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

		2020		2019
Demand deposits				
Non-interest bearing checking accounts:				
Cash deposits	Ps.	236,786	Ps.	213,978
Checking accounts in US dollars for individual residents on the Mexican border		3,097		2,779
Demand deposits accounts		98,841		59,007
Interest bearing checking accounts:				
Other bank checking deposit		172,495		124,928
Checking accounts in US dollars for individual residents on the Mexican border		1,898		1,898
Demand deposits accounts		7,166		13,958
		520,283		**416,548**
Time deposits				
General public:				
Fixed-term deposits		32,037		29,721
Retail time deposits		219,385		227,673
Promissory note with interest payable at maturity PRLV primary market for individuals		75		347
Promissory note with interest payable at maturity PRLV primary market for institutions		271		4,103
Foreign residents deposits		6		6
Provision for interest		497		1,064
		252,271		**262,914**
Money market:				
Over the counter promissory notes		14,187		15,984
Provision for interest		61		52
		14,248		**16,036**
		266,519		**278,950**
Senior debt		**32,325**		**26,907**
Global account of deposits without movement		**2,585**		**2,085**
	Ps.	**821,712**	**Ps.**	**724,490**

The funding rates, which the Financial Group uses as reference are: a) for Mexican pesos, Interbank Interest Rate (TIIE), Average Cost of Funds (CCP) and; b) for foreign currency, the London Interbank Offered Rate (LIBOR).

These liabilities incur interest depending on the type of instrument and average balance held in the investments. The average interest rates and their currency of reference are shown below:

Immediately due and payable deposits:

	2020				2019			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Mexican pesos and UDIS	1.25%	1.38%	1.22%	1.16%	1.08%	1.15%	1.22%	1.14%
Foreign currency	0.09%	0.04%	0.03%	0.03%	0.08%	0.08%	0.09%	0.10%

Time deposits:

Foreign exchange	2020 1Q	2020 2Q	2020 3Q	2020 4Q	2019 1Q	2019 2Q	2019 3Q	2019 4Q
General public								
Mexican pesos and UDIS	5.59%	4.71%	3.63%	3.25%	6.66%	6.80%	6.71%	6.02%
Foreign currency	0.31%	0.30%	0.26%	0.25%	0.32%	0.38%	0.35%	0.26%
Money market	7.20%	6.00%	4.74%	4.22%	8.19%	8.31%	8.25%	7.78%

As of December 31, 2020 and 2019, the terms set for these deposits are as follows:

	2020							
		From 1 to 179 days		From 6 to 12 months		More than 1 year		Total
General public								
Fixed-term deposits	Ps.	19,589	Ps.	1,686	Ps.	10,762	Ps.	32,037
Demand deposits		213,402		5,279		254		219,385
Promissory note with interest payable at maturity PRLV primary market for individuals		71		-		4		75
Promissory note with interest payable at maturity PRLV primary market for entities		252		10		9		271
Foreign residents deposits		6		-		-		6
Provision for interest		246		246		5		497
		233,566		**7,671**		**11,034**		**252,271**
Money market:								
Promissory notes		-		-		14,187		14,187
Provision for interest		-		-		61		61
		-		**-**		**14,248**		**14,248**
Senior debt issued		**32,325**		**-**		**-**		**32,325**
Global account of deposits without movements		**2,585**		**-**		**-**		**2,585**
	Ps.	**268,476**	**Ps.**	**7,671**	**Ps.**	**25,282**	**Ps.**	**301,429**

	2019							
		From 1 to 179 days		From 6 to 12 months		More than 1 year		Total
General public								
Fixed-term deposits	Ps.	27,443	Ps.	1,436	Ps.	842	Ps.	29,721
Demand deposits		219,022		8,185		466		227,673
Promissory note with interest payable at maturity PRLV primary market for individuals		346		1		-		347
Promissory note with interest payable at maturity PRLV primary market for entities		4,103		-		-		4,103
Foreign residents deposits		6		-		-		6
Provision for interest		890		160		14		1,064
		251,810		**9,782**		**1,322**		**262,914**
Money market:								
Promissory notes		-		-		15,984		15,984
Provision for interest		-		-		52		52
						16,036		**16,036**
Senior debt issued		**26,907**		**-**		**-**		**26,907**
Global account of deposits without movements		**2,085**		**-**		**-**		**2,085**
	Ps.	**280,802**	**Ps.**	**9,782**	**Ps.**	**17,358**	**Ps.**	**307,942**

22 - Interbank and other loans

The loans received from other banks as of December 31, 2020 and 2019 are as follows:

	Local currency		USD value		Total	
	2020	2019	2020	2019	2020	2019
Demand deposits:						
Call money	Ps. -	Ps. 500	Ps. -	Ps. -	Ps. -	Ps. 500
	-	**500**	**-**	**-**	**-**	**500**
Short-term:						
Bank of Mexico	-	102	-	-	-	102
Commercial banking	6,254	7,540	7,984	5,470	14,238	13,010
Development banking	3,506	4,037	12	11	3,518	4,048
Public trusts	4,502	4,930	241	196	4,743	5,126
	14,262	**16,609**	**8,237**	**5,677**	**22,499**	**22,286**
Long-term:						
Commercial banking	6,051	8,730	1,067	691	7,118	9,421
Development banking	-	-	44	48	44	48
Public trusts	5,337	4,097	1,023	709	6,360	4,806
	11,388	**12,827**	**2,134**	**1,448**	**13,522**	**14,275**
	Ps. 25,650	**Ps. 29,936**	**Ps. 10,371**	**Ps. 7,125**	**Ps. 36,021**	**Ps. 37,061**

These liabilities incur interest depending on the type of instrument and average balance of the loans.

The average interest rates are shown below:

	2020				2019			
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Call money								
Mexican pesos and UDIS	7.55%	7.25%	5.63%	4.53%	9.82%	14.95%	9.57%	9.83%
Other bank loans								
Mexican pesos and UDIS	8.37%	10.22%	7.94%	6.58%	10.87%	11.03%	10.51%	8.59%
Foreign currency	2.60%	0.11%	0.11%	0.25%	3.28%	3.28%	3.07%	2.86%

The loans contracted by Arrendadora and Factor Banorte accrue an average interest rate of 5.43% and 7.67% in Mexican pesos and 2.18% and 3.18% in USD as of December 31, 2020 and 2019, respectively.

23 - Technical reserves

This item is made up as follows:

	2020	2019
Current risk:		
Life	Ps. 163,932	Ps. 132,682
Accidents and health	1,907	1,888
Damages	2,718	3,251
	168,557	137,821
Contractual obligations:		
Claims and expirations	7,567	7,035
Unreported claims	5,575	4,151
Dividends on policies	56	53
Insurance funds under management	81	82
Security premiums	240	240
	13,519	11,561
Contingency:		
Catastrophic risk	1,431	1,497
Contingencies	3,044	2,492
Special	1,295	1,116
	5,770	5,105
	Ps. 187,846	**Ps. 154,487**

24 - Sundry creditors and other payables

This item is made up as follows:

		2020		2019
Cashier and certified checks and other negotiable instruments	Ps.	3,654	Ps.	3,554
Provision for employee retirement obligations and saving fund		3,202		2,303
Provisions for other obligations		10,245		11,093
Others		18,814		13,254
	Ps.	**35,915**	**Ps.**	**30,204**

25 - Employee retirement obligations

The Holding Company recognizes the liabilities for pension plans and seniority premiums using the "Projected Unit Credit Method", which considers the benefits accrued at the date of the consolidated balance sheets and the benefits generated during the year.

The amount of current and projected benefits as of December 31, 2020 and 2019, related to the Defined Benefit Pension Plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

	2020							
		Pension plan		Seniority premiums		Medical services		Total
Projected benefit obligation (PBO)	Ps.	(1,899)	Ps.	(3,661)	Ps.	(464)	Ps.	(6,024)
Fund market value		556		2,620		175		3,351
Funded status		(1,343)		(1,041)		(289)		(2,673)
Unrecognized prior service cost		-		-		-		-
Unrecognized actuarial losses		-		-		-		-
Net projected asset	**Ps.**	**(1,343)**	**Ps.**	**(1,041)**	**Ps.**	**(289)**	**Ps.**	**(2,673)**

	2019							
		Pension plan		Seniority premiums		Medical services		Total
Projected benefit obligation (PBO)	Ps.	(1,629)	Ps.	(325)	Ps.	(3,463)	Ps.	(5,417)
Fund market value		612		199		2,568		3,379
Funded status		(1,017)		(126)		(895)		(2,038)
Unrecognized prior service cost		-		-		37		37
Unrecognized actuarial losses		84		1		160		245
Net projected asset	**Ps.**	**(933)**	**Ps.**	**(125)**	**Ps.**	**(698)**	**Ps.**	**(1,756)**

Moreover, as of December 31, 2020, a separate fund amounting to Ps. $3,351 ($3,379 in 2019) has been set aside to meet the above-mentioned obligations, in accordance with NIF D-3 and is recorded under "Other assets".

The net periodic pension cost is as follows:

		2020		2019
Service cost	Ps.	85	Ps.	59
Interest cost		456		468
Expected return on plan assets		(269)		(347)
Amortizations of unrecognized items:				
Profits (actuarial losses)		130		83
Cost of the advance reduction/liquidation of obligations		13		(5)
Net periodic pension cost	**Ps.**	**415**	**Ps.**	**258**

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2020 and 2019, are shown below:

Concept	2020 Nominal	2018 Nominal
Discount rate	8.50%	8.75%
Rate of wage increase	4.50%	4.50%
Long-term inflation rate	3.50%	3.50%
Expected long-term rate of return on plan assets	3.50%	3.50%

The liability for severance indemnities due to causes other than organization restructuring, which was also determined by independent actuaries, is comprised as follows:

Concept		2020		2019
Defined and projected benefit obligations	Ps.	(349)	Ps.	(356)
Net projected liability	**Ps.**	**(349)**	**Ps.**	**(356)**

The net periodic pension cost is as follows:

Concept		2020		2019
Service cost	Ps.	67	Ps.	94
Interest cost		17		8
Net periodic pension cost	**Ps.**	**84**	**Ps.**	**102**

Pursuant to the law, the Financial Group makes payments equivalent to 2% of its workers' salary to the contribution plan defined for the retirement saving fund established by law. The expense for this concept was $167 in 2020 and $163 in 2019.

The balance of the employee retirement obligations presented in this Note refers to the Holding Company's Defined Benefit Pension Plan for those employees who remain enrolled.

The labor obligations derived from the Defined Contribution Pension Plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan's participants. This pension plan is invested in a fund as of December 31, 2020 and 2019, equivalent to Ps. 3,351 and Ps. 3,579, respectively, which is recorded under "Other assets" and is equivalent to the recorded plan liability.

As of December 31, 2020 and 2019, the PTU provision was Ps. 538 and Ps. 508, respectively.

26 - Subordinated debentures

As of December 31, 2020 and 2019, the subordinated debentures in circulation are as follows:

		2020		2019
Non-preferred subordinated obligations, non-preferent, perpetual, non-cumulative 5 years callable BANOD19 999999 denominated in USD, with an interest rate of 6.875%.**	Ps.	6,969	Ps.	6,602
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 10 years callable BANOE91 999999 denominated in USD, with an interest rate of 7.625%.**		10,950		10,375
Preferred subordinated obligations not susceptible to be converted into share capital BANOC36 311004 with maturity in October 2031, denominated in USD, with an interest rate of 5.75% payable semiannually and amortizing the capital at maturity.		5,857		5,550
Nonpreferred subordinated nonconvertible debentures IXEGB40 141020, maturing in October 2020, denominated in US dollars, at an interest rate of 9.25%, payable semiannually with a final principal payment at maturity.		-		2,264
Nonpreferred subordinated nonconvertible debentures Q BINTER 15 maturing in February 2025 and interest at an annual interest rate of TIIE to 28 days plus 2.5 points.		-		1,000
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, interest at a 4.95% annual rate.		1,829		1,772
Non-preferred subordinated obligations, non-preferent, perpetual, non-cumulative 5 years callable NC5 Notes denominated in USD, with an interest rate of 6.750%**		11,945		11,319
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 10 years callable NC10 Notes denominated in USD, with an interest rate of 7.50%**		9,954		9,432
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 10 years callable NC10 Notes denominated in USD, with an interest rate of 8.375%.		9,954		-
Accrued interest.		113		153
Issuance and placement expenses.		(419)		(417)
	Ps.	**57,152**	Ps.	**48,050**

** The above mentioned emission was recorded as a liability and the interests generated by the notes are payable against the retained earnings from prior years, considering the characteristic established in the obligations to pay in an optional way the yields to election of the issuer, what is considered to be a capital component.

The costs related to these debentures are amortized using the straight-line method over the term of the debt. The amortization charged to results were Ps. 106 and Ps. 87 in 2020 and 2019, respectively.

27 - Transactions and balances with non-consolidated subsidiaries and associated companies

Pursuant to Article 73 Bis of the LIC, the loans granted by the Banking Institutions to related parties may not exceed 35% of the basic part of its net capital.

For the years ended December 31, 2020 and 2019, the amount of the loans granted to related parties were as follows:

Institution granting the loan		2020	% over the limit		2019	% over the limit
Banco Mercantil del Norte, S.A.	Ps.	14,844	8.3%	Ps.	11,306	7.9%

The loans granted by Banorte are under the 100% limit set forth by the LIC.

28 - Information by segment

The main operations and balances per concept and/or business segment in the general balance sheet and the income statement are comprised as follows:

a. Interest and fees income is made up as follows:

	2020					
		Interest M.N.		Commissions M.N.		Total M.N.
Cash and cash equivalents	Ps.	2,513	Ps.	-	Ps.	2,513
Margin securities		156		-		156
Investment in securities		33,112		-		33,112
Securities repurchasing and loans		2,792		-		2,792
Hedging transactions		3,947		-		3,947
Commercial loans		39,166		419		39,585
Mortgage loans		17,253		697		17,950
Consumer loans		27,872		322		28,194
Others		5,344		-		5,344
	Ps.	**132,155**	**Ps.**	**1,438**	**Ps.**	**133,593**

	2019					
		Interest M.N.		Commissions M.N.		Total M.N.
Cash and cash equivalents	Ps.	3,670	Ps.	-	Ps.	3,670
Margin securities		307		-		307
Investment in securities		39,471		-		39,471
Securities repurchasing and loans		3,519		-		3,519
Hedging transactions		5,561		-		5,561
Commercial loans		48,325		455		48,780
Mortgage loans		16,223		640		16,863
Consumer loans		28,205		310		28,515
Others		3,828		-		3,828
	Ps.	**149,109**	**Ps.**	**1,405**	**Ps.**	**150,514**

b. The balances by service sector of the Financial Group, without considering the eliminations relative to the consolidation of the financial statements, are as follows:

		2020		2019
Banking sector:				
Net income	Ps.	20,384	Ps.	27,493
Stockholders' equity		135,047		114,261
Total portfolio		791,112		755,899
Past-due loan portfolio		8,580		12,392
Allowance for loan losses		(19,464)		(17,083)
Total net assets		1,262,185		1,149,536
Brokerage sector:				
Net income		1,492		1,259
Stockholders' equity		6,130		4,634
Portfolio balance		889,022		919,985
Total net assets		245,860		190,026
Long term saving sector*				
Net income		7,239		6,427
Stockholders' equity		35,915		28,613
Total net assets *		233,007		190,602
Other finance companies sector:				
Net income		641		786
Stockholders' equity		9,753		9,299
Total portfolio		35,215		34,870
Past-due loan portfolio		351		415
Allowance for loan losses		(540)		(556)
Total net assets		47,014		47,187
Grupo Financiero Banorte (Financial Group)				
Net income		30,484		36,487
Stockholders' equity		222,262		191,743
Total assets		**222,267**		**191,743**

* For sector comparisons, Afore XXI Banorte's results are shown at 100% in this table. As of the fourth quarter of 2016, results are reported in Seguros Banorte through participation method.

c. The trading results for the years ended December 31, 2020 and 2019 are as follows:

		2020		2019
Trading results:				
Spot foreign currency	Ps.	(1,059)	Ps.	(28)
Derivatives financial instruments		742		(855)
Investments in securities		(106)		440
Valuation		**(423)**		**(423)**
Purchase-sales result, net				
Spot foreign currency		2,307		1,120
Derivatives financial instruments		1,252		2,358
Investments in securities		1,718		2,234
Purchase and Sale		**5,277**		**5,712**
Total trading results	**Ps.**	**4,854**	**Ps.**	**5,289**

d. The performing loan portfolio, grouped by economic sector and geographical location, is as follows

Economic sector		2020	%		2019
Agriculture	Ps.	9,325	1.2%	Ps.	8,821
Commerce		74,706	9.3%		67,656
Construction		38,366	4.8%		32,799
Manufacturing		41,224	5.1%		34,981
Mining		4,744	0.6%		5,119
Services		42,874	5.3%		41,291
Financial and real estate services		53,292	6.6%		46,155
Transportation		43,177	5.4%		36,581
Government		161,563	20.1%		173,988
Vivienda		187,736	23.4%		170,086
Mortgage		36,651	4.6%		39,700
Credit card		79,833	10.0%		77,980
Other consumer loans		17,019	2.1%		15,471
Leasing		11,352	1.4%		11,620
Factoring		76	0.0%		31
Valuation of portfolio of GFInteracciones´s Entities		200	0.0%		363
	Ps.	**802,138**	**100%**	**Ps.**	**762,642**

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

Economic Sector		2020	%		2019
Agriculture	Ps	170	1.9%	Ps.	341
Commerce		637	7.1%		1,922
Construction		773	8.7%		634
Manufacturing		289	3.2%		2,157
Mining		-	0.0%		-
Services		250	2.8%		607
Financial and real estate services		28	0.3%		43
Transportation		35	0.4%		471
Government		38	0.4%		4
Mortgage		1,658	18.6%		1,973
Credit card		3,120	34.9%		2,287
Other consumer loans		1,586	17.8%		2,028
Leasing		253	2.8%		226
Factoring		94	1.1%		113
	Ps.	**8,931**	**100%**	**Ps.**	**12,806**

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

	2020							
	Geographical situation							
Product	**Monterrey**	**México**	**West**	**Northeast**	**Southeast**	**Treasury and other**	**Foreigners**	**Total**
Non-interest bearing checking accounts	Ps. 72,199	Ps. 120,298	Ps. 31,402	Ps. 39,653	Ps. 42,357	Ps. 1,294	Ps. -	**Ps. 307,203**
Interest-bearing checking accounts	15,922	93,516	7,943	8,862	21,857	283	-	**148,383**
Current account Ps. and pre-established	3,753	5,865	1,449	1,422	1,588	9	-	**14,086**
Non-interest bearing demand deposits, USD	7,636	9,963	1,777	9,715	2,429	1	-	**31,521**
Interest bearing demand deposits, USD	7,341	7,568	1,227	4,306	1,235	-	-	**21,677**
Retail time deposits	47,481	88,519	20,658	19,085	28,484	430	-	**204,657**
Time deposits, USD	3,156	5,035	1,421	2,408	586	6	-	**12,612**
Customers money market	17,400	10,913	3,616	1,159	1,815	98	-	**35,001**
Financial intermediaries	-	-	-	-	-	40,756	5,816	**46,572**
Total deposits	**Ps. 174,888**	**Ps. 341,677**	**Ps. 69,493**	**Ps. 86,610**	**Ps. 100,351**	**Ps. 42,877**	**Ps. 5,816**	**Ps. 821,712**

	2019							
	Geographical situation							
Product	**Monterrey**	**México**	**West**	**Northeast**	**Southeast**	**Treasury and other**	**Foreigners**	**Total**
Non-interest bearing checking accounts	Ps. 42,788	Ps. 106,420	Ps. 28,887	Ps. 34,641	Ps. 37,340	Ps. 1,053	Ps. -	Ps. 251,129
Interest-bearing checking accounts	24,652	47,268	8,317	8,461	22,633	731	-	112,062
Current account Ps. and pre-established	2,877	4,730	1,201	956	1,245	2	-	11,011
Non-interest bearing demand deposits, USD	5,885	8,070	1,412	8,156	1,738	-	-	25,261
Interest bearing demand deposits, USD	4,517	8,756	1,070	3,819	1,353	1	-	19,516
Retail time deposits	46,295	94,811	22,355	21,142	30,770	1,177	-	216,550
Time deposits, USD	2,156	5,546	1,366	1,817	582	-	2,897	14,364
Customers money market	18,363	8,660	3,639	945	1,771	7	-	33,385
Financial intermediaries	-	-	-	-	-	39,326	1,886	41,212
Total deposits	**Ps. 147,533**	**Ps. 284,261**	**Ps. 68,247**	**Ps. 79,937**	**Ps. 97,432**	**Ps. 42,297**	**Ps. 4,783**	**Ps. 724,490**

29 - Income taxes

The Financial Group is subject to Income Tax (ISR).

ISR

Pursuant to the ISR Law, the rate for 2020 and 2019 was 30% and will continue at the same rate for subsequent years.

Reconciliation of the ISR legal rate and the effective rate expressed as a percentage of the income before ISR and PTU is:

	2020	2019
Legal rate	30%	30%
Provisions	3%	2%
Reserves	15%	11%
Tax inflation	(1%)	(1%)
Non-tax accounting write-offs	1%	2%
Non-cumulative recoveries	(1%)	(1%)
Deductions by discounts and write-offs	(16%)	(10%)
Other entriers	(5%)	(6%)
Effective rate	**26%**	**27%**

30 - Stockholders' equity

The Financial Group's shareholders' common stock is comprised as follows:

	Number of shares with a nominal value of Ps. 3.50	
Paid-in Capital	**2020**	**2019**
"O" Series	2,846,844,254	2,867,523,331

	Historical Amounts			
Paid-in Capital		**2020**		**2019**
"O" Series	Ps.	9,964	Ps.	10,036
Restatement in Mexican pesos through December 2007		4,955		4,956
	Ps.	**14,919**	**Ps.**	**14,992**

Restrictions on profits

The distribution of stockholders' equity, except restated paid-in capital and retained tax earnings, will be subject to income tax on dividends payable by the Financial Group at the effective rate. Any tax paid on such distribution may be credited against that year's income tax paid on dividends and the two immediate fiscal years following such payment, charged against that year's tax and the provisional payments made.

The dividends paid derived from the profits generated as of January 1, 2014 to individuals residing in Mexico and abroad may be subject to additional 10% ISR, which will be withheld by the Financial Group.

The following are prior years' results that may be subject to withheld ISR for up to 10% on the paid out dividends:

Year		Amount that may be subject to withholding		Amount not subject to withholding
Accumulated earnings until December 31, 2013	Ps.	-	Ps.	39,303
Earnings for 2014		50,407		-
Earnings for 2015		62,860		-
Earnings for 2016		68,492		-
Earnings for 2017		71,294		-
Earnings for 2018		76,550		-
Earnings for 2019		90,084		-
Earnings for 2019		118,773		-

As of December 31, the stockholders' equity tax account balances are as follows:

		2020		2019
Capital contribution account	Ps.	84,649	Ps.	82,064
Net tax profit account at the end of 2013 (CUFIN)		18,540		17,973
CUFIN as of 2014		19,433		18,841
Total	**Ps.**	**122,622**	**Ps.**	**118,878**

The Financial Group's net profit is subject to the requirement of transferring at least 5% of each year's net income to the legal reserve until the reserve equals 20% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Financial Group, except in the form of a stock dividend. As of December 31, 2020 and 2019, the legal reserve is Ps. 3,000 and Ps. 2,994 and represents 20% of paid-in capital.

Share-based payments

The Financial Group grants stock options to key officers through different payment schemes based on stocks. The Financial Group has established trusts to manage the plans and contributes the necessary funds so that shares can be purchased directly from the market at the initiation of each plan.

The Financial Group records its stock option plans according to the guidelines of NIF D-8, "Share-based payments". The compensation expense is recorded at fair value as of the date the stock options are granted. The NIF D-8 guidelines stipulate that the fair value determined at the beginning is not revalued at a later date.

During 2020 and 2019, the Institution recorded Ps. 841 and Ps. 433, respectively in Non-interest expense compensation for share-based payments against the paid-in capital.

As of December 31, 2020 and 2019, the Institution has 35,493,301 and 9,959,573 granted to its executives through various share-based payment plans. The share's average weighted price for all the plans during the year was Ps. $106.16 and $106.16, respectively.

During 2020 and 2019, 5,922,884 and 7,101,952 shares were operated, respectively.

Anex I-O (unaudited)

Composition of Capital Disclosure

Capitalization ratio (Banorte)

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

The information for December 31, 2020 sent to Banco de México for review is shown below.

Banorte's capitalization ratio as of December 31, 2020 was 20.20% of total risk (market, credit and operational), and 26.71% of credit risk, which in both cases exceed the current regulatory requirements.

I. Integration of Equity

Table I.1
Format of disclosure of the integration of capital without considering transitory requirements in the application of regulatory adjustments

Referencia	Common equity level 1 (CET1): securities and allowance	Amount
1	Ordinary shares that qualify for common capital of level 1 plus its corresponding premium	21,759
2	Retained earnings from prior years	73,302
3	Other elements of comprehensive income (and other allowances)	39,975
4	Equity subject to gradual elimination of the common equity of level 1 (only applicable for companies that are not linked to shares)	N.A.
5	Ordinary shares issued by subsidiaries in third-party ownership (amount allowed in the common equity of level 1	N.A.
6	Level 1 common capital before regulatory adjustments	135,037
	Level 1 common capital: regulatory adjustments	
7	Adjustments for prudential valuation	N.A.
8	Goodwill (net of deferred taxes to charge)	1,005
9	Other intangibles different to servicing asset of mortgage loans (net of deferred taxes to charge)	1,448
10 (conservative)	Recoverable deferred income taxes that depend on future earnings excluding those that derive from temporary differences (net of payable deferred income tax)	-
11	Result from valuation of instruments for cash flow hedging	(905)
12	Reserves pending to constitute	0
13	Receivables generated by securitizations	110
14	Profits and losses caused by changes in the own credit rating on liabilities valued at fair value	N.A.
15	Defined benefit pension plan	(2,333)
16 (conservative)	Investments in own shares	-
17 (conservative)	Reciprocal Investments in the ordinary capital	-
18 (conservative)	Investments in ordinary shares of banks, financial institutions and insurance companies outside the scope of regulatory consolidation, net of the short positions eligible, where the Institution does not holds more than 10% of the issued share capital (amount that exceeds the threshold of 10%)	-
19 (conservative)	Significant investments in ordinary shares of banks, financial institutions and insurance companies outside the scope of regulatory consolidation, net of the short positions eligible, where the Institution holds more than 10% of the issued share capital (amount that exceeds the threshold of 10%)	1,849
20 (conservative)	Mortgage service rights (amount that exceeds the 10% threshold)	-
21	Recoverable deferred income taxes from temporary differences (amount that exceeds the 10% threshold, net deferred tax payable)	-
22	Amount exceeding 15% threshold	N.A.
23	Of which: significant investments where the institution has more than 10% in common shares of financial institutions	N.A.
24	Of which: mortgage service rights	N.A.
25	Of which: recoverable deferred income taxes from temporary differences	N.A.
26	Before regulatory national adjustments	2,724
A	of which: Other elements of comprehensive income (and other allowance)	7
J	of which: Deferred Charges and advance payments	2,717
27	Regulatory adjustments applied to Tier 1 common capital due to insufficiency of Tier 1 additional equity and Tier 2 common capital to cover deductions	-
28	**Total regulatory adjustments to common equity level 1**	5,107
29	**Common equity level 1 (CET1)**	129,929
	Additional equity level 1: instruments	
30	Instruments issued directly that qualify as additional equity of level 1, plus premium	49,772
31	Of which: classified as equity under applicable accounting criteria	-
32	Of which: classified as liability under applicable accounting criteria	N.A.
33	Instruments issued directly subject to gradual elimination of additional equity level 1	-
34	Instruments issued of Tier 1 additional capital and Tier 1 common equity instruments not included in item 5 that were issued by subsidiaries in third party	N.A.
35	Of which: Instruments issued by subsidiaries subject to gradual elimination	N.A.
36	Additional equity level 1 before regulatory adjustments	49,772
	Additional equity: regulatory adjustments	

37 (conservative)	Investments in additional equity instruments of Level 1 (amount allowed in the additional level 1)	N.A.
38 (conservative)	Equity investments in Tier 1 additional capital instruments	N.A.
39 (conservative)	Investments in the equity of banks, financial institutions and insurers beyond the scope of regulatory consolidation, net of eligible short positions, where the Institution has no more than 10% of the share capital issued (amount exceeding the threshold of 10%)	N.A.
40 (conservative)	Significant Investments in the equity of banks, financial institutions and insurers beyond the scope of regulatory consolidation, net of eligible short positions, where the Institution owns more than 10% of the share capital issued	N.A.
41	National regulatory adjustments	-
42	Regulatory Adjustments applied to Tier-1 additional capital due to inadequacy of Tier 2 capital to cover deductions	N.A.
43	**Total Adjustment to additional capital of level 1**	-
44	**Additional Capital of Level 1 (AT1)**	49,772
45	Equity level 1 (T1 = CET1 + AT1)	179,701
	Equity level 2: instruments and allowances	
46	Instruments issued directly that qualify as equity of level 2, plus premium	5,858
47	Instruments issued directly subject to gradual elimination of additional equity level 2	1,829
48	Tier 2 equity instruments and Tier 1 equity instruments and Tier 1 additional capital that have not been included in lines 5 or 34, which have been issued by subsidiaries in third-party ownership (amount allowed in the supplementary capital D E Level 2)	N.A.
49	of which: Instruments issued by subsidiaries subject to gradual elimination	N.A.
50	Allowances	1,207
51	**Equity level 2 before regulatory adjustments**	8,894
	Equity level 2: regulatory adjustments	
52 (conservative)	Investments in own shares level 2	N.A.
53 (conservative)	Reciprocal Investments in the ordinary capital level 2	N.A.
54 (conservative)	Investments in ordinary shares of banks, financial institutions and insurance companies outside the scope of regulatory consolidation, net of the short positions eligible, where the Institution does not holds more than 10% of the issued share capital (amount that exceeds the threshold of 10%)	N.A.
55 (conservative)	Significant Investments in the equity of banks, financial institutions and insurers beyond the scope of regulatory consolidation, net of eligible short positions, where the Institution owns more than 10% of the share capital issued	N.A.
56	National regulatory adjustments	-
57	Total regulatory adjustments in common equity level 2	-
58	Equity nivel 2 (T2)	8,894
59	Total Equity (TC = T1 + T2)	188,595
60	Total risk weighted assets	933,801
	Equity ratios and supplements	
61	Common equity level 1 (as a percentage of weighted assets for total risk)	13.91%
62	Equity level 1 (as a percentage of weighted assets for total risk)	19.24%
63	Total equity (as a percentage of weighted assets for total risk)	20.20%
64	Institutional specific supplement (at least must consist of: the requirement of Level 1 common equity plus the capital conservation mattress plus the countercyclical mattress plus the G-SIB mattress; expressed as a percentage of weighted assets for total risk)	7.00%
65	Of which: Equity preservation supplement	2.50%
66	Of which: countercyclical specific bank supplement	0.0001%
67	Of which: Systemically Important Global Banks (G-SIB) supplement	0.90%
68	Tier 1 Common Equity available to cover supplements (as a percentage of total weighted assets risk)	6.01%
	National minimums (if different from Basel 3)	
69	National minimum reason for CET1 (if it differs from the minimum established by Basel 3)	N.A.
70	National minimum reason for T1 (if it differs from the minimum established by Basel 3)	N.A.

71	National minimum Reason for TC (if it differs from the minimum established by Basel 3)	N.A.
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financial institutions	N.A.
73	Significant investments in common shares of financial institutions	N.A.
74	Rights for mortgage services (net of tax deferred earnings in charge)	N.A.
75	Deferred tax asset due to temporary differences (net of deferred tax liability)	-
	Limits applicable to the inclusion of reserves in the capital of Level 2	
76	Reserves eligible for inclusion in level 2 capital with respect to exposures subject to standardized methodology (prior to the application of the limit)	675
77	Limit on the inclusion of provisions in Level 2 capital under standardized methodology	5,760
78	Reserves eligible for inclusion in Level 2 capital with respect to exposures subject to internal qualifications methodology (prior to the application of the limit)	533
79	Limit on the inclusion of reserves in the capital of level 2 under the methodology of internal qualifications	1,246
	Equity instruments subject to gradual elimination (applicable only between 1 January 2018 and 1 January 2022)	
80	Current limit of CET1 instruments subject to gradual elimination	N.A.
81	Amount excluded from the CET1 due to the limit (excess over the limit after amortizations and maturities)	N.A.
82	Current limit of AT1 instruments subject to gradual elimination	-
83	Amount excluded from the AT1 due to the limit (excess over the limit after amortizations and maturities)	-
84	Current limit of AT2 instruments subject to gradual elimination	1,829
85	Amount excluded from T2 due to limit (excess over the limit after amortizations and maturities)	-

II. Relation of net capital with the Balance Sheet

Table II.1

Reference of balance sheet items	Balance Sheet figures	Amount presented in the balance sheet
	Activo	**1,261,618**
BG1	Cash and cash equivalents	108,293
BG2	Margin securities	18,099
BG3	Investments in securities	227,764
BG4	Debtor balances under repurchase en resale agreements	3,036
BG5	Securities lending	-
BG6	Derivatives financial instruments	50,277
BG7	Valuation adjustments for asset hedging	54
BG8	Loan portfolio, net	773,189
BG9	Receivables generated by securitization	110
BG10	Other accounts receivables	39,165
BG11	Foreclosed assets	1,384
BG12	Property, furniture and equipment	28,120
BG13	Permanent stock investment	2,539
BG14	Long-term assets available for sale	-
BG15	Deferred taxes	-
BG16	Other assets	9,587
	Liabilities	**1,126,574**
BG17	Deposits	841,003
BG18	Interbank and other loans	14,665
BG19	Creditor balances under repurchase and resale agreements	118,987
BG20	Securities lending	-
BG21	Colaterales vendidos o dados en garantía	13
BG22	Derivatives financial instruments	49,087
BG23	Valuation adjustments for financial liabilities coverage	-
BG24	Obligations in securitization operations	-
BG25	Other accounts payable	44,204
BG26	Subordinated debentures	57,152
BG27	Deferred taxes	253
BG28	Deferred credits and advance collections	1,211
	Stockholders' equity	**135,044**
BG29	Paid-in capital	21,759
BG30	Other capital	113,285
	Accounts	**1,770,854**
BG31	Avales otorgados	-
BG32	Contingent assets and liabilities	167
BG33	Credit commitments	256,306
BG34	Assets in trust or under mandate	315,988
BG35	Financial agent of the federal government	-
BG36	Managed assets in custody	370,011
BG37	Collateral received	280,054
BG38	Collateral received and sold or given as a pledge	183,050
BG39	Investment banking transactions on account of third parties, (net)	97,374
BG40	Interest accrued but not charged of past due loans	178
BG41	Other registration accounts	267,726

Table II.2

Regulatory concepts considered for calculating the components of net capital

Identifier	Regulatory concepts considered for calculating the components of net capital	Reference to the disclosure format for the capital integration of subparagraph (I) of this Annex	Amount in accordance with the notes to the table concepts regulatory considered for the calculation of the components of the net capital	Reference (s) of the item of the balance sheet and amount related to the regulatory concept considered for the calculation of the net capital coming from the mentioned reference.
	Activo			
1	Goodwill	8	1,005	BG16: 1,005 (Goodwill)
2	Other intangibles	9	1,448	BG16: 1,448 (Other intangibles)
3	Deferred income tax (recoverable) from tax losses and credits	10	-	
4	Receivables generated by securitization	13	110	BG9: 110 (Receivables generated by securitization)
5	Investments of the pension plan for benefits defined without restricted access and unlimited	15	-	
6	Investments in its own shares	16	-	
7	Mutual Investments in ordinary capital	17	-	
8	Direct Investments in the equity of financial institutions where the Institution has no more than 10% of the shares issued	18	-	
9	Indirect investments in the equity of financial institutions where the Institution has no more than 10% of the shares issued	18	-	
10	Direct investments in the equity of financial institutions where the Financial Group owns more than 10% of the shares issued	19	-	
11	Direct investments in the equity of financial institutions where the Financial Group owns more than 10% of the shares issued	19	1,849	BG13: 1,849 (Permanent stock investment)
12	Indirect investments in the capital of financial institutions where the Institution owns more than 10% of the share capital issued	21	Not aplicable	
13	Deferred income tax (recoverable) from temporary differences	50	1,207	BG16: 1,207 Reserves)
14	Reserves recognized as complementary capital	26 - B	-	
15	Subordinated debt investments	26 - D	-	
16	Investments in multilateral organisms	26 - E	-	
17	Investments in related companies	26 - F	-	
18	Investments in risk capital	26 - G	-	
19	Investments in societies of investment	26 - H	-	
20	Financing for the acquisition of own shares	26 - J	-	
21	Deferred charges and advance payments	26 - L	-	
22	Workers ‘ participation in deferred earnings (net)	26 - N	-	
23	Investments of the pension plan for defined benefits	26 - P	-	

	Pasivo			
24	Deferred tax (liability) associated to goodwill	8	1,005	BG16: 1,005 (Goodwill)
25	Deferred tax (liability) associated to other intangible	9	1,448	BG16: 1,448 (Other intangibles)
26	Liabilities of the pension plan for defined benefits without unrestricted and unlimited access	15	-	
27	Deferred income tax (payable) associated with pension plan for defined benefits	15	-	
28	Deferred income tax (payable) associated with others other than the above	21	-	
29	Subordinated obligations amount complying with Annex 1-R	31	-	
30	Subordinated debentures subject to transitory computing as basic Capital 2	33	-	
31	Subordinated obligations amount complying with Annex 1-S	46	-	
32	Subordinated debentures subject to transitory computing as complementary capital	47	1,829	BG26: 1,829 (Subordinated debentures)
33	Deferred income tax (in charge) associated with deferred charges and advance payments	26 - J	-	
	Stockholders' equity			
34	Contributed capital that complies with annex 1-Q	1	21,579	
	BG29; 21,579 (Capital contributed)			
35	Retained earnings from prior years	2	73,302	
	BG30; 73,302 (Capital earned)			
36	Result from valuation of instruments for cash flow hedging of items accounted at fair value	3	(905)	BG30; -905 (Capital earned)
37	Other elements of capital earned other than previous	3	40,880	
	BG30; 40,880 (Capital earned)			
38	Contributed capital that complies with Annex 1-R	31	-	
39	Contributed capital that complies with Annex 1-S	46	-	
40	Result from valuation of instruments for cash flow hedging of items not accounted at fair value	3, 11	(905)	
	BG30; (905) (Capital earned)			
41	Result from convertions	3, 26 - A	7	
	BG30; 7 (earned earned)			
42	Income from non-monetary assets	3, 26 - A	-	
	Memorandum accounts			
43	Positions in First-Loss Schemes	26 - K	-	
	Regulatory Concepts not considered in the balance sheet			
44	Reserves pending to constitute	12	-	
45	Profit or increase the value of the assets by acquisition of positions of securitizations (Originating Institutions)	26 - C	-	
46	Operations that violate the dispositions	26 - I	-	
47	Operations with Relevant Related People	26 - M	-	
48	Abrogated	26 - O, 41, 56	-	

III. Weighted Assets Subject to Total Risk

Table III.1
Positions exposed at market risk by risk factor

Concept	Amount of equivalent positions	Capital requirements
Transactions in local currency with nominal rate	117,364	9,389
Transactions in local currency with securities in local currency with surcharge and a rate reviewable	3,834	307
Transactions in local currency with real rate or denominated in UDI’s	2,684	215
Operations in local currency with performance rate referred to the growth of the General Minimum Wage	-	-
Positions in UDI’s or with yield referred to INPC	2	1
Positions in local currency with performance rate referred to the growth of the General Minimum Wage	-	-
Operations in foreign currency with nominal rate	12,497	1,000
Positions in foreign currency or with yield indexed to a exchange rate	18,818	1,505
Positions in capital instruments or with yield indexed at the cost of a capital instruments group	308	25
Positions in goods	-	-

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

Concept	Risk Weighted Assets	Capital requirement
Grup I0A (weighted atl 0%)	-	-
Grup I0A (weighted at 10%)	-	-
Grup I0A (weighted at 20%)	-	-
Grup I0B (weighted at 20%)	19	2
Grup II (weighted at 100%)	969	78
Grup III (weighted at 20%)	8,099	648
Grup III (weighted at 23%)	-	-
Grup III (weighted at 50%)	5,177	414
Grup III (weighted at 57.5%)	-	-
Grup III (weighted at 100%)	99	8
Grup III (weighted at 115%)	-	-
Grup III (weighted at 120%)	-	-
Grup III (weighted at 138%)	-	-
Grup III (weighted at 150%)	-	-
Grup III (weighted at 172.5%)	-	-
Grup IV (weighted at 0%)	-	-
Grup IV (weighted at 20%)	12,091	967
Grup V (weighted at 10%)	-	-
Grup V (weighted at 20%)	21,546	1,724
Grup V (weighted at 50%)	7,416	593
Grup V (weighted at 115%)	655	52
Grup V (weighted at 150%)	20,460	1,637
Grup VI (weighted at 20%)	-	-
Grup VI (weighted at 50%)	46,989	3,759
Grup VI (weighted at 75%)	21,751	1,740
Grup VI (weighted at 100%)	262,703	21,016

Grup VI (weighted at 120%)	-	-
Grup VI (weighted at 150%)	-	-
Grup VI (weighted at 172.5%)	-	-
Grup VII_A (weighted at 10%)	-	-
Grup VII_A (weighted at 11.5%)	-	-
Grup VII_A (weighted at 20%)	7,215	577
Grup VII_A (weighted at 23%)	-	-
Grup VII_A (weighted at 50%)	1,131	90
Grup VII_A (weighted at 57.5%)	-	-
Grup VII_A (weighted at 100%)	170,158	13,613
Grup VII_A (weighted at 115%)	-	-
Grup VII_A (weighted at 120%)	-	-
Grup VII_A (weighted at 138%)	-	-
Grup VII_A (weighted at 150%)	86	7
Grup VII_A (weighted at 172.5%)	-	-
Grup VII_B (weighted at 0%)	-	-
Grup VII_B (weighted at 20%)	6,689	535
Grup VII_B (weighted at 23%)	-	-
Grup VII_B (weighted at 50%)	1,572	126
Grup VII_B (weighted at 57.5%)	-	-
Grup VII_B (weighted at 100%)	202,325	16,186
Grup VII_B (weighted at 115%)	-	-
Grup VII_B (weighted at 120%)	-	-
Grup VII_B (weighted at 138%)	-	-
Grup VII_B (weighted at 150%)	84	7
Grup VII_B (weighted at 172.5%)	-	-
Grup VIII (weighted at 115%)	4,027	322
Grup VIII (weighted at 150%)	1,225	98
Grup IX (weighted at 10%)	-	-
Grup IX (weighted at 50%)	-	-
Grup IX (weighted at 100%)	31,503	2,520
Grup IX (weighted at 115%)	-	-
Grup X (weighted at 1250%)	-	-
Securitizations with a Risk Degree 1 (weighted at 20%)	1,251	100
Securitizations with a Risk Degree 2 (weighted at 50%)	910	73
Securitizations with a Risk Degree 3 (weighted at 100%)	-	-
Securitizations with a Risk Degree 4 (weighted at 350%)	-	-
Securitizations with a Risk Degree 5, or unqualifed		
(weighted at 1250%)	-	-
Re-Securitizations with a Risk Degree 1 (weighted at 40%)	-	-
Re-Securitizations with a Risk Degree 2 (weighted at 100%)	-	-
Re-Securitizations with a Risk Degree 3 (weighted at 225%)	-	-
Re-Securitizations with a Risk Degree 4 (weighted at 650%)	-	-
Re-Securitizations with a Risk Degree 4, 5 or unqualified (weighted at 1250%)	-	-

Table III.3
Weighted assets subject to operational risk

Method	Weighted assets by risk	Capital requirement
Alternative Standard Method	71,860	5,849

Average requirement for market and credit risk in the past 36 months	Average of the annual positive net income of last 36 months
57,002	84,520

IV. Characteristics of the securities that are part of the net Capital

Reference	Characteristics	Q BANORTE 08U
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP or Bloomberg	MX0QBA070037
3	Legal framework	LMV, LIC, CIRCULAR 2019/95, LGTOC
	Regulatory treatment	
4	Level of capital with transience	Complementary Capital
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	276,936,300 (Two hundred and seventy-six million, nine hundred and thirty six thousand and three hundred) UDIs, respective to Ps. 1,772,120,368.55 1,962,998,835.09 (One billion seven hundred and seventy-two million one hundred and twenty thousand and three hundred and sixty-five pesos 55/100 M.N.).
9	Nominal value	100 (One hundred) UDIs
9A	Currency	UDI
10	Accounting classification	Liability at amortized cost
11	Date of issuance	11/03/2008
12	Security term	Maturity
13	Date of maturity	15/02/2028
14	Clause of advance payment	Yes
15	First date of advance payment	22/08/2023
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any date of interest payment from the fifth year counted from the date of issue
	Yields / dividends	
17	Type of yields/Dividends	Fix
18	Interest rate/Dividends	Real Gross (Yield)
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Partially discretionary
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulative
23	Security convertibility	Non-convertibles
24	Convertibility conditions	N. A.
25	Convertibility grade	Non-convertible in shares

26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertibles
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	No
31	Condiciones value decrease	N.A.
32	Grade of value decrease	N.A.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Preferential subordinated debentures
36	Default characteristics	No
37	Description of non-compliance features	N.A.

Reference	Characteristics	D2 BANOD19 999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP14008AD19
3	Legal framework	New York Laws
	Regulatory treatment	
4	Level of capital with transience	Complementary capital
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.$350,000,000 (Three hundred fifty millon US dollars 00/100 USD)
9	Nominal value	U.S. $1,000.00 (Thousand 00/100 USD)
9A	Currency	USD dollar
10	Accounting classification	Liability at amortized cost
11	Date of issuance	06/07/2017
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Perpetual
15	First date of advance payment	Yes
15A	Regulatory or fiscal events	At any time before the expiration date
15B	Settlement price of the advance payment clause	Yes
16	Subsequent dates of payment in advance	Nominal value plus interest accrued at the date of the anticipated amortization
	Yields / dividends	
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0Libor
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non cumulative
23	Security convertibility	Non convertible
24	Convertibility conditions	N.A.

25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	No
31	value decrease conditions	N.A.
32	Grade of value decrease	N.A.
33	**Temporality** of value decrease	N.A.
34	**Temporary value re**duction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-Preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

Reference	Characterístic	D2 BANOE91 999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP14008AE91
3	Legal framework	New York Law
	Regulatory treatment	
4	Level of capital with transience	Basic Capital 2
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.Ps. 550,000,000 (Five hundred and fifty million dollars 00/100 USD)
9	Nominal value	U.S. Ps. 1,000.00 (One thousand dollars 00/100 USD)
9A	Currency	USD dollars
10	Accounting classification	Liability at amortized cost
11	Date of issuance	04/10/2018
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Yes
15	First date of advance payment	At any time before the expiration date
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
	Yields / dividends	
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0LIBOR
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulative
23	Security convertibility	Non-convertibles

24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertibles in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	No
31	**V**alue decrease condition	N.A.
32	**Grade of value** decrease	N.A.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-Preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

Reference	Characteristic	D2 BANOC36 311004
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP14008AC36
3	Legal framework	New York Law
	Regulatory treatment	
4	Level of capital with transience	Complementary capital
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.Ps. 500,000,000 (Five hundred million dollars) 00/100 USD)
9	Nominal value	U.S. Ps. 1,000.00 (One thousand dollars 00/100 USD)
9A	Currency	USD dollars
10	Accounting classification	Liability at amortized cost
11	Date of issuance	04/10/2016
12	Security term	Maturity
13	Date of maturity	04/10/2031
14	Clause of advance payment	Yes
15	First date of advance payment	At any time before the expiration date
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
	Yields / dividends	
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0LIBOR
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulable
23	Security convertibility	Non-convertibles

24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	Yes
31	Value decrease conditions	Yes
32	Grade of value decrease	7%.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

Reference	Characteristics	D2 BANOA64 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP1400MAA64
3	Legal framework	New York Law
	Regulatory treatment	
4	Level of capital with transience	Complementary capital
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.$600,000,000 (Six hundred million dollars 00/100 USD)
9	Nominal value	U.S. $1,000.00 (One thousand dollar 00/100 USD)
9A	Currency	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Date of issuance	27/06/2019
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Yes
15	First date of advance payment	27/09/2024
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
	Yields / dividends	
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0LIBOR
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulable
23	Security convertibility	Non-convertibles

24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	Yes
31	Value decrease conditions	Yes
32	Grade of value decrease	7%.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

Reference	Characteristic	D2 BANOB48 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP1400MAB48
3	Legal framework	New York Laws
	Regulatory treatment	
4	Level of capital with transience	Complementary capital
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.$500,000,000 (Five hundred million dollar 00/100 USD)
9	Nominal value	U.S. $1,000.00 (One thousand 00/100 USD)
9A	Currency	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Date of issuance	27/06/2019
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Yes
15	First date of advance payment	27/06/2029
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
	Yields / dividends	
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0LIBOR
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulable
23	Security convertibility	Non-convertibles
24	Convertibility conditions	N.A.

25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	Yes
31	Value decrease conditions	Yes
32	Grade of value decrease	7%.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

Reference	Characteristic	D2 BANOC21 0999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP1400MAC21
3	Legal framework	New York Laws
	Regulatory treatment	
4	Level of capital with transience	Complementary capital
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.$500,000,000 (Five hundred million dollar 00/100 USD)
9	Nominal value	U.S. $1,000.00 (One thousand 00/100 USD)
9A	Currency	USD Dollar
10	Accounting classification	Liability at amortized cost
11	Date of issuance	14/07/2020
12	Security term	Maturity
13	Date of maturity	Perpetual
14	Clause of advance payment	Yes
15	First date of advance payment	01/07/2030
15A	Regulatory or fiscal events	Yes
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization
16	Subsequent dates of payment in advance	At any time before the expiration date
	Yields / dividends	
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSD0Libor
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretional
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumulative

23	Security convertibility	Non-convertibles
24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertible
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write Down)	Yes
31	Value decrease conditions	Yes
32	Grade of value decrease	7%.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures
36	Default characteristics	Yes
37	Description of non-compliance features	Nonperformance of 30 days in the interest payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.

V. Management

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

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

VI. Weights involved in calculating the countercyclical Capital supplement of the institutions.

Countercyclical Capital supplement of the institution

0.13 million

Jurisdiction	Weighting
Germany	0.00%
Saudi Arabia	0.00%
Argentina	0.00%
Belgium	0.00%
Brazil	0.00%
Canada	0.00%
China	0.00%
Spain	0.00%
USA	0.00%
France	0.00%
Netherlands	0.00%
Hong Kong	1.25%
Indica	0.00%
Indonesia	0.00%
Italy	0.00%
Japan	0.00%
Korea	0.00%
Luxembourg	0.00%
México	0.00%
United Kingdom	0.50%
Russia	0.00%
Singapore	0.00%
South Africa	0.00%
Switerland	2.00%
Swiss	0.00%
Turkey	0.00%
Other Jurisdictions different from the above	0.00%

ANNEX 1-O BIS (In millions of Mexican pesos)

DISCLOSURE OF INFORMATION REGARDING LEVERAGE RATIO
December 2020 (4Q20)

I. Integration of the main sources of leverage

TABLE I.1
STANDARDIZED DISCLOSURE FORMAT FOR LEVERAGE RATIO

REFERENCE	ITEM	AMMOUNT
	Exposure inside the balance	
1	Items within the balance sheet (excluding derivative financial instruments and securities lending operations-SFT for its acronym in English-but including collateral received and recorded in the balance sheet)	1,208,305
2	(amounts of assets deducted to determine level 1 capital of Basel III)	(5,114)
3	Exhibitions within the balance sheet (Net) (excluding financial derivatives and SFT, sum of lines 1 and 2)	1,203,191
	Exposures to derivative financial instruments	
4	Current cost of replacement associated with all operations with financial derivative instruments (net of margin of variation in cash admissible)	28,985
5	amounts of additional factors for potential future exposure, associated with all operations with derivative financial instruments	10,177
6	Increase in collateral provided in transactions with derivative financial instruments when such collaterals are discharged from the balance sheet under the operating accounting framework	N/A
7	(Deductions to the account receivables for change margin in cash contributed in operations with derivative financial instruments)	-
8	(Exposure by transactions in financial instruments derived by client accounts, in which the liquidating partner does not grant its guarantee in case of non-fulfilment of the obligations of the Central Counterpart)	N/A
9	Adjusted effective notional Amount of credit-derived financial instruments subscribed	N/A/
10	(Compensations made to the notional adjusted cash of the financial instruments derived from credit subscribed and deductions of the additional factors by the credit derivatives financial instruments subscribed)	N/A
11	Total exposures to derivative financial instruments (sum of lines 4 to 10)	39,162
	Exhibitions by financing operations with values	
12	Assets SFT gross (without recognition of compensation), after adjustments for accounting transactions for sales	185,013
13	(Accounts payable and for charging of compensated SFT)	(3,036)
14	Exposure of counterpart risk by SFT	15,350
15	Exposure by SFT acting on behalf of third parties	-
16	Total exposures for financing operations with securities (sum of lines 12 to 15)	197,327
	Other exposures off balance sheet	
17	Exposure out of balance (gross notional amount)	256,306
18	(Conversion adjustments to credit equivalents)	(216,491)
19	Off-balance sheet items (sum of the lines 17 and 18)	39,815
	Capital and total exposure	
20	Equity level 1	179,701
21	Total exposures (Sum of lines 3, 11, 16 and 19)	1,479,495
	Leverage ratio	
22	Leverage ratio of Basilea III	12.15%

TABLE I.2

Notes to standardized disclosure format for leverage ratio

REFERENCE	EXPLANATION
1	Total assets of the institution without consolidate subsidiaries or entities of specific purpose (less the assets presented in the above mentioned balance for: 1) operations with derivative financial instruments, 2) repurchase agreements and 3) securities.
2	Amount of deductions from the core capital laid down in subparagraphs (b) to (r) of the fraction I of article 2 Bis 6 of the present provisions. The amount must be recorded with a negative sign.
3	Sum of lines 1 and 2
4	Current Cost of replacement (RC) of transactions with derivative financial instruments, in accordance with those laid down in annex 1-L of these provisions, minus the partial cash settlements (cash variation margin) received, provided that The following conditions are fulfilled:
	a) In the case of counterparts other than the clearing houses referred to in the second subparagraph of article 2 Bis 12 (a), the cash received shall be available to the institution.
	b) The valuation at market of the operation is carried out daily and the received cash is exchanged with the same frequency.
	c) The cash received as well as the operation with the derivative instrument, are denominated in the same currency.
	d) The amount exchanged from the cash variation margin is at least the amount necessary to cover the market value considering the threshold and the minimum amount transferred agreed in the corresponding framework contract.
	e) The amount exchanged from the cash variation margin is at least the amount necessary to cover the market value considering the threshold and the minimum amount transferred agreed in the corresponding framework contract.
	In any case, the maximum amount of cash variation margins received that may be considered will correspond to the positive value of the current replacement cost of each counterpart.
5	Additional Factor in accordance with annex 1-L of these provisions, of operations with derivative financial instruments. In addition, in the case of credit-derived financial instruments which provide credit protection, the conversion value must be included at the credit risk in accordance with article 2 Bis 22 of these provisions.
	In no case may they be used the real guarantees financial that the institution has received to reduce the amount of the additional factor reported in this line.
6	Not applicable. The accounting framework does not allow the cancel of assets given as collateral.
7	Total of margins of change in cash delivered in operations with derivative financial instruments that fulfill with the conditions indicated in the line 4 to reduce the in cash received change margins. The total must recorded with negative sign.
8	N.A.
9	Not applicable. The exhibition that is considered for the purposes of solvency framework in operations with financial derivative instruments of credit which provides credit protection corresponds to 100 per cent of the amount actually guaranteed in the operations concerned. This exhibition is regarded in Line 5.
10	Not applicable. The exhibition that is considered for the purposes of solvency framework in operations with financial derivative instruments of credit which provides credit protection corresponds to 100 per cent of the amount actually guaranteed in the operations concerned. This exhibition is regarded in Line 5.
11	Sum of lines 4 to 10
12	Amount of the assets recorded in the balance sheet (accounts receivable recorded) of operations of reported and securities lending. The amount shall not consider any compensation in accordance with the Accounting Criteria.
13	Positive amount resulting from deducting the accounts payable Accounts receivable generated by operations of reported and securities lending, by its own account, with a same counterpart, and provided that the following conditions are met:
	a) The corresponding operations have the same settlement date.
	b) The right to settle the operations at any time.
	c) The operations are liquidated in the same system and there is a mechanism or arrangements of liquidation (lines or guarantees) that allow the liquidation takes place at the end of the day in which it was decided to liquidate.
	d) Any problems related to the liquidation of collateral flows in the form of securities, do not obstruct the settlement of accounts payable and cash.
	The amount must be recorded with a negative sign.
14	Value of conversion to credit risk of the operations of reported and loan of securities on their own account, in accordance with Article 2 Bis 22 These provisions when there is not a framework contract of compensation. And in accordance with Article 2 Cis 37 when there is such an agreement. The foregoing is without considering adjustments by eligible collateral that applies to the guarantee in the framework of capitalization.

15	In the case of operations of reported and securities lending for the account of third parties, in which the institution granted warranty with their clients before the breach of the counterpart, the amount that should be recorded is the positive difference between the value of the title or cash that the customer has delivered and the value of the guarantee that the borrower has provided.
	Additionally, if the institution can have the collateral delivered by their clients, for their own account, the amount equivalent to the value of the securities and/or cash delivered by the customer of the Institution.
16	Sum of lines 12 to 15
17	Amounts of credit commitments recognized in memorandum accounts according to accounting criteria.
18	Amounts of the reductions in the value of the credit commitments recognized in memorandum accounts by applying conversion factors to credit risk set out in the first title Bis of the present provisions, considering that the conversion factor to credit risk is a minimum of 10 % (for those cases in which the conversion factor is 0 %).
	The amount must be recorded with a negative sign.
19	Sum of lines 17 and 18
20	Basic Capital calculated in accordance with article 2 Bis 6 of provisions.
21	Sum of lines 3, 11, 16 and 19
22	Reason of Leverage. Quotient of the line 20 between the line 21.

II. Comparative of total assets and the assets adjusted

TABLE II.1
COMPARATIVE OF TOTAL ASSETS AND ASSETS ADJUSTED

REFERENCE	DESCRIPTION	AMOUNT
1	Total assets	1,261,618
2	Adjustment for investments in the capital of banks, financial, insurance or commercial entities that are consolidated for accounting purposes, but are outside the scope of regulatory consolidation	(5,114)
3	Adjustment for investments in the capital of banks, financial, insurance or commercial entities that are consolidated for accounting purposes, but are outside the scope of regulatory consolidation	N.A.
4	Adjustment for derivative financial instruments	(11,115)
5	Adjustment for repurchase agreements and securities lending operations (1)	194,291
6	Adjustment for items recognized in memorandum accounts	39,815
7	Other adjustments	-
8	Leverage coefficient exposure	1,479,495

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

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

REFERENCE	DESCRIPTION
1	Total assets of the institution without consolidate subsidiaries or entities of specific purpose
2	Total of the deductions of the basic capital contained in the interjections b), d), e), f), g), h), i), j) and l) of the fraction I, of the Article 2 Bis 6 of dispositions.
	The amount must be recorded with a negative sign.
3	Not applicable. The scope is on the Financial Group without consolidated subsidiaries or entities of specific purpose.
4	Amount equivalent to the difference between the figure contained in line 11 of Table I.1 and the figure presented in transactions with financial derivative instruments contained in the balance sheet.
	The amount must be recorded with the sign resulting from the difference mentioned, could be positive or negative.
5	Amount equivalent to the difference between the figure in line 16 of Table I.1 and the figure presented by repurchase agreements and lending operations of securities contained in the balance sheet.
	The amount must be recorded with the sign resulting from the difference mentioned, could be positive or negative.
6	Amount recorded in line 19 of Table I.1.
	The amount must be recorded with a positive sign.
7	Amount of the basic capital deductions contained in subparagraphs (c)), (k), M), N), (p), q) and R) of Fraction I, of article 2 Bis 6 of provisions.
	The amount must be recorded with a positive sign.
8	Sum of lines 1 to 7, which must coincide with line 21 of table I.1.

III conciliation of total assets and the exposure inside balance

TABLE III.1
CONCILIATION OF TOTAL ASSETS AND THE EXPOSURE INSIDE BALANCE

REFERENCE	CONCEPT	AMOUNT
1	Total assets	1,261,618
2	Operations in derivative financial instruments	(50,277)
3	Operations in repurchase agreements and lending of securities	(3,036)
4	Trust assets recognized in the balance sheet under the accounting framework, but excluded from the measure of the leverage ratio exposure	Nor Aplicable
5	Exposure inside balance	1,208,305

TABLE III.2
NOTES TO RECONCILIATION OF TOTAL ASSETS AND THE EXPOSURE INSIDE BALANCE

REFERENCE	DESCRIPTION
1	Total assets of without consolidated subsidiaries or entities of specific purpose.
2	The amount corresponding to the operations in financial derivative instruments presented in the asset from the last financial statements.
	The amount must be registrecordedered with a negative sign.
3	The amount corresponding to the operations of repurchase agreements and loan of values presented in the assets of the final financial statements.
	The amount must be recorded with a negative sign.
4	Does Not apply. The scope of application is on the Financial Group without consolidating subsidiaries or specific-purpose entities.
5	Sum of lines 1 to 4, which must coincide with Line 1 of table I.1

IV. Main causes of significant variances of the elements (numerator and denominator) of the leverage ratio covenant

TABLE IV.1
MAIN CAUSES OF SIGNIFICANT VARIANCES OF THE ELEMENTS
(NUMERATOR AND DENOMINATOR) OF THE LEVERAGE RATIO COVENANT

CONCEPT/TRIMESTRE	SEPTEMBER '20	DECEMBER '20	VARIATION (%)
Basic capital	Ps. 179,672	Ps. 179,701	0.016%
Adjusted assets	Ps 1,480,394	Ps 1,479,495	(0.061)%
Leverage ratio	Ps 12.14%	Ps 12.15%	0.050%

Management

Pursuant to the regulations in effect and the requirements of the CNBV, the Institution is developing its Capital Sufficiency Assessment which will consider the risks the Institution is exposed to as well as its major vulnerabilities in order to prove the Institution's solvency by means of financial forecasts with adverse macro-economic scenarios. In order to manage capital, a weekly follow-up analysis is conducted on the requirements derived from the risk position, as well as supporting through strategy or transactions' simulations of the various areas of business operation in order to determine their consumption.

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

31 - Foreign currency position

As of December 31, 2020 and 2019, the Financial Group holds certain assets and liabilities in foreign currency, mainly US dollars, converted to the exchange rate issued by Banco de México Ps. 19.9087 and Ps. 18.8642 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	2020	**2019**
Assets	10,332,241	8,829,725
Liabilities	10,414,634	8,818,103
Net liability position in US dollars	**(82,393)**	**11,622**
Net liability position in Mexican pesos	**Ps. (1,640)**	**Ps. 219**

32 - Position in UDIS

As of December 31, 2020 and 2019, the Holding Company holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps 6.605597 and Ps. 6.399018, per UDI, respectively, as shown below:

	Thousands of UDIS	
	2020	**2019**
Assets	368,869	1,281,839
Liabilities	647,844	652,164
Net asset position in UDIS	**(278,975)**	**629,675**
Net asset position in Mexican pesos	**Ps. 1,843**	**Ps. 4,029**

33 - Earnings per share

Earnings per share are the result of dividing the net income by the weighted average of the Financial Group's shares in circulation during the year.

Earnings per share for the years ended December 31, 2020 and 2019 are shown below:

	2020			2019
	Net Income	Weighted share average	Earnings per share	Earnings per share
Net income per share	Ps. 30,508	2,851,283,198	Ps. 10.6998	Ps. 12.7496

Net earnings per share diluted for the years ended December 31, 2020 and 2019 are shown below:

	Net Income	Weighted share average	Earnings per share	Earnings per share
Net income per share	Ps. 30,508	2,883,456,594	Ps. 10.5804	Ps. 12.6879

34 - Risk management (unaudited)

Authorized bodies

For proper Risk management, the Board of Directors established since 1997 the Risk Policy Committee (CPR) to manage the risk that the Financial Group is exposed to as well as to monitor the performance of operations and that it sticks to the objectives, policies and procedures for risk management.

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

The CPR is integrated with proprietary members of the Board, the CEO, the Directors of the entities, Risk Management and Audit, this last one participates with voice but no vote.

For the adequate performance of its objective, the CPR plays, among others, the following functions:

1. Propose for approval by the Board:

    - The objectives, guidelines and policies for overall risk management.
    - The global limits for risk exposure.
    - The mechanisms for the implementation of corrective actions.
    - The cases or special circumstances, which may exceed the overall limits as much as the specifics.

2. Approve and review at least once a year:

    - Specific limits for discretionary risks and the risk tolerance levels for non-discretionary.
    - The methodology and procedures to identify, measure, monitor, limit, control, report and disclose various types of risk to which the Financial Group is exposed to.
    - The models, parameters and settings used to carry out the valuation, measurement and control of risks proposed by the unit for comprehensive risk management.

3. Approve:

    - The methodologies for the identification, valuation, measurement and control of risks of new business, products and services that the holding intends to offer to the market.
    - The corrective actions proposed by the drive for comprehensive risk management.
    - Manuals for comprehensive risk management.
    - The technical evaluation aspects of risk management.

4. Appoint and remove the unit responsible for overall risk management, it is ratified by the Board.

5. Report to the Board at least quarterly, the risk exposure and its possible negative effects and follow-up to the limits and tolerance levels.

6. Report to the Board on corrective actions taken.

35 - Comprehensive risk management UNIT (UAIR) (unaudited)

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

1. OBJECTIVES, SCOPE AND RISK MANAGEMENT FUNCTIONS

GFNorte's Risk Management main objectives are:

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

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

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

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

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

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

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

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

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

1.1 Risk Management – Structure and Corporate Governance

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

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

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

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

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

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

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

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

1.2 Scope and Nature of GFNorte's Risk Management

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

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

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

2. CREDIT RISK

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

The objectives of Credit Risk Management at GFNorte are:

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

GFNorte's Credit Risk Management policies are:

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

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

2.1 Credit Risk Scope and Methodology

2.1.1 Individual Credit Risk

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

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

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

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

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

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

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

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

2.1.2 Portfolio Credit Risk

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

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

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

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

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

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

2.1.3 Credit Risk of Financial Instruments

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

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

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

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

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

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

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

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

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

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

2.2 Credit Risk Exposure

As of December 31, 2020 the total amount of the exposure subject to the Standard Method and the Internal Models (Advanced Approach Internal Model for Credit Cards and Auto Loans, and Foundation Approach Internal Model for Business Enterprises) to estimate the Capital Ratio is the following:

Gross Exposures subject to the Standard Method and Internal Models *(Million pesos)*	**Banorte**	**Arrendadora y Factor***	**Total Portfolio**
Commercial	67,764	844	68,607
YoY Revenues or Sales < 14 MM UDIS	67,764	844	68,607
States or Municipalities	106,582	84	106,666
Decentralized Federal Government Agencies and State Companies	32,694	6,441	39,134
Projects with own source of payment	98,711	-	98,711
Financial Institutions	24,898	659	25,557
Mortgage	189,394	-	189,394
Consumer Non-Revolving	53,163	7	53,170
Total Loans subject to the Standard Method	**573,205**	**8,035**	**581,240**
Commercial	132,937	27,180	160,118
YoY Revenues or Sales >= 14 MM UDIS	132,937	27,180	160,118
Federal, State and Municipal Government Decentralized Agencies, with annual income or Sales >= 14 MM UDIS	16,874	-	16,874
Total Loans subject to the Foundation Approach Internal Model	**149,811**	**27,180**	**176,991**
Consumer Non-Revolving (Auto)	28,248	-	28,248
Credit Card	39,771	-	39,771
Total Loans subject to Advanced Approach Internal Model	**68,020**	**-**	**68,020**
Eliminations and Accounting Records			(15,257)
Not Rated			76
Total Loans			**811,070**

* Excludes Pure Leasing

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

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

2.2.1 Loan Portfolio

GFNorte's Credit Risk loan portfolio as of 4Q20 presents a total exposure of Ps 811.07 billion, Ps 5.93 billion higher vs. the previous quarter or 0.7% higher, and Ps 35.62 billion higher or a 4.6% increase versus the previous year.

Variations per product of GFNorte's total portfolio are:

Product / Segment	**Total Loan**			**Var. vs. 3Q20**		**Var. vs. 4Q19**	
(Million pesos)	**4Q19**	**3Q20**	**4Q20**	**Ps**	**%**	**Ps**	**%**
Government	173,992	162,897	161,600	(1,297)	(0.8%)	(12,392)	(7.1%)
Commercial	176,892	190,005	195,291	5,286	2.8%	18,398	10.4%
Mortgage	172,059	184,495	189,394	4,899	2.7%	17,335	10.1%
Corporate	130,510	147,070	143,595	(3,476)	(2.4%)	13,084	10.0%
Payroll	53,069	53,252	53,093	(159)	(0.3%)	24	0.04%
Credit Card	41,987	39,831	39,771	(60)	(0.2%)	(2,216)	(5.3%)
Auto Loans	26,938	27,587	28,326	738	2.7%	1,387	5.2%
Total Loans	**775,448**	**805,138**	**811,070**	**5,932**	**0.7%**	**35,622**	**4.6%**

Subsidiary (Million pesos)	Loans		Distressed Portfolio			
	Performing	Past-due	Performing	Past-due	Total	Total Reserves
Banorte*	767,182	6,604	854	1,976	776,616	14,983
Arrendadora y Factoraje	34,861	13	3	338	35,215	540
Accounting Records**	(761)	-	-	-	(761)	4,481
Total Loans	**801,281**	**6,617**	**857**	**2,314**	**811,070**	**20,004**

* Banorte' s total loans include eliminations for (Ps 14,420) million.
** Includes portfolio from trust FCICK 16-1 for Ps 75,8 million.

Total reserves of Ps 20,004 million include rating reserves of Ps 15,523 million and accounting records (to provision 100% of past due interests, valuation, negative debts in the Credit Bureau, and those recorded in recoveries) of Ps 4,481 million.

GFNorte's performing, past-due and distressed portfolios in 4Q20 grouped by sector and subsidiary are detailed in the following two tables:

Sector (Million pesos)	Loans		Distressed			Reserves			
	Performing	Past-Due	Performing	Past-Due	Total Loans	4Q20	Var vs. 3Q20	4Q20 Charge offs	Days Past-Due**
Government	161,561	4	2	33	161,600	1,356	113	0	276
Services*	90,837	17	208	293	91,355	761	(93)	108	74
Manufacturing	49,655	46	112	280	50,093	500	(8)	82	71
Commerce	48,675	83	274	545	49,577	716	(39)	128	170
Transportation	44,364	11	55	198	44,628	450	(14)	10	63
Top 5 Sectors	**395,093**	**161**	**651**	**1,349**	**397,253**	**3,781**	**(41)**	**327**	**-**
Other Sectors	101,892	92	206	965	103,156	1,103	76	330	-
Mortgage	187,736	1,658	-	-	189,394	1,019	(31)	602	-
Consumer	116,485	4,706	-	-	121,190	9,619	968	2,149	-
Accounting Records	76	-	-	-	76	4,481	-	-	-
Total Loans	**801,281**	**6,617**	**857**	**2,314**	**811,070**	**20,004**	**973**	**3,408**	**-**

* Includes Financial, Real Estate and Other Services
** Days past due from Non-Performing Loans.
*** Includes portfolio from trust FCICK 16-1 for Ps 75.8 million.

Sector/Subsidiary (Million pesos)	Banorte* Record	AyF	Accounting	Total Loans
Government	156,149	6,490	(1,038)	161,600
Services**	84,646	6,508	201	91,355
Manufacturing	41,513	8,579	-	50,093
Commerce	43,957	5,620	-	49,577
Transportation	40,961	3,667	-	44,628
Top 5 Sectors	**367,225**	**30,865**	**(837)**	**397,253**
Remaining***	409,390	4,350	76	413,817
Total Loans	**776,616**	**35,215**	**(761)**	**811,070**

* Banorte' s total loans include eliminations for (Ps 14,420) million.
** Includes Financial and Real Estate services
*** Remaining includes the portfolio from trust FCICK 16-1 for Ps 75.8 million

As of 4Q20, GFNorte's performing, past due and distressed portfolios grouped by federal entity and subsidiary are detailed in the following two tables:

Federal Entities (Million pesos)	Loans Performing	Loans Past-Due	Distressed Performing	Distressed Past-Due	Total Loans	Total Reserves
1 Ciudad de México	238,943	1,720	225	950	241,838	4,014
2 Nuevo León	120,314	603	100	283	121,300	1,981
3 Estado de México	65,470	743	74	115	66,402	1,495
4 Jalisco	51,649	436	70	56	52,210	840
5 Baja California Sur	24,557	125	4	14	24,699	353
6 Tamaulipas	23,412	217	35	28	23,693	470
7 Sinaloa	21,739	148	37	165	22,088	372
8 Coahuila	21,298	142	12	34	21,486	365
9 Chihuahua	19,501	158	39	86	19,784	452
10 Baja California Norte	19,194	78	6	40	19,318	303
Top 10	**606,077**	**4,370**	**601**	**1,770**	**612,819**	**10,643**
Other Federal Entities	195,965	2,247	256	544	199,012	4,880
Accounting Records	(761)	-	-	-	(761)	4,481
Total Loans	**801,281**	**6,617**	**857**	**2,314**	**811,070**	**20,004**

* Banorte' s total loans include eliminations for (Ps 14,420) mllion.
** Includes the portfolio from trust FCICK 16-1 for Ps 75.8 million.

As of 4Q20, GFNorte's performing, past due and distressed portfolios grouped by term are detailed below:

Remaining Term (Million pesos)	Portfolio Performing	Portfolio Past-Due	Distressed Performing	Distressed Past-Due	Total Loans	Total Reserves
0 - 1 years	121,509	3,246	252	1,134	126,142	6,683
1 - 5 years	216,281	1,715	578	686	219,260	5,976
5 - 10 years	95,874	155	24	156	96,210	611
> 10 years	333,517	1,488	-	-	335,005	1,713
Banorte*	**767,182**	**6,604**	**854**	**1,976**	**776,616**	**14,983**
Arrendadora y Factor	34,861	13	3	338	35,215	540
Accounting Records**	(761)	-	-	-	(761)	4,481
Total Loans	**801,281**	**6,617**	**857**	**2,314**	**811,070**	**20,004**

* Banorte' s total loans include eliminations for (Ps 14,420) million.
**Includes the portfolio from trust FCICK 16-1 for Ps 75.8 million.

The total distressed portfolio is Ps 3,172 million. Below is the quarterly balance of loan loss provisions for this portfolio:

Loan Loss Provisions for Distressed Portfolio (Million pesos)	4Q20 Banorte	4Q20 Arrendadora y Factor	4Q20 GFNorte
Initial Loan Loss Provisions	**1,045**	**305**	**1,350**
Charged to results	606	10	616
Loans' write offs	345	-	345
Adjustments in Credit Risk	261	10	272
Sale of Portfolios	-	-	-
FX Effect	(2)	-	(2)
Received in lieu of payment	(14)	-	(14)
Write-offs, charge-offs and discounts	(627)	-	(627)
Final Loan Loss Provisions	**1,008**	**316**	**1,324**
Loan Recoveries	**76**	**-**	**76**

2.2.2 Exposure to Financial Instruments

As of December 31, 2020, exposure to Credit Risk for Securities Investments of Banco Mercantil del Norte was Ps 227.0 billion, of which 94.2% is rated higher or equal to A+(mex) on a local scale, placing them in investment grade, and the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 5% of the Tier 1 Capital as of September 2020. Additionally, exposure of investments with the same counterparty other than the Federal Government that represents a higher or equal concentration to 5% of the Net Capital as of September 2020 it is rated as AAA(mex), except Pemex that has BBB-(mex), and is comprised of (*weighted average, amounts in pesos and weighted average return to annualized maturity*): certificates of deposit and market certificates of Banobras for 8 months totaling Ps 13.10 billion at 4.5%; and market and bond certificates of Pemex for 4 years and 4 months totaling Ps 12.49 billion at 3.6%.

For Derivatives operations, the exposure of the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 5% of the Tier 1 Capital as of September 2020.

Exposure to Credit Risk for Securities Investments of Casa de Bolsa Banorte was Ps 239.15 billion, of which 99.5% is rated higher or equal to A+(mex) on a local scale, placing them in investment grade and the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 87% of the Equity as of September 2020. Additionally, the exposure of investments with the same counterparty other than the Federal Government that represents a higher or equal concentration to 5% of the Equity as of September 2020 has a higher or equal rating to A-(mex) and are comprised of (*weighted average term, amounts in pesos and weighted average return to annualized maturity*): certificates of deposit and market certificates of Banco Santander Mexicano for 8 months totaling Ps 8.34 billion at 4.5%; certificates of deposit and market certificates of BBVA Mexico for 1 year and 7 months totaling Ps 5.94 billion at 4.6%; certificates of deposit and market certificates of HSBC Mexico for 1 year and 3 months totaling Ps 4.24 billion at 4.6%; market certificates of Scotiabank Inverlat for 1 year and 4 months totaling Ps 3.91 billion at 4.7%; market certificates of Mexico City Government for 26 years and 9 months totaling Ps 2.45 billion at 4.7%; market certificates of FEFA for 2 years and 7 months totaling Ps 1.72 billion at 4.8%; certificates of deposit and market certificates of Banco del Bajío for 1 year and 3 months totaling Ps 1.58 billion at 4.9%; certificates of deposit of Banco Multiva for 5 months totaling Ps 1.40 billion at 4.7%; market certificates of Consubanco for 3 months totaling Ps 832 million at 5.7%; market certificates of Banco Compartamos for 2 years and 3 months totaling Ps 830 million at 5.1%; market certificates of Banco Inbursa for 2 years and 5 months totaling Ps 814 million at 4.7%; certificates of deposit of Banco Invex for 3 months totaling Ps 801 million at 4.8%; Deutsche Bank bonds for 2 years and 5 months totaling Ps 789 million at 4.4%; certificates of deposit and market certificates of Banobras for 2 months totaling Ps 778 million at 4.4%; CABEI bonds for 1 year and 10 months totaling Ps 730 million at 3.9%; market certificates of Grupo Aeroportuario del Pacífico for 4 years totaling Ps 494 million at 5.3%; market certificates of Pemex for 4 years and 3 months totaling Ps 468 million at 8.0%; certificates of deposit of Banca Mifel for 10 months totaling Ps 351 million at 5.0%; and market certificates of Nafinsa for 4 months totaling Ps 319 million at 4.4%.

There are no Derivatives operations.

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

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

Position *(Million Pesos)*	**4Q20**	**4Q20 Average**
Forwards	744	620
FX Swaps	(100)	99
FX	-	-
Options	127	224
Swaps with Interest Rates IRS	16,615	15,660
Cross Currency Swap (CCIRS)	(6,394)	(6,846)
Credit Default Swaps (CDS)	152	207
Total	**11,144**	**9,963**
Positive Fair Value	27,650	25,778
(Positive Market Value)		
Netting Effect*	16,506	15,815
Delivered Guarantees (-) /Received (+)		
Cash	(11,887)	(11,732)
Securities	-	-
Total	**(11,887)**	**(11,732)**

* Difference between the positive market value (not considering the net positions) and the portfolio market value.

Transactions performed at the Clearing House are not included, as they are not subject to counter party risk.

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

(Million Pesos)	Potential Risk		Current Risk	
Financial Counterparties	**4Q20**	**4Q20 Average**	**4Q20**	**4Q20 Average**
FWD	9,673	9,064	639	545
FX SWAP			(100)	99
FX		-	-	
OPTIONS	6,301	5,512	78	188
INTEREST RATE SWAP	6,502	7,398	(5,686)	(5,313)
CCS	9,733	9,049	(6,408)	(6,863)
CDS	152	208	152	207
Total	**5,588**	**5,512**	**(11,324)**	**(11,137)**

Clients (Non-Financial)	**4Q20**	**4Q20 Avg**	**4Q20**	**4Q20 Avg**
FWD	117	94	105	74
OPTIONS	97	90	49	36
NTEREST RATE SWAP	22,649	21,307	22,301	20,973
CCS	28	32	14	16
Total	**22,886**	**21,520**	**22,469**	**21,100**

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

Net Cash Outflows *(Million pesos)*	**4Q20**	**4Q20 Average**
Cash Outflow with 1-notch Downgrade	-	-
Cash Outflow with 2-notch Downgrade	-	-
Cash Outflow with 3-notch Downgrade	-	-

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

Rating *(Million Pesos)*	**MoM 4Q20**	**4Q20 Average**
AAA/AA-	-	-
A+/A-	(11,680)	(11,041)
BBB+/BBB-	2,002	1,744
BB+/BB-	10,666	9,643
B+/B-	1,841	1,648
CCC/C	-	-
SC 8,	315	7,969
Total	**11,144**	**9,963**

2.3 Credit Collaterals

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

The main types of real collaterals are the following:

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

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

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

Collateral Type *(Million Pesos)*	4Q20 Banorte	Arrendadora y Factor**	GFNorte*
Total Loan Portfolio	**791,112**	**35,215**	**811,070**
Covered Loan Portfolio by type of collateral			
Real Financial Guarantees	18,367	-	18,367
Real Non-Financial Guarantees	456,669	6,904	463,573
Pari Passu	33,993	-	33,993
First Losses	17,841	-	17,841
Personal Guarantees	22,929	4,480	27,410
Total Loan Portfolio Covered	**549,800**	**11,384**	**561,184**

* Total Loans includes eliminations and accounting records for (Ps 15.26 billion).
** Excludes Pure Leasing

Expected Loss

As of December 31, 2020, Banco Mercantil del Norte's total portfolio was Ps 791.04 billion. The expected loss represents 1.9% and the unexpected loss is 4.3% of the total portfolio. The average expected loss is 1.8% for the period October-December 2020.

Regarding Casa de Bolsa Banorte, the credit exposure of investments is Ps 239.15 billion and the expected loss represents 0.02% of the exposure. The average expected loss is 0.02% between October- December 2020.

The total portfolio of Arrendadora y Factor Banorte, including pure leasing is Ps 37.56 billion. The expected loss represents 1.6% and the unexpected loss is 6.0% of the total portfolio. The average expected loss is 1.5% for the period October- December 2020.

2.4 Internal Models

2.4.1 Advanced Approach Internal Model for Credit Card

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

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

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

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

Consumer Revolving Credit Card Portfolio under Advanced Approach Internal Model *Million Pesos*

Risk Level*	Accounting Balance	Exposure at Default (EAD)**	Loss Given Default	PD factored by EAD	Unused credit lines	EAD factored by Exposure	Current EAD
A1	15,128	28,238	87.30%	1.08%	53,495	46%	28,238
A2	5,186	8,932	87.30%	3.43%	8,567	42%	8,932
B1	4,412	5,839	87.30%	4.93%	1,634	24%	5,839
B2	405	748	87.30%	4.93%	1,104	46%	748
B3	2,007	2,690	87.30%	8.13%	815	25%	2,677
C1	4,400	5,616	87.30%	9.33%	1,180	22%	5,585
C2	3,081	3,815	87.30%	17.34%	598	19%	3,683
D	4,598	4,993	87.30%	47.75%	505	8%	1,452
E	555	566	88.11%	97.46%	157	2%	18
Total Portfolio	**39,771**	**61,437**	**87.39%**	**8.59%**	**68,054**	**35%**	**57,171**

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

The next table shows the difference between expected loss and observed loss resulting from the Advance Approach Internal Model for Credit Cards from 1Q20.

Backtesting

Portfolio	Expected Loss Internal Model*	Observed Loss*	Difference Ps (Observed Loss – Expected Loss)	% NCL Coverage
Credit Card	4,413	4,356	(56)	101%
Total Portfolio	**4,413**	**4,356**	**(56)**	**101%**

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

2.4.2 Advanced Approach Internal Model for Auto Loans

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

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

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

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

Consumer Revolving Auto Portfolio under Advanced Approach Internal Model

Risk Level*	Accounting Balance	Exposure at Default (EAD)**	Loss Given Default	PD factored by EAD	Current EAD
A1	22,217	22,217	56.90%	0.98%	22,217
A2	2,978	2,978	61.48%	3.56%	2,978
B1	492	492	68.98%	5.36%	492
B2	-	-	-%	-%	-
B3	-	-	-%	-%	-
C1	729	729	52.04%	13.91%	729
C2	1,188	1,188	68.98%	13.91%	1,187
D	231	231	52.04%	53.43%	18
E	413	413	68.86%	69.27%	7
Total Portfolio	**28,248**	**28,248**	**47.70%**	**3.63%**	**27,629**

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

The next table shows the difference between expected loss and observed loss resulting from the Advance Approach Internal Model for Auto Loans from 1Q20.

Backtesting

Portfolio	Expected Loss Internal Model*	Observed Loss	Difference Ps (Observed Loss – Expected Loss)	% NCL Coverage
Auto Loans	711	687	(24)	103%
Total Portfolio	**711**	**687**	**(24)**	**103%**

* Data as of December 2019.

2.4.3 Foundation Approach Internal Model for Commercial Loans

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

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

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

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

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

Commercial Loans subject to the Foundation Approach Internal Model
Grupo Financiero Banorte

Million Pesos

Risk Level	Accounting Balance	Exposure at Default (EAD)*	PD weighted by EAD
1	68,285	68,377	0.13%
2	54,579	54,619	0.50%
3	44,273	44,452	0.81%
4	9,992	9,992	1.43%
5	6,595	6,595	2.52%
6	756	757	6.30%
7	895	895	15.37%
8	939	939	31.22%
9	200	200	57.62%
Default	664	664	100.00%
Total	**187,177**	**187,491**	**1.22%**

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

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

Commercial Loans Portfolio subject to the Foundation Approach Internal Model

Million Pesos

Subsidiary	Accounting Balance	Exposure at Default (EAD)**	Expected Loss
Banco Mercantil del Norte	159,858	160,172	692
Arrendadora y Factor Banorte	27,319	27,319	128
Total Loans*	**187,177**	**187,491**	**819**

* The balance includes Letters of Credit of Ps 10.03 billion and excludes accounting adjustments of Ps 16 million in Banorte and Ps 139 million in Arrendadora y Factor Banorte.
** EAD balances include both potential risk as well as used balance risk.

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

Backtesting*

Million Pesos

Period	Expected Loss with Internal Model	Observed Loss	% Coverage (Expected Loss / Observed Loss)
4Q19	685	224	306%

* Excludes non-recurring write-offs from June 2020.

2.5 Risk Diversification

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

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

Tier 1 Capital as of September 30, 2020	**179,672**
I. Loans with individual balance greater than 10% of Tier 1 Capital:	
Loan Operations	
Number of loans	-
Total amount of loans	-
% in relation to Tier 1	-%
Money Market Operations	
Number of loans	-
Total amount of loans	-
% in relation to Tier 1	-%
Overnight Operations	
Number of loans	-
Total amount of loans	-
% in relation to Tier 1	-%
II. Maximum amount of credit with the 3 largest debtors and common risk groups:	**45,030**

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

Equity as of September 30, 2020	**9,073**
I. Loans with individual balance greater than 10% of Equity:	
Loan Operations	
Number of loans	5
Total amount of loans	8,706
% in relation to Equity	96%
Money Market Operations	
Number of loans	-
Total amount of loans	-
% in relation to Equity	-%
Overnight Operations	
Number of loans	-
Total amount of loans	-
% in relation to Equity	
-%	
II. Maximum amount of credit with the 3 largest debtors and common risk groups:	**6,809**

3. MARKET RISK (BANORTE Y CASA DE BOLSA)

GFNorte's objectives regarding Market Risk are:

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

GFNorte's Market Risk Policies are:

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

3.1 Market Risk Methodology

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

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

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

3.2 Market Risk Exposure

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

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

The average expected shortfall of the Bank´s portfolio for 4Q20 was Ps 42.7 million (Ps 20.8 million lower than the average expected shortfall from last quarter).

The result shows that the Bank's expected shortfall, using a 97.5% confidence level, is on average Ps 42.7 million.

Expected Shortfall **Million Pesos**	**Average** **4Q20**
Total Expected Shortfall	42.7
Net Capital	188,595
Expected Shortfall/Net Capital	**0.02%**

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

Risk Factor *Million Pesos*	**4Q20**	**Average** **4Q20**
Rates	32.3	35.9
FX	20.3	13.5
Equity	29.6	27.4
Diversification Effect	(38.7)	(34.1)
Bank's Expected Shortfall	**43.5**	**42.7**

Expected shortfall for 4Q20 was Ps 43.5 million. The contribution to the Bank´s Expected shortfall for each risk factor is:

Risk Factor *Million Pesos*	**4Q20**	**Average** **4Q20**
Domestic Rates	8.6	12.8
Foreign Rates	2.3	2.4
FX	7.2	4.8
Equity	25.3	22.7
Bank's Expected Shortfall	**43.5**	**42.7**

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

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

Risk Factor	**4Q20**
Rates	25%
FX	17%
Equity	58%

3.2.1 Sensitivity Analysis and Stress Testing under extreme conditions

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

3.2.2 Back testing

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

3.2.3 Expected Shortfall of Casa de Bolsa

The expected shortfall average in 4Q20 was Ps 43.0 million, Ps 13.6 million higher vs. 3Q20.

The result shows that potential loss for Casa de Bolsa, using a 97.5% confidence level, is on average Ps 43.0 million:

Expected Shortfall *Million Pesos*	**Average 4Q20**
Total Expected Shortfall	43.0
Net Capital	4,525
Expected Shortfall/Net Capital	**0.95%**

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

Risk Factor *(Million Pesos)*	**4Q20**	**Average 4Q20**
Rates	37.9	43.0
FX -	-	
Equity	-	0.1
Diversification effect	-	(0.1)
Casa de Bolsa Expected Shortfall	**37.9**	**43.0**

Expected shortfall at the end of 4Q20 was Ps 37.9 million.

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

Concentration by Market Risk factor is mainly in interest rates

3.2.4 Sensitivity Analysis and Stress Testing under extreme conditions

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

3.2.5 Back testing

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

4. BALANCE AND LIQUIDITY RISK

GFNorte's Balance and Liquidity Risk objectives are:

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

GFNorte's Liquidity Risk Policies are:

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

4.1 Liquidity Risk Methodology and Exposure

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

4.2 Profile and Funding Strategy

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

Funding Source (Million Pesos)	**3Q20**	**4Q20**	**Change vs. 3Q20**
Demand Deposits			
Local Currency (1)	450,484	480,761	6.7%
Foreign Currency (1)	59,067	53,345	(9.7%)
Demand Deposits	**509,551**	**534,106**	**4.8%**
Time Deposits – Core			
Local Currency (2)	206,691	204,658	(1.0%)
Foreign Currency	12,945	12,613	(2.6%)
Core Deposits	**729,187**	**751,378**	**3.0%**
Money Market			
Local Currency (3)	58,600	49,308	(15.9%)
Foreign Currency (3)	43,482	40,318	(7.3%)
Banking Sector Deposits	**831,270**	**841,003**	**1.2%**

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

4.3 Liquidity Coverage Ratio (LCR)

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

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

The following table presents the average evolution of LCR components in 4Q20.

LCR Components (Million Pesos)	Bank and Sofomes: Unweighted amount (Average)	Bank and Sofomes: Weighted amount (Average)
COMPUTABLE LIQUID ASSETS		
1 Total Computable Liquid Assets	NA	144,142
CASH DISBURSEMENTS		
2 Unsecured retail financing	**437,703**	**29,854**
3 Stable financing	278,317	13,916
4 Less stable financing	159,386	15,939
5 Unsecured wholesale financing	**296,866**	**85.060**
6 Operational Deposits	251,182	57,500
7 Non-Operational Deposits	39,445	21,321
8 Unsecured debt	6,239	6,239
9 Secured wholesale financing	**261,909**	**19,381**
10 Additional Requirements:	**300,684**	**22,238**
11 Disbursements related to derivatives and other guarantee requirements	31,085	6,933
12 Disbursements related to losses from debt financing	0	0
13 Lines of credit and liquidity	269,599	15,305
14 Other contractual financing obligations	1,606	161
15 Other contingent financing liabilities	0	0
16 TOTAL CASH DISBURSEMENTS	**NA**	**156,694**
CASH INFLOWS		
17 Cash Inflows for secured operations	185,814	18,978
18 Cash Inflows for unsecured operations	78,966	58,096
19 Other Cash Inflows	4,639	4,639
20 TOTAL CASH INFLOWS	**269,419**	**81,713**
		Adjusted amount
21 TOTAL COMPUTABLE LIQUID ASSETS	**NA**	**144,142**
22 TOTAL NET CASH DISBURSEMENTS	**NA**	**74,981**
23 LIQUID COVERAGE RATIO	**NA**	**192.52%**

During 4Q20, the 92-day average LCR for the Bank and Sofomes was 192.52%, and at the end of 4Q20 the LCR was 207.76%, the aforementioned levels are above the Risk Appetite and the regulatory minimum standards. These results show that Banorte can meet all of its short-term obligations in a crisis scenario [1].

4.4 Evolution of LCR Components

The evolution of the LCR components comparing 3Q20 and 4Q20 is presented in the following table:

LCR Component *(Million Pesos)*	3Q20	4Q20	Var. vs. 3Q20
Liquid Assets	130,857	142,015	8.5%
Cash Inflows	79,080	77,100	(2.5%)
Cash Outflows	148,584	145,456	(2.1%)

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

The Liquid Assets that compute in the LCRs for the Bank and Sofomes between 3Q20 and 4Q20 are distributed as follows:

Type of Asset *(Million Pesos)*	**3Q20**	**4Q20**	**Var. vs. 3Q20**
Total	130,857	142,015	8.5%
Level I	121,192	132,921	9.7%
Level II	9,666	9,095	(5.9%)
Level II A	5,652	5,030	(11.0%)
Level II B	4,013	4,065	1.3%

Liquidity Coverage Ratio variations between 3Q20 and 4Q20, mainly regarding the increase in Liquid Assets, due to the implementation of several initiatives aimed at strengthening Liquidity.

4.5 Liquidity Risk in foreign currency

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

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

4.6 Main Initiatives affecting Banorte's Liquidity during 4Q20

Banorte's Liquidity strategy is aimed at maintaining adequate levels based on prevailing circumstances; as such during 4Q20 liquidity was managed through the core deposits, strengthening quality, stability and costs with customers while taking advantage of the historical cyclicality observed during the last quarter that inreases the core deposits volumes.

It should be mentioned, that Banorte has not used the Ordinary Facilities or the Extraordinary Facilities from Banco de México during 4Q20.

4.7 Exposure to Derivatives and possible Margin calls

Banorte applies the regulatory methodology to determine potential cash outflows for derivatives. At the end of 4Q20, estimated outflows for derivatives were as follows:

Derivatives Cash Outflows *(Million Pesos)*	**3Q20**	**4Q20**	**Var. vs. 3Q20**
Net cash outflows at market value and for potential future exposure	5,343	5,822	9.0%
Cash outflows for a 3-notch credit rating downgrade.	-	-	-%

The measurement shows that potential outflows for derivatives may represent a liquidity requirement up to Ps 5.82 billion, with an increase of 9.0% vs. 3Q20.

4.8 Liquidity Gaps

As part of the liquidity analysis for the Bank, 30-day liquidity gaps for the Institution's assets and liabilities (obligations) are analyzed. Results for the Bank at the end of 4Q20 are presented in the following table.

Concept **(Million Pesos)**	**3Q20**	**4Q20**	**Var. vs. 3Q20**
Cumulative 30-day Gap	(67,973)	(65,449)	(3.7%)
Liquid Assets	90,038	97,838	8.7%

Mismatch among inflows and outflows (gaps) for the next 30 days are covered with liquid assets. In addition, a more granular breakdown of the liquidity gaps is presented, remaining as follows for 4Q20:

Concept *(Million pesos)*	**1 day**	**7 days**	**1 month**	**3 months**	**6 months**	**12 months**
Natural Gap	(89,081)	41,865	(18,232)	38,083	14,041	27,779
Accumulated Gap	(89,081)	(47,217)	(65,449)	(27,366)	(13,325)	14,454

4.9 Stress Testing under liquidity extreme conditions

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

4.10 Contingency Funding Plan

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

4.11 Balance Risk

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

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

4.11.1 Financial Margin Sensitivity

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

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

The following table shows Financial Margin Sensitivity for Banorte Bank:

Margin Sensitivity *(Million Pesos)*	**3Q20**	**4Q20**	**Change vs. 3Q20**
Local Currency Balance	504	561	11.3%
Foreign Currency Balance	785	565	(28.0%)

At the end of 4Q20, local currency balance sensitivity for a 100bps shift in reference rates, changed from Ps 504 million in 3Q20 to Ps 561 million. Foreign currency balance sensitivity for a 100bps shift in reference rates changed from Ps 785 million to Ps 565 million. The calculation does not consider the positive effect of lower rates on the Negotiable Position that would be recorded under Trading Income. The Available for Sale portfolio had a balance of Ps 153 billions at the end of 4Q20, with an average of PS 151 billion balance.

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

4.12 Subsidiaries

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

The following table shows the composition of the gap indicators for the Bank's subsidiaries and Sofomes at the end of 4Q20.

Liquidity Ratio *(Million Pesos)*	**Casa de Bolsa Banorte**	**Arrendadora y Factor**
Cumulative 30 days Gap	4,236	(15,055)
Liquid assets	4,456	42

5 OPERATIONAL RISK

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

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

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

5.1 Policies, Objectives and Guidelines

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

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

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

5.2 Quantitative and Qualitative Measuring Tools

5.2.1 Operational Losses Database

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

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

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

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

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

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

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

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

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

5.2.2 Legal and Fiscal Contingencies Database

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

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

5.3 Risk Management Model

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

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

5.4. Required Capital Calculation

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

5.5. Information and Reporting

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

5.6 Technological Risk

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

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

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

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

5.7 Legal risk

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

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

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

6 SECURITIZATIONS PERFORMED BY GFNORTE

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

GFNorte has carried out the following securitizations:

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

- On November 5, 2007, Banorte held the irrevocable trust for the issuance of market certificates No. 477, issuer code BNTECB, whose underlying assets are loans originated and transferred by Banorte to states, municipalities, and their decentralized agencies, as well as trusts in which any of such entities act as trustees.

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

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

Trust 477 has derivatives operations, particularly swap contracts, in order to reduce exposure to exchange rate and interest rate risks. The Institution assumes the counterparty risk generated by these operations, however these operations are only carried out with institutions of recognized solvency. The Trust's policy is to only carry out derivative instrument operations for the sole purpose of coverage, never for speculation.

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

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

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

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

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

On the other hand, the Institution also acts as an investor by acquiring titles of market certificates issued by the trusts set up for securitizations. As of December 31, 2020 Grupo Financiero Banorte holds the following Securities and amounts in securitizations carried out by GFNorte:

Securitization	**Banorte**		**Seguros Banorte**		**Total GFNorte**	
(Million pesos)	**Securities**	**Ps**	**Securities**	**Ps**	**Securities**	**Ps**
91_BNTECB_07	50,763,776	1,170	500,000	12	51,263,776	1,181
91_BNTECB_07-2	563,059	13	-	-	563,059	13
97_FCASACB_06U	-	-	-	-	-	-

The following shows the proportion of Securities held by Grupo Financiero Banorte, for each series:

Securitization *(Million pesos)*	**Issued Securities**	**Banorte**	**Seguros Banorte**	**Total GFNorte**	**Total Clients**
91_BNTECB_07	52,313,776	97.0%	1.0%	98.0%	2.0%
91_BNTECB_07-2	1,113,059	50.6%	0.0%	50.6%	49.4%
97_FCASACB_06U	1,351,386	0.0%	0.0%	0.0%	100.0%

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

	Standard & Poor's		**Fitch Ratings**		**Moody's**		**HR Ratings**		**Verum**		**Best**		**DBRS**	
Securitization	**Local**	**Global**	**Local**	**Global**	**Local**	**Global**	**Local**	**Global**	**Local**	**Global**	**Local**	**Gobal**	**Local**	**Global**
91_BNTECB_07							Aa3.mx	Baa3	HR AA+					
91_BNTECB_07-2							A3.mx	Ba3	HR AA					
97_FCASACB_06U	mxCCC				CCC (mex)									

As of December 31, 2020 the amounts of the underlying assets of each securitization were:

Securitization *(Million pesos)*		**Performing**		**Amount Past-Due**		**Total**
91_BNTECB_07	Ps.	1,639	Ps.	-	Ps.	1,639
91_BNTECB_07-2						
97_FCASACB_06U	Ps.	77	Ps.	110	Ps.	188

There are no impaired assets in trust 477.

Securitization exposure broken down by Credit Risk Weight is shown below:

Concept *(Million Pesos)*	**Balance***	**Capital Requirement**
Securitizations with Risk Level 1 (weighted 20%)	-	-
Securitizations with Risk Level 2 (weighted 50%)	1,170	47
Securitizations with Risk Level 3 (weighted 100%)	13	1
Securitizations with Risk Level 4 (weighted 350%)	-	-
Securitizations with Risk Level 5, 6 or not rated (weighted 1250%)	-	-

* Excludes the position in Seguros Banorte

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

Securitizations trusts 563 and 477 consider early amortization provisions. The institution has not made revolving securitizations or re-securitizations operations during the quarter.

6.1 Applied Accounting Policies

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

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

The MBS (Mortgage-Backed Securities) and S&M (States & Municipalities) Trusts issued certificates in favor of the institution, as holders of rights in last place under the trust agreement. These certificates provide the right to receive a percentage of the distributions and in general to the corresponding proportions of the remnant that may be in the trust after full payment of the bonds. Valuation of the certificates is based on the method of net present value of remaining cash flows expected over the lifespan of the securitization. Remaining cash flows, depending on the type of securitization, are determined as follows:

a) MBS: the sum of cash flows to be received from the securitized loan portfolio, minus cash flow to be paid to securitized portfolios, minus the monthly administration expenses, plus the income from sales of foreclosed properties, if applicable. At the end of the period, the certificate related to securitization FCASACB 06U shows a fair market value of zero, since no remaining cash flows are expected to be received.
b) S&M: is the sum of cash flows to be received from securitized loan portfolios, minus the cash flow to be paid to stock certificates, minus monthly management expenses, plus or minus the change in the interest reserve.

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

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

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

7. POSITION IN SHARES:

At the end of December 31, 2020, Banco Mercantil del Norte held shares amounting to Ps 1.43 billion, with gains of Ps 242.4 million accumulated during the year.

During the fourth quarter, accumulated revenues from sales and settlements were Ps 0.0 million.

The capital requirement for Market Risk was Ps 22 million, and the regulatory Net Capital deductions reached Ps 496 million.

Institution	Type of Trading	Accounting Classification	Capitalization Treatment	Market Value 4Q20	Gains / Losses Cumm.	Profit / Loss Sales / Purchases
Banorte	Public Trading	Negotiation	Market Risk	-	(27.1)	-
Banorte	Public Trading	Available for Sale	Market Risk	-	(14.8)	-
Banorte	Public Trading	Negotiation	Capital Deduction	496	254.6	-
Banorte	w/o Public trading	Available for Sale	Market and Credit Risk	932.0	29.7	-
			Total	**1,428**	**242.4**	**-**

As of December 31, 2020 a position of Ps 655.6 million is held in Casa de Bolsa Banorte, where accumulated gains during the year as of 410.9 million.

During the quarter, there were gains for Ps 3.1 million from sales and settlements.

Regarding Market Risk Capital Requirement, the amount was Ps 196.9 million of the total position in shares of Banorte.

Institution	Type of Trading	Accounting Classification	Capitalization Treatment	Market Value 4Q20	Gains / Losses Cumm.	Profit / Loss Sales / Purchases
Casa de Bolsa Banorte	Public	Negotiation	Market Risk	655.6	410.9	3.1
			Total	655.6	410.9	3.1

36 - Memorandum accounts

	2020	2019
Operations on behalf of third parties		
Banks customers (current accounts)	Ps. 62	Ps. 56
Settlement of customer transactions	(30)	143
Customer securities received in custody	669,495	716,128
Customer repurchase agreements	238,032	184,063
Collateral pledged on account of clients	238,040	184,063
Managed trusts	204	83,298
Investment banking transactions on account of third parties, (net)	97,374	96,100
	Ps. 1,243,177	**Ps.1,263,851**
Proprietary transactions		
Contingent assets and liabilities	$ 167	Ps. 49
Assets in trust or under mandate	315,988	460,021
Managed assets in custody	633,424	631,539
Credit commitments	292,701	286,019
Collateral received	282,054	213,885
Collateral received and sold or given as a pledge	421,090	304,448
Deposits of assets	3,325	3,107
Interest accrued but not charged of past due loans	178	299
Other registration accounts	295,069	280,016
	Ps. 2,243,996	**Ps.2,179,383**

37 - Commitments

As of December 31, 2020 and 2019, the Financial Group had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 292,701 (Ps. 286,068 in 2019), which are recorded in memorandum accounts.
- The Institution takes on lease properties where its branches are located, as well as some of its administrative offices, which consider an annual increase in the amount of the rent calculated based on the National Index of Consumer Prices. The Lease terms range from one to fifteen years, for which, as of December 31, 2020, the commitments for payment of rents are as follows

Year	Ammount
2021	Ps. 1,924
2022	2,061
2023	2,208
2024	2,367
2025 a 2034	35,909
Total	**Ps. 44,469**

- In addition, the Institution also takes in lease some equipment for operation, mainly computer equipment, electronic and utility vehicles. At December 31, 2019, the commitments for payment of rents are the following:

Year		Ammount
2021	Ps.	1,435
2022		1,485
2023		1,537
2024		1,591
2025 a 2034		19,322
Total	**Ps.**	**25,370**

38 - Contingencies

As of December 31, 2019, there are lawsuits filed against the Holding Company in civil and business court cases; however, the Holding Company's attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Financial Group's consolidated financial position. As of December 31, 2020, the Financial Group has recorded a reserve for contentious matters of Ps. 1,287 (Ps. 1,481 in 2019).

39 - Preventive mechanism for savings' protection

The objective of the Institute for the Protection of Bank Savings (IPAB) is to protect the deposits of small customers and thereby contribute to maintain the financial system's stability and the proper functioning of the payments systems.

According to the Law of Bank Savings Protection (LPAB), the IPAB manages a bank savings protection system that guarantees the payment of bank deposits or loans or credits to Full Service Banking Institution up to an amount equivalent to 400 thousand UDIS per individual or business entity, regardless of the number or type of such obligations in the customer's favor and charged to a single bank.

On July 30, 2007, general rules were issued for addressing joint accounts or those in which there is more than one account holder, referred to in art. 14 of the LPAB, as well as the rules banks must observe for classifying information relative to transactions associated with guaranteed obligations.

The IPAB plays a major role in the implementation of the LPAB resolutions methods and the Law of Credit Institutions (LIC) as timely and adequate mechanisms for salvaging and liquidating Full Service Banking Institutions in financial trouble that may affect their solvency. The purpose is to provide maximum protection to the public while minimizing the negative impact that salvaging an institution may have on others in the banking system.

During 2020 and 2019, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps 3,630 and Ps 3,297, respectively.

40 - New accounting guidelines

As of December 31, 2020, CINIF has issued the following NIFs and improvements to current NIFs, which could generate accounting changes.

Accord with the resolution amending published on December 4, 2020 that modifies the general provisions applicable to credit institutions, the NIFs issued by the CINIF, referred in paragraph 3 of criteria A-2, will be applicable beginning January 1, 2022.

To date we are in the process of analysis of the impacts that these NIFs may have in the financial statements, same that we will inform in due time considering the final version of the project once it is published in the Official Gazette of the Federation and according to the requirements of the NIF B-1, "Accounting changes and corrections of errors".

The NIFs issued and which will be applicable to credit institutions from January 1, 2022 are:

- NIF B-5, "*Segment information*".
- NIF B-12, "*Compensation of financial assets and liabilities*".
- NIF B-17, "*Determination of fair value*".
- NIF C-2, "*Investments in securities*".
- NIF C-3, "*Accounts receivable*".
- NIF C-9, "*Provisions, contingencies and commitments*".
- NIF C-10, "*Derivatives Financial Instruments and hedging*".
- NIF C-13, "*Related parties*".
- NIF C-14, "*Transfer and derecognition of financial assets*".
- NIF C-16, "*Impairment of financial instruments receivable*".
- NIF C-19, "*Financial instruments to be paid*".
- NIF C-20, "Financial instruments to charge principal and interest".
- NIF D-1, "Income from contracts with customers".
- NIF D-2, "Customer contract costs".
- NIF D-5, "Leases".