IMPORTANT NOTICE

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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT''), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND, SUBJECT TO CERTAIN EXCEPTIONS, THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT).

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Confirmation of your Representation: In order to be eligible to review this Prospectus and/or Final Terms or make an investment decision with respect to the securities described herein, investors must not be a US Person (as defined in Regulation S under the Securities Act). You have been sent the attached Prospectus and/or Final Terms on the basis that you have confirmed to UBS AG, being the sender of the attached, (i) that you and any customers that you represent are not US Persons, (ii) that the electronic mail (or e-mail) address to which it has been delivered is not located in the United States of America, its territories and possessions, any State of the United States or the District of Columbia (where "possessions'' include Puerto Rico, the US Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) and (iii) that you consent to delivery by electronic transmission.

You are reminded that the Prospectus and/or Final Terms had been delivered to you on the basis that you are a person into whose possession the Prospectus and/or Final Terms may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus and/or Final Terms to any other person.

The materials relating to this mail do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. Also, there are restrictions on the distribution of the attached Prospectus and/or Final Terms and/or the offer or sale of Notes in the member states of the European Economic Area. If you are a person in the United Kingdom, then you are a person who (i) has professional experience in matters relating to investments or (ii) is a high net worth entity falling within Article 49(2)(a) to (d) of the Financial Services and Markets Act (Financial Promotion) Order 2005.

The Prospectus and/or Final Terms had been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently UBS AG or any affiliate or any director, officer, employee or agent of any of them accepts no liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from UBS AG, if lawful.

Prospectus dated 12 June 2018

BANORTE

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

acting through its Cayman Islands Branch

CHF 100,000,000 0.875% Bonds 2018 – 2021 (the "Bonds")

Issuer's Name and registered office:	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, acting through its Cayman Islands Branch. Principal Office: Avenida Revolución 3000 Sur, Colonia Primavera, C.P. 64830, Monterrey, N.L., México. (The "**Issuer**" or "**Banorte**").
Interest Rate:	0.875% p.a., payable annually in arrears on 14 December, for the first time on 14 December 2018, first short coupon.
Issue Price:	The Lead Manager (as defined below) has purchased the Bonds at 100.272% of the nominal amount (before commission).
Placement Price:	The Placement Price of the Bonds will be fixed in accordance with supply and demand.
Payment Date:	14 June 2018
Maturity Date:	14 December 2021, redemption at par.
Early Redemption:	For tax reasons only, at par in accordance with the terms and conditions of the Bonds.
Reopening of the Issue:	The Issuer reserves the right to reopen this issue according to the terms and conditions of the Bonds.
Denominations:	CHF 5,000 nominal and multiples thereof.
Form of the Bonds:	The Bonds will be documented by a Permanent Global Certificate and registered as intermediated securities (Bucheffekten) in the main register (Hauptregister) with SIX SIS Ltd. Investors do not have the right to request the printing and delivery of definitive Bonds.
Covenants:	Pari Passu, Cross Default.
Listing and Trading:	Listing will be applied for in accordance with the standard for Bonds of the SIX Swiss Exchange. The Bonds have been provisionally admitted to trading on the SIX Swiss Exchange on 12 June 2018. The last trading day of the Bonds is expected to be 10 December 2021.
Governing Law and Jurisdiction:	The Bonds are governed by, and construed in accordance with Swiss law. Place of jurisdiction for the Bonds and all related contractual documentation shall be Zurich.
Selling Restrictions:	In particular U.S.A., U.S. persons, European Economic Area, United Kingdom and the United Mexican States.
Rating:	The Bonds have been rated "A3, stable", by Moody's.
Security Number/ ISIN/Common Code:	41.860.958 / CH0418609589 / 182805416

UBS Investment Bank

SELLING RESTRICTIONS

Each of the Issuer and the Lead Manager warrants and agrees that it will comply with the following selling restrictions (the "Selling Restrictions"):

General

Save for having listed the Bonds at the SIX Swiss Exchange, no action has been or will be taken in any jurisdiction by the Issuer or the Lead Manager that would permit a public offering of the Bonds, or possession or distribution of any offering material in relation thereto, in or from any country or jurisdiction where action for that purpose is required.

United States of America

The Bonds are issued in bearer form and have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States of America (the "**United States**") or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

(A) The Issuer and the Lead Manager have offered or sold the Bonds, and will offer and sell the Bonds (i) as part of their distribution at any time and (ii) acquired otherwise until 24 July 2018 (40 days after the Issue Date) (the "**Restricted Period**"), only in accordance with Rule 903 of Regulation S under the Securities Act. Terms used in this paragraph (A) have the meanings given to them by Regulation S.

Accordingly, neither the Issuer, the Lead Manager and its affiliates nor any persons acting on their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds, and they have complied and will comply with the offering restrictions requirement of Regulation S. The Lead Manager has agreed that, at or prior to confirmation of sale of the Bonds, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Bonds from them during the Restricted Period, a notice to substantially the following effect:

"The Bonds covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold within the United States of America or to, or for the account or benefit of U.S. persons (i) as part of their distribution at any time and (ii) otherwise acquired until 24 July 2018 except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

(B) The Lead Manager has not entered and will not enter into any contractual arrangement (other than this Agreement) with respect to the distribution or delivery of the Bonds, except with their affiliates or with the prior written consent of the Issuer.

The Lead Manager agrees that all offering materials and documents used in connection with offers and sales of the Bonds prior to the expiration of the Restricted Period shall include the following language:

"The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act."

European Economic Area

The Lead Manager represents and agrees that it has not offered and will not offer any Bonds to persons in any member state of the European Economic Area (each a "**Member State**"), except that it may offer Bonds in any Member State:

(a) at any time to a legal entity which is a qualified investor as defined in the Prospectus Directive[1]; or

(b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive[2], 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant bank or banks nominated by the company for any such offer; or

(c) in any circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3(2) of the Prospectus Directive.

For the purposes of this provision, the expression "offer" in relation to any Bonds in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

[1] Prospectus Directive means Directive 2003/71/EC as amended by Directive 2010/73/EC.

[2] Amending Directive means Directive 2010/73/EC

United Kingdom

The Lead Manager represents and agrees that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act, the "**FSMA**") received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

Mexico

The Bonds have not been and will not be registered with the National Securities Registry (*Registro Nacional de Valores*) maintained by the National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*, or the "**CNBV**"), and, therefore, may not be offered or sold publicly in Mexico, except that the Bonds may be offered to Mexican institutional and accredited investors pursuant to the private placement exemption set forth under Article 8 of the Mexican Securities Market Law (*Ley del Mercado de Valores*). As required under the Mexican Securities Market Law, the Issuer will notify the CNBV of the terms and conditions of the offering of the Bonds outside of Mexico. Such notice will be delivered to the CNBV to comply with article 7, second paragraph, of the Mexican Securities Market Law and for information purposes only. The delivery and the receipt by the CNBV of such notice, does not imply any certification as to the investment quality of the Bonds or the solvency, liquidity or credit quality of the Issuer or the accuracy or completeness of the information set forth in the Prospectus.

FORWARD LOOKING STATEMENTS

This Prospectus (as defined below) contains certain forward-looking statements and information relating to Banorte that are based on the current expectations, estimates, plans, strategic aims, vision statements, and projections of their management and information currently available to Banorte.

These forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results of operations, financial condition, performance or achievements of the Issuer to be materially different from any future results, financial condition, performance or achievements expressed or implied by such forward-looking statements. Terms and phrases such as "will", "believe", "expect", "anticipate", "intend", "plan", "predict", "estimate", "project", "target", "assume", "may" and "could", and variations of these words and similar expressions, are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Neither the Issuer nor the Lead Manager undertake an obligation to update any forward-looking statement, even if new information, future events or other circumstances have made them incorrect or misleading.

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Prospective investors should read the entire Prospectus (as defined below). Words and expressions defined in the section terms of the Bonds below or elsewhere in this Prospectus (as defined below) have the same meanings in this section. Investing in the Bonds involves certain risks. Prospective investors should consider, among other things, all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. These risk factors, individually or together, could have a material adverse effect on the Issuer's business, financial condition, prospects, operations or financial condition which, in turn, could have a material adverse effect on its ability to make payments under the Bonds.

Risks Relating to Our Business

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

Since 2008, financial systems worldwide have experienced periods and events of difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, loss of confidence in the financial sector, declining interest rates, currency devaluations, restrictions on the convertibility of funds and erosion of consumer confidence. Global economic conditions deteriorated significantly between 2007 and 2009, and many countries, including the United States, fell into recession. Although macroeconomic conditions have generally improved since 2012, the sharp decline and volatility in oil prices, uncertainty in global economic growth, and diverging monetary policies around the world have exacerbated global imbalances and risks. Many major financial institutions, including some of the world's largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies, experienced, and some continue to experience, significant difficulties. Around the world there have also been runs on deposits at several financial institutions, numerous institutions have sought additional capital or have been assisted or taken over by governments, and many lenders and institutional investors have reduced or ceased providing funding to borrowers (including to other financial institutions). Within this context, decreasing oil prices and a continuous reduction in Mexico's oil production, together with weaker-than- expected manufacturing activity in the U.S., constitute significant risks for the Mexican economy and its growth prospects, which could have an adverse effect on our business. In addition, normalization of U.S. monetary policy, including the end of its quantitative easing stimulus, and different monetary policies around the world, including in Mexico, might also have a negative impact on the Mexican economy and adversely affect our business and results of operations. We may face, among others, the following risks related to international market and economic conditions:

- increased regulation of the financial industry. Compliance with such regulation will continue to increase our costs, may require us to increase our capital or reserves, may affect the pricing of our products and services, and may limit our ability to grow our loan portfolio or pursue business opportunities;
- a global economic slowdown could result in reduced demand for financial products and services;
- inability of corporate and individual borrowers to timely or fully comply with their existing obligations.
- the process we use to estimate losses inherent in our credit exposure requires complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of borrowers to repay their loans, as well as the operational risks we face. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of these estimates, which may, in turn, impact the reliability of the process;
- the derivatives markets and similar operations, including volatility affecting those instruments, could impact financial systems and the solvency of its participants; and
- the value and liquidity of our portfolio of investment securities may be adversely affected.

Despite recent improvements in certain segments of the global economy, and in particular the strength of domestic demand in Mexico, uncertainty remains concerning the future economic environment. There can be no assurance that local or global economic conditions as a whole will improve significantly. Such economic uncertainty could have a negative impact on our business and results of operations. Global investor confidence remains cautious. A slowing or failing of the economic recovery in the U.S. and the uncertainty of its monetary policy would likely aggravate the adverse effects of these difficult economic and market conditions on us and on others in the financial services industry. Increased disruption and volatility in the global financial markets could have a material adverse effect on us, including our ability to access funding, capital and liquidity on financial terms acceptable to us, if at all. If capital markets financing ceases to become available, or becomes excessively expensive, we may be forced to raise the rates we pay on deposits to attract more customers and/or become unable to maintain certain liability maturities. Any such increase in capital markets funding costs or deposit rates could have a material adverse effect on our interest margins and liquidity. If all or some of the foregoing risks were to materialize, this could have a material adverse effect on our financial condition and our results from operations.

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

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

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

Interest rates are sensitive to many factors beyond our control, including increased regulation of the financial sector, monetary policies, domestic and international economic and political conditions and other factors. A significant portion of our assets, including our loans, are long-term assets. At the same time, a significant percentage of our financial borrowings are short-term. Variations in short-term interest rates could affect our net interest income, which comprises the majority of our revenue. When interest rates rise, we may be required to pay higher interest on our borrowings while interest earned on our assets may not rise as quickly, which could cause profits to grow at a reduced rate or decline in some parts of our portfolio. Accordingly, increases in short-term interest rates may reduce our net interest income, which could affect our ability to meet our short-term obligations. We monitor our interest rate risk using the Net Interest Margin ("**NIM**") sensitivity, which is the difference between the return on assets and the financial cost of our financial liabilities based on a one-year time frame and a parallel movement of 100 basis points (1%) in market interest rates. As of March 31, 2018, the Bank's 1% NIM sensitivity was Ps. 147 million. In addition, increases in interest rates may reduce the volume of loans we originate. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and deterioration in asset quality. Increases in interest rates may also reduce the value of our financial assets. We hold a substantial portfolio of loans and debt securities that have both fixed and adjustable interest rates.

If interest rates decrease, although this is likely to decrease our funding costs, it is likely to adversely impact the income we receive arising from our investments in securities as well as loans with similar maturities, which could in turn adversely affect our net interest income. In addition, we may also experience increased delinquencies in a low interest rate environment when such an environment is accompanied by high unemployment and recessionary conditions. The market value of a security with a fixed interest rate generally decreases when interest rates rise, which may have an adverse effect on our earnings and financial position. In addition, we may incur costs (which, in turn, will impact our results) as we implement strategies to reduce future interest rate exposure. The market value of an obligation with an adjustable interest rate can be adversely affected when interest rates increase, due to a lag in the determination of a new interest rate and in the implementation of repricing terms. We are also exposed to foreign exchange rate risk as a result of mismatches between assets and liabilities denominated in different currencies. Fluctuations in the exchange rate between currencies may negatively affect our ability to repay our foreign currency-denominated liabilities, net interest income, our earnings and the value of our balance sheet.

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

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

Our loan and investment portfolios are subject to prepayment risk, which results from the ability of a borrower or issuer to pay a debt obligation prior to maturity. Generally, in a low interest rate scenario, prepayment activity increases, reducing the weighted average lives of our interest earning assets and therefore our expected results relating to these assets. To date, prepayment activity in our loan portfolio has not had a significant effect on our financial results, but if such activity were to increase, we would also be required to amortize net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and net interest income. Prepayment risk also might have a significant adverse impact on credit card and collateralized mortgage loans, since prepayments could shorten the weighted average life of these portfolios, which would negatively impact our business, financial condition and results of operation. Prepayment risk is inherent to our commercial activity and an increase in prepayments could have a material adverse effect on us.

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

No assurance can be given that transactions between us and our parent Grupo Financiero Banorte, S.A.B. de C.V. ("**GFNorte**") or any of its subsidiaries or affiliates have been or will be conducted on a basis as favorable to us as could be obtained by us from unaffiliated parties. For example, we have also entered into certain service agreements with our affiliates Casa de Bolsa Banorte, S.A. de C.V. ("**Casa de Bolsa Banorte**"), Operadora de Fondos Banorte, S.A. de C.V. ("**Operadora de Fondos Banorte**"), Seguros Banorte, S.A. de C.V. ("**Seguros Banorte**") and Pensiones Banorte, S.A. de C.V. ("**Pensiones Banorte**"), to allow these companies to offer their products and services within our branch network in consideration for certain fees. In addition, we, GFNorte and other subsidiaries or affiliates have entered into a number of agreements providing for the sharing of revenues or expenses in connection with the performance of certain activities, including loan recovery. Mexican law applicable to publicly traded companies and financial groups and institutions, as well as our bylaws, provide for several procedures designed to ensure that the transactions entered into with or among companies in our financial group are carried out on an arm's-length basis, including the requirement that our Board of Directors approve such transactions and that transactions with affiliates do not exceed certain thresholds. We are likely to continue to engage in transactions with our parent and any of its subsidiaries or affiliates, and no assurance can be given that we will do so on an arm's-length basis. In addition, future conflicts of interest between us and GFNorte or any of its subsidiaries or affiliates may arise, which conflicts are not required to be and may not be resolved in our favor. While in the past the CNBV has not disagreed with our determinations that the terms of these transactions are "substantially on market conditions," we can provide no assurances that the CNBV will agree with any of our future determinations. There can be no assurance that future transactions involving GFNorte or any of its subsidiaries or affiliates will not have an adverse effect on our financial position.

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

We are part of a financial group controlled by GFNorte. Other entities within the group include, among others, Sólida Administradora de Portafolios, S.A. de C.V. ("**Sólida**"), which maintains some non-performing loan portfolios, and Casa de Bolsa Banorte, which maintains trading positions. GFNorte could, at any time, devote more resources or divert our business or business opportunities to other subsidiaries of GFNorte that directly or indirectly compete with us, as well as transfer certain operations of other subsidiaries of GFNorte to us, on grounds of capital efficiency, regulatory constraints or other criteria. Sólida currently has no employees of its own and primarily relies upon Banorte to conduct its business. Should more of our resources be diverted, or our business or business opportunities be diverted, to other subsidiaries of GFNorte, or if unprofitable operations of other subsidiaries of GFNorte are transferred to us, our financial position and results of operations could be adversely affected.

We may be unable to successfully implement and continue to improve our credit risk management system, which could substantially and adversely affect our results of operations and financial position.

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

In assessing customers' creditworthiness, we rely largely on the credit information available from our own internal databases, the Mexican credit bureaus and other sources. Due to limitations in the availability of information and the developing information infrastructure in Mexico, our assessment of credit risk associated with a particular customer may not be based on complete, accurate or reliable information. We cannot assure you that our credit scoring systems collect complete or accurate information reflecting the actual behavior of customers or that their credit risk can be assessed correctly. Without complete, accurate and reliable information, we have to rely on other publicly available resources and our internal resources, which may not be effective. As a result, our ability to effectively manage our credit risk and subsequently our impairment losses and allowance for impairment losses may be materially adversely affected.

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

The credit card industry in Mexico is dominated by institutions that may possess greater financial resources and broader coverage in this market than we do. There is no assurance that we will be able to effectively compete for and retain customers in this competitive segment. Moreover, our credit card business is subject to a number of risks and uncertainties, including the possibility of over-indebtedness of our customers, their economic condition and level of employment and income. Part of our current growth strategy is to increase volume in the credit card portfolio, at the same or a slightly faster rate than the market, which may increase our exposure to risk in our loan portfolio, which could have a material adverse effect on us. Furthermore, credit card products are characterized by higher consumer default than other consumer credit products, and defaults are highly correlated with macroeconomic indicators that are beyond our control. If Mexican economic growth slows or declines, or if we fail to effectively analyze the creditworthiness of our customers, we may be faced with unexpected losses that could have a material adverse effect on us, including our financial condition and results from operations.

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

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

As of March 31, 2018 and December 31, 2017, the aggregate outstanding principal amount and accrued interest of loans to our 15 largest clients (including loans to a single commercial group or to the Mexican government) represented 17.6% and 18.2%, respectively, of our total loan portfolio (on an unconsolidated basis). If the financial well-being of any of these clients were to be negatively impacted by political, economic or industry-related developments or any other factor, it could lead to an increase in our non-performing or low credit quality loans.

In addition, our current loan loss reserves may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of our total loan portfolio. Our loan loss reserves, which are calculated in accordance with CNBV regulations, are based on our current assessment of, and expectations concerning, various factors affecting us, including the quality of our loan portfolio. These factors include, among others, our borrowers' financial condition, repayment abilities and repayment intentions, the realizable value of any collateral, the prospects for guarantor support, government macroeconomic policies, interest rates and the legal and regulatory environment. As a result, there is no precise method for predicting loan and credit losses, and we cannot assure you that our loan loss reserves are or will be sufficient to cover actual losses. If our assessment of, and expectations concerning, the above-mentioned factors differ from actual developments; if the quality of our total loan portfolio deteriorates, for any reason, including an increase in lending to individuals and SMEs, an increase in our credit card portfolio and our introduction of new products; or if future actual losses exceed our estimates of incurred losses, we may be required to increase our provisions and allowance for loan losses, which may adversely affect us. If we are unable to control or reduce the level of our non-performing or low credit quality loans, or to adequately reserve such loans, our financial position and results of operations could be materially and adversely affected.

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

The asset quality of our loan portfolio, including with respect to collateral, has been negatively affected by the unfavorable financial and economic conditions prevailing in Mexico following the global financial crisis that commenced in 2008. Mexican regulatory authorities and the banking system responded to this situation in several ways, including making revisions to Mexican Banking GAAP, including allowing for the reclassification of certain "available for sale securities" to "held to maturity securities" and broadening the class of securities available for repurchase. Other regulatory responses have included imposing more stringent loan loss reserve requirements and capitalization standards, as well as adopting a number of programs designed to provide relief to Mexican borrowers in connection with the granting and restructuring of outstanding loans. Such reserve requirements could have a direct adverse impact on our financial results. Unfavorable financial and economic conditions in Mexico and these regulatory initiatives have caused the Mexican banking sector to experience asset quality problems and to record relatively large loan loss provisions, leading to potential negative impacts on our financial results.

Moreover, in Mexico, foreclosure procedures are generally subject to delays and procedural uncertainties and administrative requirements that may result in lower levels of recovery on collateral compared to its value. In addition, other factors such as defects in the perfection of our security interests, fraudulent transfers by borrowers, attachments by other creditors obtaining priority over collateral, or a reduction in the value or liquidity of the collateral may impair our ability to recover on our collateral. Accordingly, there can be no assurance that we will be able to realize the full value of our collateral. Lower recovery rates, asset quality deterioration, decreased value of collateral and lower levels of recovery on collateral compared to its value could have a material and adverse effect on our business, financial condition and results of operations.

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

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

- in 2009, for credit card loans;
- in 2010, for consumer and mortgage loans;
- in 2011 for government loans;
- in 2013, for commercial loans;
- in 2014, for loans to financial institutions;
- in 2015, for revolving consumer loan portfolio;
- in 2017, for non-revolving consumer and mortgage loans..

The 2015 rating methodology for revolving consumer loans, was applied in Banorte in April 2016, and the 2017 rating methodology for non-revolving credit and mortgages, was implemented in June 2017, with the objective of incorporating the external credit behavior and leverage levels of our customers as reported by Credit Information Entities. Starting in January 2018, the CNBV authorized Banorte to use its internal methodology with an advance rating focus for Loan Loss Reserve and Capital Requirements calculation by credit risk for consumer revolving loans. Such rating methodology is calibrated with the historic credit behavior of our customers with Banorte and also with other financial institutions. In the future, CNBV could modify the accounting criteria to determine loan loss subsidies, and may continue modifying methodologies to measure credit risk and/or preventive loan loss reserves requirements for the rest of the portfolios. This could negatively affect the operating results and financial performance of GFNorte and any of its subsidiaries.

The retail banking market is exposed to macroeconomic shocks that may negatively impact household income, and a downturn in the economy could result in increased loan losses.

One of our main strategies is to grow our retail loan portfolio. The recoverability of our existing retail loan portfolio, our ability to increase our loans outstanding, and, in general, our results of operations and financial condition, may become increasingly vulnerable to macroeconomic shocks that could negatively impact the household income of our retail customers and result in increased loan losses, which in turn could have a material adverse effect on us. Although Mexican GDP has grown since 2010, the Mexican economy has historically experienced cycles of growth followed by slowdowns. We can provide no assurance that previously observed GDP growth rates will continue. Furthermore, because the penetration of bank lending products in the Mexican retail sector historically has been low, there is little basis on which to evaluate how the retail sector will perform in the event of an economic crisis, such as a recession or a significant devaluation, among others. Consequently, our historical loan loss experience may not be indicative of the performance of our loan portfolio in the future.

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

The Mexican Capitalization Requirements and the rules governing the creation of reserves for loan losses applicable to credit institutions generally require significantly lower capitalization levels or reserves (if any) in connection with loans made to Mexican federal, state or municipal governments (together, the "**Government Loans**"). Recently, Banorte has constituted sufficient capital and reserves pursuant to new regulations in Mexico which require provisions according to expected losses for governmental loans, and these reserves represent a lower percentage of the total portfolio of its corresponding loans compared to the percentage of reserves established in portfolios for other segments; nonetheless, this situation is inherent to the risk profile of the portfolio. As of March 31, 2018, our Government Loans amounted to Ps. 131,014 million, or 21.0% of our total gross loan portfolio. Although as of March 31, 2018, we had no Government Loans categorized as non-performing loans, a deterioration in the credit quality of our Government Loans could result in an adverse impact on our financial position and results of operations. The magnitude of this impact would be a function of the size of our exposures to the relevant government entities, the extent of the deterioration in their internal credit ratings assigned by our risk management area according to the methodology approved by the CNBV, and the guarantees of these loans, among other factors.

It is important to highlight that loans are granted to a State or a Municipal government through a decree, which authorizes funding under specific conditions (amount, term, rate, etc.), and are not granted to a specific governor or municipal president, for that reason, subsequent administrations have to recognize prior operations.

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

The Mexican government and commercial banks, including us, have from time to time agreed to modify the terms of Government Loans. Such modifications have included maturity extensions, amendments to collateral received, reductions in interest rates and the inclusion of prepayment features and/or options. There can be no assurance that these or other Government Loans will not be similarly renegotiated in the future in a way that could reduce our margins in this line of business, which could adversely affect our results of operations. In May 26, 2015 the Constitutional Reform through which provisions regarding Financial Discipline were amended and added was published, this aims to establish limits on indebtedness for States and Municipalities, as well as diverse control and transparency measures.

Derived from the aforementioned, the Law on Financial Discipline for the States and Municipalities was published on April 27, 2016; consequently, restructuring or refinancing activities as of this date shall consider measurements on financial discipline, indebtedness limits and transparency –to be published in the corresponding governmental websites- and must be registered in the SHCP's Unique Public Registry.

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

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

Most of our loans to Mexican states and municipalities are secured by such entities' right to receive their corresponding allocation of *participaciones federales*. Any changes to Mexican laws and regulations regarding the use of *participaciones federales* as source of payment for these type of loans or defects in the perfection of such collateral, may require amendments to our credit facilities and may impact the credit risk of such facilities or the manner in which we conduct business with Mexican states and municipal governments, which in turn could affect our results of operations and financial position. Furthermore, as *participaciones federales* are subject to the conditions of the Mexican economy and the federal government's tax collections, we cannot give any assurances that the *participaciones federales* will remain at their current funding level or that they will be sufficient for the timely performance of Government Loans. If *participaciones federales* are reduced as a result of changes to Mexican laws and regulations or for any other reason, our results of operations and financial condition could be adversely affected. Defects in the perfection of our security interests or fraudulent transfers by borrowers may impair our ability to recover on our collateral. Accordingly, there can be no assurance that we will be able to realize the full value of our collateral, or timely realize the full value of our collateral, in connection with financings made to Mexican state and municipal governments. If we are not able to realize the full value of our collateral, our results of operations and financial condition could be adversely affected.

The future of government sector lending in Mexico is uncertain.

Our business is subject to a continuously evolving regulatory regime of financial service laws, regulations, administrative actions and policies in each Mexican state in which we operate. In particular, due to certain high profile restructurings of Mexican state and municipal debt, in April 2016, the Mexican Congress approved certain amendments related to government sector lending. As a result, state and municipal governments are now subject to the Law of Financial Discipline for States and Municipalities (*Ley de Disciplina Financiera de las Entidades Federativas y los Municipios*), which seeks to organize and align budgetary and financial instruments of the states, municipalities and their agencies, to ensure sustainable management of local public finances. This law establishes general principles of financial discipline, including, among others, rules on the incurrence of indebtedness and a registry for such indebtedness, applicable to states and municipalities. Although we expect the measures will help to achieve healthier public finances and transparent investment of government debt, the implementation of these provisions will be gradual and the full benefits of the new standards may take between one to six years to materialize, therefore we cannot predict the impact they will have on our business.

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

Our borrowers that are Mexican federal, state or municipal governments or agencies may claim privileges under Mexican law, and our ability to sue and recover may be limited.

Article 9 of the Fiscal Coordination Law (*Ley de Coordinación Fiscal*) provides that *participaciones federales* corresponding to States and Municipalities may not be subject to attachment or liens, may not be assigned for specific objectives or subject to retention or withholding, except that they may be used to satisfy payment obligations of such states and municipalities whenever, previously and according to the regulation, they comply with the following conditions:

- have the authorization of the local congress; and

- be recorded in the Unique Public Registry of the SHCP.

The risk that any of the three levels of government may claim privileges, reducing our capacity to sue or recover debts is limited to the constitutional provisions that state the non-retroactivity of laws.

In addition, it is worth noting that article 4 of the Mexican Federal Code for Civil Procedures (*Código Federal de Procedimientos Civiles*) does not allow attachment prior to judgment or attachment in and of execution upon a judgment by a Mexican court upon any of the assets of the Federal, State or Municipal governments or their agencies, so sentences would not be executed against such governments or agencies. The aforementioned, could adversely affect our financial situation or results of operations of our business; therefore, in such cases, our guarantees must always be private goods.

We are exposed to the Mexican home building sector, and the amount of non-performing loans to this sector could adversely affect our results of operations and financial condition.

We have extended loans to, and participated through specialized trust operations in home development projects. Some companies in this sector have experienced, and continue to experience, financial difficulties. As a result of challenging market conditions in 2013, three of the largest companies in the home building sector were subject to equity and debt restructurings. As of March 31, 2018, we had outstanding loans to Urbi Desarrollos Urbanos, S.A.B. de C.V. ("**Urbi**"), Corporación Geo, S.A.B. de C.V. and Desarrolladora Homex, S.A.B. de C.V. in an aggregate principal amount of Ps.2.19 billion, representing 0.3% of our total loan portfolio. Of these loans, Ps. 1.887 billion, or 86.2%, were non-performing as of March 31, 2018. Of our total loans to these clients at such date, 100% was secured by land reserves. As of March 31, 2018, we had allocated Ps. 790 million in loan loss reserves for loans to these clients, with a coverage ratio of 36.1%.

As of March 31, 2018, we had outstanding loans to Corporación Geo, S.A.B. de C.V. in an aggregate principal amount of Ps. 603 million, 100% of which were secured by real estate. As of March 31, 2018, we had allocated Ps. 156 million in loan loss reserves for loans to this client. We cannot provide assurance of the level of recovery that we can achieve from the loans to this sector or that we will be able to realize our target level of reserves or, if we do, that such reserves will cover the total losses expected from loans in the home building development sector, which could adversely affect our results of operations and financial condition.

Liquidity and funding risks are inherent to our business.

Liquidity risk is the risk that we either do not have available sufficient financial resources to meet our obligations as they fall due or can secure them only at excessive cost. This risk can be heightened by a number of company-specific factors, including over- reliance on a particular source of funding, changes in credit ratings or market-wide phenomena such as market dislocation. While we have liquidity management processes designed to mitigate and control these risks, unforeseen systemic market factors in particular make it difficult to completely eliminate these risks. Adverse and continued constraints in our liquidity, including interbank lending, has affected and may materially and adversely affect the cost of funding our business, and extreme liquidity constraints may affect our current operations and our ability to fulfill regulatory liquidity requirements, as well as limit growth possibilities. Disruption and volatility in the global financial markets could also have a material adverse effect on our ability to access capital and liquidity on financial terms acceptable to us.

In 1994 and 1995, many Mexican banks suffered severe liquidity problems as a result of a financial crisis in Mexico, particularly in connection with refinancing short- and medium-term U.S. dollar liabilities in the international capital markets. No assurance can be given that liquidity problems will not affect the Mexican banking system again or that liquidity constraints will not affect us in the future. While we expect to be able to pay or refinance our projected liabilities, no assurance can be given that we will be able to repay such liabilities or refinance such liabilities on favorable terms. We rely, and will continue to rely, primarily on customer deposits to fund lending activities. The ongoing availability of this type of funding is sensitive to a variety of factors outside our control, such as general economic conditions and the confidence of customer depositors in the economy, in general, and the financial services industry in particular, the availability and extent of deposit guarantees, and competition between banks for deposits. Any of these factors could significantly increase the amount of customer deposit withdrawals in a short period of time, thereby reducing our ability to access customer deposit funding on appropriate terms, or at all, in the future. If these circumstances were to arise, this could have a material adverse effect on our operating results, financial condition and prospects.

For the purpose of providing an accurate measurement of the liquidity risk and funding needs, a series of metrics have been implemented such as liquidity gaps and survival horizon, both identifying liquidity and funding mismatches originated by the operational flows of the institution, thus helping to detect funding needs and the institutions capabilities to cover its short and medium term funding needs, securing then Banorte's liquidity rate. Additionally, the institution analyses its liquidity and funding needs under adverse economic scenarios with Stress Testing and Liquidity Coverage Ratio, where the latter is a regulatory measurement that enables a consistent comparison of the liquidity positions of the institutions across the financial system.

Furthermore, and in line with the current regulation and industry best practices, Banorte has implemented a Contingency Funding Plan and a Solvency and Liquidity Contingency Plan, both of which establish recovery strategies under adverse events based on monitoring liquidity indicators and early warning alerts.

We anticipate that customers in Mexico will continue in the near future to demand short-term deposits (particularly demand deposits and short-term time deposits) and loans, and that we will maintain our reliance on the use of deposits as a source of funding. The short-term nature of this funding source could cause liquidity problems for us in the future if deposits are not made in the volumes we expect or are not renewed. As of March 31, 2018, 100% of our local and foreign currency deposits had remaining maturities of one year or less or were payable on demand. In the past, a substantial portion of such customer deposits have been rolled over upon maturity or maintained with us (in the case of deposits payable on demand) and, as a result, such deposits have over time been a stable source of funding. No assurance can be given, however, that customers will continue to roll over or maintain their deposits with us. If a substantial number of our customers fail to roll over their deposits upon maturity or withdraw their deposits, our liquidity position could be adversely affected, and we may be required to seek funding from more expensive sources, affecting our financial condition and results of operations.

We are exposed to volatility in Peso exchange rates and interest rates in Mexico.

We are exposed to currency risk any time we hold an open position in a currency other than Pesos and to interest rate risk when we have an interest rate re-pricing gap or carry interest-earning securities having fixed real or nominal interest rates. Peso exchange rates and interest rates in Mexico have been subject to significant fluctuations in recent years. Because of the historical volatility in Peso exchange rates and interest rates in Mexico, the risks associated with such positions may be greater than in certain other countries. Exchange rates and interest rates have experienced considerable volatility in recent years. Although we follow various risk management procedures in connection with our trading and treasury activities, there can be no assurance that we will not experience losses with respect to these positions in the future, any of which could have a material adverse effect on our results of operations and financial position. In addition, our foreign currency liabilities are subject to regulation by the Mexican Central Bank, which imposes liquidity requirements in matching currencies, depending upon the maturities of such liabilities.

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

In 2008 and 2009, as a result of negative economic conditions in the United States and in other parts of the world, local and international markets experienced high volatility, which contributed to the depreciation of the Peso. During 2008, the Peso depreciated by 26.7% compared to the U.S. dollar. During 2010, 2011 and 2012, the Peso appreciated by 5.5%, depreciated by 12.9% and appreciated by 7.0%, respectively. During 2014, 2015, 2016 and 2017, the Peso depreciated by 12.7%, 17.0%, 19.5% and -4.6%, respectively. As of March 31, 2018, the Peso had appreciated to Ps.18.2709 per U.S. dollar as compared to the exchange rate of Ps.19.663 per U.S. dollar as of December 29, 2017. The Peso continues to be affected by uncertainty and volatility in the global markets. The Mexican government has implemented a series of measures to limit the volatility of the Peso. However, we cannot assure you that such measures will be effective or maintained or how such measures will impact the Mexican economy.

In recent years, interest rates in Mexico have been at 6.68%, 4.15% and 3.01% for the years ended December 31, 2017, 2016 and 2015, respectively. International financial volatility and the external environment have had a negative impact over the Mexican economy. Furthermore, low oil prices have affected macroeconomic variables, such as the exchange rate between U.S. dollars and Pesos. As a consequence, on February 17, 2016, the Mexican Central Bank increased the one day interbank interest rate by 50 basis points to 3.75%, and has been increasing the reference rate regularly since then, to 6.50% as of March 31, 2017. There can be no assurance that such interest rates will continue to increase in the future. A sustained increase in interest rates will also raise our funding costs and may reduce our loan demand, especially among consumers. Rising interest rates may therefore require us to re-balance our asset portfolio and our liabilities in order to minimize the risk of potential mismatches and maintain our profitability. In addition, rising interest rate levels may adversely affect the Mexican economy and the financial position and repayment ability of our corporate and retail borrowers, including holders of our credit cards, which in turn may lead to a deterioration in our asset quality.

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

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

Although the majority of our loan portfolio is subject to revisable rates, increases on interest rates may therefore require us to re-balance our asset portfolio and our liabilities in order to minimize the risk of potential mismatches and maintain our profitability.

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

We enter into financial derivative transactions primarily for hedging purposes and to a lesser extent, on behalf of our customers. Accordingly, we are subject to market and operational risks associated with these transactions, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost) and credit or default risk (the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder). Mexican courts have limited experience in dealing with issues related to derivative transactions, as most disputes have typically been resolved through negotiations among Mexican financial institutions. As a result, the outcomes of disputes regarding derivatives reaching the Mexican judicial system are not fully predictable. Derivative transactions are usually documented under ISDA master agreements or similar agreements that differ from agreements typically used in the Mexican market, which further increases the unpredictability of their interpretation by Mexican courts. Given that for certain of our financial derivative transactions the derivative market is not yet as developed in Mexico as in other jurisdictions, there are added structuring risks and the risk that our documentation will not incorporate accurately the terms and conditions of such derivative transactions. Our ability to adequately monitor, analyze and report derivative transactions continues to depend, to a great extent, on our IT systems and our ability to hire and retain qualified personnel, which further increases the risks associated with these transactions and could have a material adverse effect on us.

Likewise, the counterparty risk associated with margin calls to our main counterparts. Market and counterparty risk monitoring is carried out using robust risk systems and on a daily basis.

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

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

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

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

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

In order to grow, remain competitive, enter into new businesses and meet regulatory capital adequacy requirements, we may require additional capital in the future. Moreover, we may need to raise additional capital in the event of large losses in connection with any of our activities that result in a reduction of our shareholders' equity. Our ability to obtain additional capital in the future is subject to a variety of uncertainties, including:

- our future financial position, results of operations and cash flows;
- any necessary government regulatory or corporate approvals;
- general market conditions for capital-raising activities by commercial banks and other financial institutions;
- any reduction in our credit rating or the credit rating of our subsidiaries; and
- social, economic, political and other conditions in Mexico and elsewhere.

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

However, Banorte complies with the current regulation by monitoring its capital requirements on timely basis and revising its future capital needs through financial projections under ordinary and stress scenarios, including in the latter category, the Capital Adequacy Assessment.

We are subject to capital adequacy requirements. Any failure by us to maintain this ratio will result in administrative actions or sanctions which may affect our ability to fulfill our obligations, including losing our banking license.

In order to sustain Banorte's operations, and with the aim of anticipating future capital needs, a Capital Plan has been implemented based on the balance growth expectations under normal and stress conditions, while including contingent events that could have an impact on the capital requirements or in the available capital during the planning period.

Our Capital Plan is related to the Capital Adequacy Assessment established in local regulation and encompasses both regulatory and internal stress scenarios, as well as the institution's Solvency and Liquidity Contingency Plan, which lays down recovery strategies based on monitoring risk measurements and an early warning system.

A new regulation issued by the CNBV establishes that our additional tier 1 capital and tier 2 capital instruments will not be able to compute over 50% of our core tier 1 capital in case the core tier 1 capital ratio is positioned below 10.0%. As of March 31, 2018, said coefficient was 12.58%.

Moreover, In April 2017, Banorte was confirmed as Level II - Domestic Systemically Important Financial Institution, which implies that Banorte must maintain a capital buffer of 0.90 pp, to be constituted progressively in up to four years, starting on December 2016. Therefore, starting on December 2017, the minimum Capitalization Ratio required for Banorte amounts to 10.95% (corresponding to the regulatory minimum of 10.5% plus the constituent capital supplement to date).

Downgrades in our credit ratings or those of any of our subsidiaries would increase our cost of borrowing and negatively impact our ability to raise new funds, attract deposits or renew maturing debt.

Our credit ratings are an important component of our liquidity profile. Among other factors, our credit ratings are based on the financial strength, credit quality and concentrations in our loan portfolio, the level and volatility of our earnings, our capital adequacy and leverage, the liquidity of our balance sheet, the availability of a significant base of core retail and commercial deposits, and our ability to access a broad array of wholesale funding sources. Our lenders and counterparties in financial derivative transactions are sensitive to the risk of a ratings downgrade. Changes in our credit ratings would increase the cost of raising funds in the capital markets or of borrowing funds or could restrict our participation in certain activities. In addition, our ability to roll over maturing debt may be more difficult and expensive. There can be no assurance that rating agencies will maintain our current ratings or outlook. Our ability to compete successfully in the marketplace for deposits depends on various factors, including our financial stability as reflected by our credit ratings. A downgrade in our credit ratings may adversely affect perception of our financial stability and our ability to raise deposits or obtain other funding, which could significantly affect our business, financial conditions and results of operations.

We are exposed to risks faced by other financial institutions.

We routinely transact with counterparties in the financial services industry, including broker-dealers, commercial banks, investment banks, mutual funds, hedge funds and other institutional clients. Defaults by, and even rumors or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by other institutions. Many of the routine transactions we enter into expose us to significant credit risk in the event of default by one of our significant counterparties. Concerns relating to the financial health of a number of European governments and the European sovereign debt crisis have recently intensified, contributing to volatility of the capital and credit markets, and the risk of contagion throughout the European financial system (in which the parent companies of some of our most important competitors operate) and beyond the Eurozone remains, as a significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by nations which are under considerable financial pressure. These liquidity concerns have had, and may continue to have, an adverse effect on interbank financial transactions in general. Should any of these nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilized. A default by a significant financial counterparty, or liquidity problems in the financial services industry generally, could have a material adverse effect on our business, financial position and results of operation.

We are subject to significant competition from other financial groups in providing financial services.

We face strong competition in all sectors of our business, including our banking business. The competition comes principally from Mexican and foreign banks, mortgage banking companies, consumer finance companies, insurance companies, other credit institutions, brokerage houses and financial advisory institutions. We anticipate that we will encounter greater competition as we continue expanding our operations in Mexico. A number of institutions with which we compete have significantly greater assets and capital, name recognition and other resources. Besides traditional banking services, specialized entities exist such as non-regulated multiple purpose financial companies (Sociedades Financieras de Objeto Multiple), which if not part of a financial group, are not subject to the extensive Mexican banking regulations to which Banorte and its subsidiaries are subject, including for example, maintaining certain levels of capital and reserves for loan losses. As a result, certain of our competitors may have advantages in conducting certain businesses and providing loans and other financial services.

Competition is also likely to increase as a result of the entry of new participants into the financial services sector derived from the financial reform, which aims to strengthen development banks in order to complement services offered by commercial banks, as well modify legal framework of the later and promote more and cheaper loans offered by credit institutions. Mexican financial authorities continue granting licenses for the establishment and operation of several new financial institutions.

In addition, legal and regulatory reforms in the Mexican banking industry have also increased competition among banks and among other financial institutions. Various reforms to the Mexican Banking Law allow the incorporation of limited purpose banks (bancos de nicho), which can only engage in those activities expressly authorized by the CNBV and set forth in their by-laws, and are subject to fewer regulatory requirements (including a lower capital requirement) depending on such authorized activities. Therefore, Banorte could experience higher competition in certain sectors of its business should the CNBV grant many limited purpose banking licenses. We believe that the Mexican government's commitments to adopt accelerated regulatory reforms in, and the liberalization of, the Mexican financial industry have resulted in increased competition among financial institutions in Mexico. As the reform of the financial sector continues, foreign financial institutions, many with greater resources than us, will continue to enter the Mexican market either by themselves or in partnership with existing Mexican financial institutions and compete with us. There cannot be assurance that we will be able to compete successfully with such domestic or foreign financial institutions or that increased competition will not have a material adverse effect on our financial position or operating results.

As a result of Banorte's entry into the U.S. banking sector through the acquisition of INB (in sale process) and Uniteller in 2006 and Motran in 2007 (merged with Uniteller in 2014), GFNorte has faced strong competition from U.S. based financial groups, commercial banks and other financial institutions. In particular, Banorte's banking operations in the U.S. face competition from domestic and international banks, as they have a significant presence in the regions covered by INB. Furthermore, we face strong competition from regional and local banks in the U.S. regions in which we operate.

An increase in competition or a more aggressive competition strategy by our competitors may force GFNorte to decrease certain active rates or pay higher interest rates on deposits and operating creditors, to avoid losing clients preferring more attractive rates offered by other banks, which would increase our interest expenses and reduce our net interest income and, consequently, adversely impact our financial position or operating results.

In addition, if our customer service levels were perceived by the market to be materially below those of our competitor financial institutions, we could lose existing and potential business. If we are not successful in retaining and strengthening customer relationships, we may lose market share, incur losses on some or all of our activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on us.

We are subject to extensive Mexican governmental regulation, which is subject to frequent revisions and changes.

We are subject to extensive regulation by Mexican governmental authorities regarding our organization, operations, capitalization, corporate governance, transactions with related parties and other matters. These laws and regulations impose numerous requirements on us and our subsidiaries, including the maintenance of minimum risk based capital levels and loan loss reserves, regulation of our business practices, diversification of our investments, maintenance of liquidity ratios, regulation of loan granting policies and interest rates charged, other terms contained within loan agreements, as well as application of required accounting regulations. Amendments to financial laws could result in additional capital requirements and give financial authorities discretion to impose capital requirements or modify the usage of our net income.

Many of the applicable laws and regulations have been subject to extensive changes in recent years, some of which have had a material effect on our and our subsidiaries' financial and capitalization position and results of operations. For example, several laws were enacted during 2008 and 2009 by the Mexican Congress requiring the elimination of certain fees for credit cards, deposit accounts, and the use of ATMs, as well as granting the Mexican Central Bank the authority to approve, reject or limit account management and general fees that banks, including Banorte, charge to their customers and also granting the ability to impose penalties if in its judgment banking institutions are limiting competition among themselves. Moreover, Mexican financial regulatory authorities possess significant powers to enforce applicable regulatory requirements in the event of our or our subsidiaries' failure to comply with such regulatory requirements, including imposing fines, requiring that new capital be contributed, prohibiting the payment of dividends to shareholders or the payment of bonuses to employees, imposing sanctions or revoking our licenses and permits to operate our businesses; moreover, the 2014 financial reform aims to further strengthen these powers and grant greater discretion to authorities. In case we or our subsidiaries face significant financial problems or become insolvent or in danger of so, Mexican financial regulatory authorities have the power to take over our management and operations.

Given the current environment of frequent changes to laws and regulations affecting the financial services sector, there may be future changes in the regulatory system or in the enforcement of the laws and regulations that could adversely affect us and our subsidiaries.

In particular, on July 26, 2010, the Group of Governors and Supervision Chiefs, the supervision body of the Basel Committee on Banking Supervision, reached broad agreement on the overall design of a capital and liquidity

reform package for internationally active banking organizations around the world (known as Basel III), which includes, among others, the definition of capital, the treatment of counterparty credit risk, the leverage ratio and the global liquidity standard. On September 12, 2010, the Basel Committee announced a substantial strengthening of existing capital requirements in connection with Basel III. The full text of the Basel III rules and the results of a quantitative impact study to determine the effects of the reforms on banking organizations were published on December 16, 2010. These rules include, among others, the gradual elimination of securities that count as basic capital (Tier 1) and complementary capital (Tier 2) with prepayment provisions, based on incentives or the implementation of leverage ratios applicable to institutions, in addition to the capital requirements in effect based on risk over assets.

In order to strengthen the net capital of the banking sector, in accordance with the guidelines established by the Capital Accord issued by the Basel Committee (which primary goal is for banking institutions worldwide to increase their ability to deal with financial or economic turmoil through the integration of greater and higher-quality capital), the SHCP published on November 28, 2012 an amendment to the Mexican Banking Regulations that aims to, among others: (i) strengthen the composition of the net capital of banking institutions under Basel III guidelines, and (ii) allow certain securities issued by commercial banks to absorb losses incurred by these institutions when submitting a detriment in their capital, either through a conversion into their shares or by the loss of the agreed value at the time of issuance in order to be recognized as part of the net capital of such institutions. The regulations from this amendment were implemented on January 1, 2013 and are in force.

The application of provisions changing the methodology, calculation or compliance of Capital Ratios of banking institutions or the adoption of changes to the minimum requirements for Tier 1 and Tier 2 capital of banking institutions, overviewed by Mexican authorities, may have a material adverse effect on our business and results of operations.

On December 31, 2014 the CNBV published on the Circular Única de Bancos official document for Credit Institutions) guidelines to calculate the Liquidity Coverage Ratio (LCR) aiming to prevent banks from keeping free disposal liquid assets with high credit quality, as defined by the applicable general provisions, in order to fulfill their obligations and meet their liquidity needs for 30 days. These regulations became effective in January 2015.

We cannot provide assurance whether the reform packages regarding terms and conditions of government lending or the financial reform enacted on January 9, 2014, will not have a materially adverse effect on our business, financial condition or results of operations.

On December 31, 2014, the SHCP published the General Rules for Financial Groups, which stipulate March 31, 2016 as the deadline to adequate the Bylaws of the Holding Company on the resolution of conflicts of interest among the financial institutions integrating the Financial Group. Consequently, on November 19, 2015 GFNorte held an Extraordinary General Shareholders' Assembly, in which it was agreed to amend its Bylaws in order to adapt them to the regulations, subject to the authorization of competent authorities.

On November 26, 2013, the Mexican Congress approved a financial reform package that granted broader authority to financial authorities and ordered the Mexican competition authorities to initiate an investigation into the fairness of trade practices in the Mexican financial system.

One of the main aspects of the changes in recent years in the Mexican Banking Law approved by Congress consists of the authority granted to the SHCP to conduct evaluations of Mexican banks. The guidelines for such evaluations were published in the Official Gazette on December 31, 2014, and the final results of the first evaluation for 2015 were published on July 31, 2016, in which we received a positive evaluation, and no corrective measures were ordered. Negative or deficient results of evaluations may result in corrective measures being ordered, including a requirement that the bank present a plan to correct such deficiencies. In the event that we receive a negative or deficient evaluation in the future, it is uncertain what corrective measures may be ordered by the SHCP and whether the imposition of such measures may have a material adverse effect on our business.

In June 2014, the Mexican Supreme Court of Justice decided that federal judges have discretion to determine whether or not an interest rate agreed in a promissory note is evidently excessive, violating an individual’s human rights, and consequently establishing a reduced rate. The elements the judge should take into account to determine if a rate is evidently excessive are:

- the type of relationship between the parties;
- the qualification of the persons intervening in the subscription of the note and if the activity of the creditor is regulated;
- the purpose of the credit;
- the amount of the loan;
- the term of the loan;
- the existence of guaranties for the payment of the loan;
- the interest rates applied by financial institutions in transactions similar to the one under analysis, as a mere reference;
- the variation of the national inflation index during the term of the loan;
- market conditions; and
- other issues that may be considered relevant by the judge.

The mandatory and partly discretionary application of such criteria in the lawsuits affecting our portfolio could have a material adverse effect on the interest rates we charge and on our operating results.

Changes in regulations may also cause us to face increased compliance costs and limitations on our ability to pursue certain business opportunities and provide certain products and services. As some of the banking laws and regulations have been recently adopted, such as the regulations implementing Basel III in Mexico (described below), the manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. No assurance can be given generally that laws or regulations will be adopted, enforced or interpreted in a manner that will not have a material adverse effect on our business and results of operations.

Our ability to maintain our competitive position depends, in part, on the success of new products and services we offer our clients and our ability to continue offering products and services from third parties.

The success of our operations and our profitability depends, in part, on the success of new products and services we offer our clients and our ability to continue offering products and services from third parties. However, we cannot guarantee that our new products and services will be responsive to client demands or successful once they are offered to our clients, or that they will be successful in the future or that we will have the information systems, personnel or innovative capacity sufficient to offer our clients the products and services they demand. In addition, our clients' needs or desires may change over time, and such changes may render our products and services obsolete, outdated or unattractive and we may not be able to develop new products that meet our clients' changing needs. If we cannot respond in a timely fashion to the changing needs of our clients, we may lose clients, which could in turn materially and adversely affect our business, financial position and results of operation.

As we expand the range of our products and services, some of which may be at an early stage of development in the Mexican market, we will be exposed to new and potentially increasingly complex risks and development expenses, with respect to which our experience and the experience of our partners may not be helpful. Our employees and our risk management systems may not be adequate to handle such risks. In addition, the cost of developing products that are not launched is likely to affect our results of operations. Any or all of these factors, individually or collectively, could have a material adverse effect on our business, financial position and results of operation.

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

Approximately 40.1% of the value of our total gross loan portfolio as of March 31, 2018 consisted of exposure to individuals, while SMEs comprised approximately 5.7% of the value of the total gross loan portfolio as of March 31, 2018. As part of our business strategy, we are seeking to further increase lending and other services to individuals and SMEs, which are more likely to be adversely affected by downturns in the Mexican economy than large corporations and high-income individuals who have greater resources. Consequently, we may experience higher levels of non-performing loans, which could result in higher provisions for loan loss reserves, which in turn would negatively affect us. As of March 31, 2018, non-performing loans were Ps.11,914 million and our allowance for loan losses were Ps.16,108 million. Non-performing loans related to individuals and SMEs represented 2.1% and 5.6%, respectively, of our total gross loan portfolio for the three-month period ended March 31, 2018, as compared to 1.9% and 6.1%, respectively, for the three-month period ended March 31, 2017. Charge-offs related to individual and SME loans represented 93% and 5%, respectively, of our total charge-offs for the three-month period ended March 31, 2018, as compared to 90% and 10%, respectively, for the three-month period ended March 31, 2017. There can be no assurance that our levels of non-performing loans and subsequent charge-offs will not be materially higher in the future and affect our financial condition and results of operations.

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

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

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

On November 1, 2013 the Mexican Congress approved several tax reforms that became effective at the beginning of 2014. These reforms include changes to the Income Tax Law (*Ley del Impuesto sobre la Renta*, "**Income Tax Law**"), the Value Added Tax Law (*Ley del Impuesto al Valor Agregado*) and the Mexican Federal Tax Code (*Código Fiscal de la Federación*). The tax reforms also repeal the Single Rate Corporate Tax law (*Ley del Impuesto Empresarial a Tasa Única*) and the Tax Law on Cash Deposits (*Ley del Impuesto a los Depósitos en Efectivo*). On November 26, 2013, the Mexican Congress approved a financial reform package that granted broader authority to financial authorities and ordered the Mexican competition authorities to initiate an investigation into the fairness of trade practices in the Mexican financial system.

In June 2013, the CNBV modified the methodology applicable to the classification of our commercial loans portfolio from an allowance for loan losses based on the incurred loss model to an expected loss model wherein losses of the following twelve months are estimated with the best available credit information.

In July 2010, the Mexican government enacted the Federal Law for Protection of Personal Data Held by Private Persons (*Ley Federal de Protección de Datos Personales en Posesión de los Particulares*) which requires us to ensure the confidentiality of information received from clients. Although we have modified our processes, procedures and systems as required to implement this law, including procedures to supervise our activities thereunder, we can provide no assurances as to how this legislation will be interpreted and how strictly it will be enforced by Mexican authorities. An unfavorable interpretation and enforcement of this legislation could have a material adverse effect on us, including increasing our operating costs and subjecting us to fines and penalties in the event of violations of the provisions of such law. One of the main aspects of the changes in recent years in the Mexican Banking Law approved by Congress consists of the authority granted to the SHCP to conduct evaluations of Mexican banks. The guidelines for such evaluations were published in the Official Gazette on December 31, 2014, and the final results of the first evaluation for 2015 were published on July 31, 2016, in which we received a positive evaluation, and no corrective measures were ordered. Negative or deficient results of evaluations may result in corrective measures being ordered, including a requirement that the bank present a plan to correct such deficiencies. In the event that we receive a negative or deficient evaluation in the future, it is uncertain what corrective measures may be ordered by the SHCP and whether the imposition of such measures may have a material adverse effect on our business.

In June 2014, the Mexican Supreme Court of Justice decided that federal judges have discretion to determine whether or not an interest rate agreed in a promissory note is evidently excessive, violating an individual's human rights, and consequently establishing a reduced rate. The elements the judge should take into account to determine if a rate is evidently excessive are:

- the type of relationship between the parties;
- the qualification of the persons intervening in the subscription of the note and if the activity of the creditor is regulated;
- the purpose of the credit;
- the amount of the loan;
- the term of the loan;
- the existence of guaranties for the payment of the loan;
- the interest rates applied by financial institutions in transactions similar to the one under analysis, as a mere reference;
- the variation of the national inflation index during the term of the loan;
- market conditions; and
- other issues that may be considered relevant by the judge.

The mandatory and partly discretionary application of such criteria in the lawsuits affecting our portfolio could have a material adverse effect on the interest rates we charge and on our operating results.

Changes in regulations may also cause us to face increased compliance costs and limitations on our ability to pursue certain business opportunities and provide certain products and services. As some of the banking laws and regulations have been recently adopted, such as the regulations implementing Basel III in Mexico (described below), the manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. No assurance can be given generally that laws or regulations will be adopted, enforced or interpreted in a manner that will not have a material adverse effect on our business and results of operations.

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

We are subject to comprehensive regulation and supervision by U.S. and Mexican regulatory authorities. The Mexican regulatory authorities include the Mexican Central Bank, the CNBV, the IPAB and the SHCP. See "The Mexican Financial System." These regulatory authorities have broad powers to adopt regulations and other requirements that affect all aspects of our capitalization, organization and operations, including changes to capital adequacy and reserve requirements, compliance with rules relating to secrecy, the imposition of anti-money laundering measures and the authority to regulate the terms of products, including the interest rates we charge and the fees we collect in exchange for services. Moreover, Mexican and U.S. financial regulatory authorities possess significant powers to enforce applicable regulatory requirements, including the imposition of fines, requiring that new capital be contributed, inhibiting us from paying dividends to shareholders or paying bonuses to employees, or the revocation of licenses to operate our business (including our banking or broker-dealer licenses).

Furthermore, in the event we encounter significant financial problems or become insolvent or in danger of becoming insolvent, Mexican banking authorities would have the power to take over our management and operations. As noted above, our business and operations are subject to increasingly significant rules and regulations that are required to conduct banking and financial services business. These apply to our business operations, affect our financial returns, include reserve and reporting requirements, and set forth conduct of business regulations. The regulators seek to maintain the safety and soundness of Mexican financial institutions with the aim of strengthening the protection of customers and the financial system. The continuing supervision of financial institutions is conducted through a variety of regulatory tools, reports, visits to firms and regular meetings with management to discuss issues such as performance, risk management and strategy. In general, regulators in Mexico have a more outcome-focused approach that involves more proactive enforcement and more punitive penalties for infringement, including intervening in institutions and restricting dividends or bonuses to employees. As a result, we face significant high levels of supervisory scrutiny (resulting in increasing internal compliance costs and supervision fees) and in the event of a breach of our regulatory obligations we may face significant regulatory fines.

Some of the regulators focus primarily on consumer protection, including a focus on the design and operation of products, the behavior of customers and the operation of markets. Applicable regulations may prevent institutions such as ours from providing products to customers until changes are made to address the regulators' views on potential detriment to consumers. Regulations require us to be in compliance across all aspects of our business, including the training, authorization and supervision of personnel, systems, processes and documentation. If we fail to comply with the relevant regulations, we may face adverse impacts on our business from sanctions, fines or other actions imposed by the regulatory authorities, including the revocation of our authorization and the intervention in our operations. Furthermore, customers of financial services institutions, including our customers, may seek redress if they have suffered loss as a result of an offered product, or through incorrect application of the terms and conditions of a particular product. Given the inherent unpredictability of litigation and judgments by the relevant authorities, it is possible that an adverse outcome in some matters could harm our reputation or have a material adverse effect on our operating results, financial condition and prospects arising from any penalties imposed or compensation awarded, together with the costs of defending such an action, thereby reducing our profitability.

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

A portion of our revenues and operating cash flow is generated by the interest rates we charge to our customers, and any limitations or requests for additional information relating to interest rates we charge may have a material adverse effect on us. In Mexico, the Law for the Protection and Defense of Financial Services Users (*Ley de Protección y Defensa al Usuario de Servicios Financieros*) does not impose any specific limit on the interest rate that a bank may charge, subject to certain exceptions. However, under the Law for the Transparency and Ordering of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*), the Mexican Central Bank has broad authority to determine that reasonable competitive conditions do not exist and to issue temporary regulations that relate to interest rates and fees. In addition, the Mexican Central Bank has broad authority to issue regulations in respect of credit and debit cards, checks, fund transfers and other means of payment, as a means to ensure competition, free access, no discrimination and protection of the interest of users.

As of the date of this Prospectus, the Mexican Congress and Mexican regulators (including the Mexican Central Bank) have not yet proposed any specific limit on the interest rates we may charge. We cannot predict what impact the issuance of any such regulations may have on our business and results of operations, although it is likely to require amendments to the way in which we operate and may adversely impact our financial results.

Our banking license may be revoked by the CNBV.

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

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

- our failure to comply with restrictions on certain types of transactions prohibited by the Mexican Banking Law.

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

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

For each loan granted, we are required to classify each loan or type of loan according to an assessment of risk based on criteria set forth by Mexican banking regulations, and to establish corresponding reserves. Mexican banking regulations relating to loan classification and determination of allowance for loan losses are generally different than those applicable to banks in other countries, including the United States. The criteria to establish reserves include both qualitative and quantitative factors and involve certain discretionary determinations. We may be required or deem it necessary to increase our allowances for loan losses in the future, as a result of changes in CNBV rules or for other reasons. Moreover, the CNBV could further change accounting regulations for determination of allowance for loan losses or the methodology to measure credit risk of government institutions, which could require a substantial increase in our allowances, and could result in an adverse effect to our business, financial condition and results of operations.

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

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

GFNorte acquired Bancentro in 1996, Banpaís in 1997, Bancrecer in December 2001, INB in 2006, UniTeller in 2006, Motran in 2007 and IXE in 2011. We faced difficulties and delays in the integration of the banking operations of these entities that affected our performance by diverting our management's attention and human resources.

Most recently, at the December 5th 2017 Shareholders' Meeting, Grupo Financiero Banorte was approved to acquire Grupo Financiero Interacciones, S.A.B. de C.V. ("**GF Interacciones**"), the eighth largest financial group in Mexico with a focus on the public sector and infrastructure, which includes the subsequent merger of Banorte with Banco Interacciones, S.A., Institución de Banca Múltiple, Grupo Financiero Interacciones and the merger of other financial entities owned by Grupo Financiero Interacciones with the corresponding legal entities of Grupo Financiero Banorte (i.e., insurance company, broker dealer, etc). As of the date of this Prospectus, the completion of the transaction is still subject to final approval from the Ministry of Finance ("**SHCP**") and Antitrust Commission ("**COFECE**"). The success of GFNorte's proposed acquisition will depend in part on its ability to execute a strategic plan and achieve synergies resulting from this operation.

The acquisition timeline for closing currently targets July 2018 but is subject to unexpected delays in the process. Execution risk could generate delays or unforeseen costs associated with the contemplated transaction. Potential synergies from the transaction in terms of cost reduction may not materialize in the second half of 2018, and a full impact from the merger may not over the course of 18 months post-closing date as Grupo Financiero Banorte currently expects. Furthermore, even if Grupo Financiero Banorte is able to strategically integrate GF Interacciones, the acquisition may not contribute to Grupo Financiero Banorte's business strategy and they may not be able to realize the cost reduction enhancements anticipated from the merger, either in the amount or in the time frame that Grupo Financiero Banorte expects. If Grupo Financiero Banorte fails to realize anticipated synergies, its financial results and results of operations may be adversely affected.

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

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

We depend on our continuing ability to identify, hire, train and retain other qualified sales, marketing and managerial personnel. Competition for such qualified personnel is intense and we may be unable to attract, integrate or retain qualified personnel at levels of experience or compensation that are necessary to sustain or expand our operations. Our businesses could be materially and adversely affected if we cannot attract these necessary personnel.

In addition, as of March 31, 2018, approximately 27.7% of our employees were unionized, and we could incur higher ongoing labor costs and disruptions in our operations in the event of a strike or other work stoppage.

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

We are regularly party to litigation and other legal proceedings relating to claims resulting from our operations in the normal course of business. Litigation is subject to inherent uncertainties, and unfavorable rulings may occur. Furthermore, the current regulatory environment, which has resulted in an increased supervisory focus on enforcement, combined with uncertainty about the evolution of the regulatory regime, may lead to material compliance costs and subject us to regulatory enforcement actions, fines and penalties. See Note 35 to our

Audited Consolidated Financial Statements. We cannot assure you that these or other legal, administrative and regulatory proceedings will not materially and adversely affect our ability to conduct our business in the manner that we expect or otherwise adversely affect our results of operations and financial position should an unfavorable ruling occur.

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

Our business is dependent on our ability to timely collect and process a large volume of financial and other information across numerous and diverse markets and products at our various locations or branches, at a time when transaction processes have become increasingly complex. The proper functioning of our internal control, accounting and data collection and processing systems is critical to our business. A partial or complete failure of any of these systems could materially and adversely affect our decision making processes and the functioning of our risk management and internal control systems, as well as our timely response to changing market conditions. If we cannot maintain an effective data collection and management system, our business operations, financial position and results of operations could be materially and adversely affected.

Furthermore, we depend on information systems to operate our website, provide information to customers, process transactions, respond to customer inquiries on a timely basis and maintain cost-efficient operations. We may experience operational problems with our information systems as a result of system failures, viruses, computer "hackers" or other causes. Any material disruption or slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our clients with delays or errors, which could reduce demand for our services and products or result in loss of customers, and could materially and adversely affect our financial position and results of operations.

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

Our ability to remain competitive in the markets in which we operate depends in part on our ability to upgrade our IT infrastructure on a timely and cost-effective basis, through continuous investment. Our opening of new offices and branches requires us to improve our IT infrastructure and to maintain and upgrade our software and hardware systems and back-office operations. Additionally, any failure or interruption in the improvement, development and expansion of our information systems could result in a delay in our ability to respond to the demands of our customers, our ability to manage risk, or defects in our service. This could adversely affect our customers or our reputation for reliability. Further, our strategic agreement with IBM requires additional investments and significant time to be devoted by our executives and may not achieve the expected results. Any failure to effectively improve or upgrade our IT infrastructure and management information systems in a timely manner or to achieve the expected results from our alliance with IBM could materially and adversely affect our competitiveness, financial position and results of operations, and result in losses for our customers, resulting in liabilities for us.

We have seen in recent years computer systems of companies and organizations being targeted by cyber criminals and activists. We have been and continue to be subject to a range of cyber-attacks, such as denial of service, malware and phishing. In April 2018, the Central Bank of Mexico first detected irregularities in a small financial institution's connection to the country's domestic payment transfer system, known as the SPEI network. Officials at Banorte also noted irregular transactions being dispatched through SPEI at this time. The unauthorized access did not compromise any records containing sensitive information, such as transactional data, or identifying or authenticating information for accessing electronic banking services or means of payment. On April 27, the Central Bank of Mexico published a press release indicating that certain financial entities had experienced "incidents" when operating the SPEI and that those firms would be connecting to the payment network via an alternate method that was more laborious but also more secure. In any case, we cannot guarantee prevention of further cyberattacks in the future levied against Banorte or the Mexican banking system at large, based on this press release.

Cyber-attacks could give rise to the loss of significant amounts of customer data and other sensitive information, as well as significant levels of liquid assets (including cash). In addition, cyber-attacks could give rise to the disablement of our IT systems used to service our customers. As attempted attacks continue to evolve in scope and sophistication, we may incur significant costs in our attempt to modify or enhance our protective measures against such attacks, or to investigate or remediate any vulnerability or resulting breach, or in communicating cyber- attacks to our customers. If we fail to effectively manage our cybersecurity risk, e.g., by failing to update our systems and processes in response to new threats, this could harm our reputation and adversely affect our operating results, financial condition and prospects through the payment of customer compensation, loss of customers, regulatory penalties and fines and/or through the loss of assets

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

Our Financial Statements included in this Prospectus have been prepared and are presented in accordance with Mexican Banking GAAP. Significant differences exist between Mexican Banking GAAP and U.S. GAAP which are material to our Financial Statements and other financial information included in this Prospectus. See "Significant Differences Between Mexican Banking GAAP and U.S. GAAP", page 83. We have made no attempt to identify or quantify the impact of those differences in this Prospectus. In making an investment decision, you must rely upon your own examination of us, the terms of this offering and the financial information included in this Prospectus. You should consult your own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP and how those differences might affect the financial information included in this Prospectus.

We may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose us to liability and harm our business.

We are required to comply with applicable anti-money laundering and anti-terrorism laws and other regulations in the jurisdictions in which we operate. These laws and regulations have become more strict and require us, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. These laws and regulations have become increasingly complex and detailed, require improved systems and sophisticated monitoring and compliance personnel and have become the subject of enhanced government supervision. Recent rules have been adopted in Mexico restricting the ability of Mexican banks to receive currencies in physical form, in exchange for foreign exchange and other similar transactions. While we have adopted policies and procedures aimed at detecting and preventing the use of our banking network for money laundering activities and by terrorists and terrorist-related organizations and individuals generally, such policies and procedures have in some cases only been adopted recently and may not completely eliminate instances where we may be used by other parties to engage in money laundering and other illegal or improper activities. To the extent we fail to fully comply with applicable laws and regulations, the relevant government agencies to which we report have the power and authority to impose fines and other penalties on us, including the revocation of our license. In addition, our business and reputation could suffer if our infrastructure is used for money laundering or illegal or improper purposes and some of our operations could be suspended by regulatory authorities. Any of these situations could have a materially adverse effect on our business, financial position or results of operations.

In addition, while we review our relevant counterparties' internal policies and procedures with respect to such matters, we, to a large degree, rely upon our relevant counterparties to maintain and properly apply their own appropriate anti-money laundering procedures. Such measures, procedures and compliance may not be completely effective in preventing third parties from using our (and our relevant counterparties') operations as a conduit for money laundering (including illegal cash operations) without our (and our relevant counterparties') knowledge. If we are associated with, or even accused of being associated with, or become a party to, money laundering, then our reputation could suffer and/or we could become subject to fines, sanctions and/or legal enforcement (including being added to any "blacklists" that would prohibit certain parties from engaging in transactions with us), any one of which could have a material adverse effect on our reputation, business, financial condition or results of operations.

We are subject to actions taken by the Mexican Antitrust Commission in respect of the Mexican financial sector or our business.

On January 16, 2014, the Mexican Antitrust Commission formally began an investigation regarding the Mexican financial sector. As part of the financial reform that became effective as of January 2014, the Mexican Antitrust Commission was instructed by the Mexican Congress to investigate competition in the Mexican financial sector. On July 9, 2014, the Mexican Antitrust Commission published the full investigation work paper and its official report pursuant to which the plenary of the Mexican Antitrust Commission reported the background, considerations and general concepts of the Mexican financial sector used for the investigation, and issued 36 recommendations for the improvement of competition such industry. Although such recommendations are not legally binding, the Mexican Antitrust Commission has authority to begin, at any time, a specific investigation for alleged antitrust practices by any financial institution, including us, which could have a material adverse effect on our reputation, business, financial condition or results of operations.

We are subject to the Mexican Federal Anticorruption Law in Public Contracting and similar worldwide anti-bribery laws.

In July 2016, as part of the historic constitutional reform which created the National Anticorruption System (*Sistema Nacional Anticorrupción*) ("**SNA**"), the Mexican Congress approved a group of laws that comprises the legal framework that will ensure the implementation of the public strategies and policies for fighting corruption and impunity. The objective of this reform is to achieve full coordination of efforts from the federal, state and municipal governments, and the government of Mexico City, in order to prevent, investigate and punish administrative violations and corrupt practices by public officers, companies and individuals. For the operation of the SNA, the Mexican Congress approved the General Law on the National Anticorruption System (*Ley General del Sistema Nacional Anticorrupción*), the General Law on Administrative Accountability (*Ley General de Responsabilidades Administrativas*) and the Organic Law of the Federal Tribunal of the Administrative Justice (*Ley Orgánica del Tribunal Federal de Justicia Administrativa*). In addition, it approved the Law on Auditing and Accountability of the Federation (*Ley de Fiscalización y Rendición de Cuentas de la Federación*), and amendments on internal controls of the federal executive branch to the Organic Law of the Public Administration (*Ley Orgánica de la Administración Pública Federal)*, to the Fiscal Coordination Law (*Ley de Coordinación Fiscal*) and to the General Law for Governmental Accounting (*Ley General de Contabilidad Gubernamental*).

There can be no assurance that our internal control policies and procedures will protect us from reckless or criminal acts committed by our employees or agents. Violations of these laws, or allegations of such violations, could disrupt our business and could have a material adverse effect on our reputation, business, financial condition or results of operations.

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

Under Mexican law, banks are required to make monthly contributions to support the operations of the IPAB, in an amount equal to one-twelfth of 0.4% (the annual rate) multiplied by the average of certain liabilities minus the average of certain assets. The IPAB was created in January 1999 to manage the bank savings protection system and regulate the financial support granted to banks in Mexico. Mexican authorities impose regular assessments on banking institutions covered by the IPAB for funding.

We contributed Ps.2,634 million and Ps.2,325 million to the IPAB during 2017 and 2016, respectively. In the event that the IPAB's reserves are insufficient to manage the bank savings protection system and provide the necessary financial support granted to troubled banking institutions, the IPAB maintains the discretionary right to require extraordinary contributions to participants in the system. Any such requirement can be a result of a multitude of circumstances, cannot be predicted and could adversely affect our business, financial condition or results of operations.

Risks Relating to Mexico

Developments in Mexico and other countries, especially the United States, may affect us, including the prices for our securities.

Political events in Mexico may significantly affect Mexican economic policy and, consequently, Banorte's operations. Enrique Peña Nieto, a member of the Partido Revolucionario Institucional (Institutional Revolutionary Party or PRI), was elected President of Mexico and took office on December 1, 2012. As of the date of this Prospectus, no political party holds a simple majority in either house of the Mexican Congress.

Presidential and federal congressional elections in Mexico will be held in July 2018. The Mexican presidential election will result in a change in administration, as presidential reelection is not permitted in Mexico. Currently, the leftist candidate, Andres Manuel Lopez Obrador, is leading in the polls. Banorte cannot provide any assurances that political or economic developments in Mexico will not have an adverse effect on the Mexican economy and, in turn, Banorte' s business, results of operations and financial condition, including its ability to repay its debt. Economic conditions in Mexico are highly correlated with economic conditions in the United States due physical proximity and the high degree of economic activity between the two countries generally, including the trade facilitated by the North American Free Trade Agreement ("**NAFTA**"). As a result, political developments in the United States, including changes in the administration and governmental policies, can have an impact on the exchange rate between the U.S. dollar and the Mexican peso, economic conditions in Mexico and the global capital markets.

In August 2017, Mexico, the United States and Canada commenced renegotiation of NAFTA. As of the date of this Prospectus, the outcome or extent of the renegotiations, as well as the expected timing for the completion of negotiations, is uncertain. Because the Mexican economy is heavily influenced by the U.S. economy, the re-negotiation, or even termination, of NAFTA and/or other U.S. government policies that may be adopted by the U.S. administration, including as they relate to tariffs, may adversely affect economic conditions in Mexico. These developments could in turn have an adverse effect on Banorte's financial condition, results of operations and ability to repay its debt.

Likewise, in June 2018 the U.S. government imposed tariffs on steel and aluminum imports from Canada, Mexico and the European Union, as an action in a string of protectionist policies to crack down on alleged trade abuses. Banorte cannot provide any assurances that further tariffs will not be imposed to Mexico, which may have an adverse effect on the Mexican economy and, in turn, in Banorte' s business, results of operations and financial condition, including its ability to repay its debt.

We may be subject to adverse economic conditions in Mexico.

Most of our operations are dependent upon the performance of the Mexican economy, mainly on matters such as the Peso-U.S. dollar exchange rate, price volatility and inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico, over which we have no control. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on us. We cannot assume that such conditions will not return or that such conditions will not have a material adverse effect on our business, financial condition or results of operation. As a consequence of the global recession and economic slowdown during 2008, the Mexican economy entered into a recession. In 2009, Mexico's GDP experienced its worst drop in recent history. Employment was negatively impacted, with the unemployment rate reaching 4.0% in December 2009 from 4.7% in December 2008. The consumer confidence index in Mexico decreased to an eight-year low of 76.9 points in February 2009, with a corresponding impact on consumption. In 2010, GDP grew 5.1% and inflation was 4.2% on average. In 2011, GDP grew by 4.0% and inflation was 3.4% on average. During 2012, GDP grew 4.0% and inflation reached 4.1% on average. In 2013, GDP grew 1.4% and inflation was 3.8% on average. In 2014, GDP grew 2.3% and inflation reached 4.0% on average. In 2015, GDP grew 2.7% and inflation was 2.7% on average. In 2016, GDP grew 2.3% and inflation was 2.8% on average. During the first three months of 2018, GDP grew 1.3% and inflation was 5.3% on average.

Mexico also has, and is expected to continue to have, high real and nominal interest rates relative to the U.S.

The interest rates on 28-day Mexican government treasury securities (*Certificados de la Tesorería de la Federación*) ("**Cetes**"), averaged 3.75%, 3.00%, 2.98%, 4.17%, 6.69% and 7.38% for the years ended December 31, 2013, 2014, 2015, 2016 and 2017 and the for the three-month period ended March 31, 2018, respectively. Accordingly, if we incur Peso denominated debt in the future, it could be at high interest rates. A recession could affect our operations to the extent that we are unable to reduce our costs and expenses in response to falling demand. Similarly, our loan portfolio could deteriorate as a result of higher delinquency rates. These factors could result in a decrease in our loan portfolio, revenues and net income.

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

The Mexican government frequently intervenes in the Mexican economy and occasionally makes significant changes in policies and regulations. The Mexican government's actions to control inflation and other policies and regulations historically have involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency fluctuations, taxation on investment flows, capital controls and limits on imports. We and the market price of our securities may be adversely affected by changes in policies or regulations involving, among others:

- interest rates;
- exchange rates and controls and restrictions on the movement of capital in or out of Mexico;
- reserve requirements;
- capital requirements;
- funding and lending limits;
- fees and commissions charged;
- inflation;
- liquidity of the domestic capital and lending markets; and
- tax and regulatory policies.

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

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

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

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

Major tax reforms in Mexico have been discussed over the last few years. On November 1, 2013 the Mexican Congress approved several tax reforms that became effective at the beginning of 2014. These reforms include changes to the Income Tax Law, Value Added Tax Law (*Ley del impuesto al Valor Agregado*) and the Mexican Federal Tax Code (*Código Fiscal de la Federación*). The tax reforms also repeal the Single Rate Corporate Tax Law (*Ley del Impuesto Empresarial a Tasa Única*) and the Tax Law on Cash Deposits (*Ley del Impuesto a los Depósitos en Efectivo*).

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

Like many other Mexican banks, we invest in debt securities of the Mexican government. As of March 31, 2018, approximately 16.6% of our total assets, and 23.7% of our investment portfolio (excluding investment in equity securities), was comprised of debt securities issued by the Mexican government (including those issued by the Mexican Central Bank). Any failure by the Mexican government to make timely payments under the terms of these securities, or a significant decrease in their market value, will have a material adverse effect on us.

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

Mexico has experienced violence relating to illegal drug trafficking, particularly in Mexico's northern states near the U.S. border. This violence has had an adverse impact on the economic activity in Mexico generally. Also, social instability in Mexico or adverse social or political developments in or affecting Mexico could adversely affect us, our ability to conduct our business and offer our services, and our ability to obtain financing. We cannot assure you that the levels of violent crime in Mexico, over which we have no control, will not increase or decrease and will have no further adverse effects on Mexico's economy or on our business, financial position and results of operation.

The perception of higher risk in other countries, especially in emerging economies, may adversely affect the Mexican economy.

Emerging markets such as Mexico are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt business in Mexico and adversely affect the price of the Bonds.

Moreover, financial turmoil in any important emerging market country may adversely affect prices in stock markets and prices for debt securities of issuers in other emerging market countries as investors move their money to more stable, developed markets. Any increase in the perceived risks associated with investing in emerging markets could dampen capital flows to Mexico and adversely affect the Mexican economy in general, and the interest of investors in the Bonds, in particular in Mexico. We cannot assure you that the value of the Bonds will not be negatively affected by events in other emerging markets or the global economy in general.

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

We maintain insurance in amounts that we believe to be adequate to cover risks related to our operations including, among others, general banking liability insurance for our business, general professional liability for services we provide, general directors and officers liability for our directors and executives and general liability against fraudulent activity. However, it is possible that the terms and conditions of the insurance policies we have will not cover a specific event or incident or that our insurance will cover only part of the losses that we may incur.

If any uninsured events occur with respect to a significant portion of our operations, such lack of coverage could have a material adverse effect on our financial conditions and results of operations. Additionally, if we are unable to renew our insurance policies from time to time or losses or other liabilities occur that are not covered by insurance or that exceed our insurance limits, we could be subject to significant unexpected additional costs which could adversely affect our business.

Risks Relating to the Bonds

The Bonds are a new issue of securities for which there is currently no public market; these Bonds may remain illiquid if a trading market for the Bonds does not develop.

The Bonds will constitute a new issue of securities with no established trading market. The Issuer has, through UBS AG as its listing agent, filed an application to have the Bonds provisionally admitted to trading and listing on the SIX Swiss Exchange. However, the Issuer cannot make any assurances that the Bonds will qualify for listing on the SIX Swiss Exchange or that a liquid trading market will develop for the Bonds. If a trading market does not develop or is not maintained, holders of the Bonds may experience difficulty in reselling the Bonds or may be unable to sell them at all. Accordingly, an active trading market for the Bonds may not develop. No assurance can be given as to the liquidity of the trading market for the Bonds. The price at which the Bonds will trade in the secondary market is uncertain. Even if a market develops, the liquidity of any market for the Bonds will depend on the number of holders of the Bonds, the interest of securities dealers in making a market in the Bonds and other factors; therefore, a market for the Bonds may develop though it may not be liquid. If an active trading market does not develop, the market price and liquidity of the Bonds may be adversely affected. If the Bonds are traded, they may trade at a discount from their initial offering price depending upon prevailing interest rates, the market for similar securities, general economic conditions, our performance and business prospects and other factors.

Our ability to service our debt, including the Bonds, depends on our ability to generate significant cash flows in the future.

Our ability to meet our scheduled payments on the Bonds and to meet our other debt service obligations depends on our ability to generate significant cash flows in the future, and is thus subject to general economic and regulatory factors, as well as other factors beyond our control. We cannot assure you that our business will generate cash flows from operations, or that future borrowings will be available to us under our existing or any future credit facilities or otherwise, in an amount sufficient to enable us to meet our payment obligations under the Bonds and our other debt and to fund other liquidity needs. If we are unable to generate sufficient cash flows to service our debt obligations, we may need to refinance or restructure our debt, including the Bonds, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the Bonds and our other debt.

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

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

Developments in other countries may adversely affect the market value of the Bonds.

International financial markets and world economic conditions may negatively impact the market price of the Bonds. Mexican securities markets are influenced, to varying degrees, by economic and market conditions in other countries, especially those in Latin America and emerging markets. Although economic conditions are different in each country, investor reaction to the developments in one country may affect the securities of issuers in other countries, including Mexico. We cannot assure you that the market for the securities of Mexican issuers will not be affected negatively by events elsewhere or that such developments will not have a negative impact on the market value of the Bonds.

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

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

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

Under the Mexican Banking Law, if the CNBV declares us insolvent, our authorization to organize and operate as a bank will be revoked and a liquidation procedure before a Federal Mexican court will commence, in which by statute the IPAB will be appointed as the receiver (*liquidador judicial*). We would be in liquidation as of the date following the notification by CNBV of the revocation of the authorization to operate as a bank and our payment obligations denominated in foreign currency, including the Bonds:

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

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

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

Although our obligations to pay Swiss francs outside Mexico are valid, under Article 8 of the Mexican Monetary Law (*Ley Monetaria de los Estados Unidos Mexicanos),* if proceedings are brought in Mexico seeking to enforce in Mexico our obligations under the Bonds, we would not be required to discharge such obligations in Mexico in a currency other than Mexican currency. Pursuant to such Article 8, an obligation that is payable in Mexico in a currency other than Mexican currency, may be satisfied in Mexican currency at the rate of exchange in effect on the date and in the place payment occurs. Such rate currently is determined by the Mexican Central Bank every business banking day in Mexico and published the following business banking day in the Official Gazette. It is unclear, however, whether the applicable rate of exchange applied by the Mexican court to determine the Mexican Judgment Currency is the rate prevailing at the time when the judgment is rendered or when the judgment is paid. Provisions that purport to limit our liability to discharge our obligations as described above, or to give any party an additional course of action seeking indemnity or compensation for possible deficiencies arising or resulting from variations in rates of exchange, may not be enforceable in Mexico.

GENERAL INFORMATION

Notice to Investors

The Swiss listing prospectus (the "**Prospectus**") shall be read and construed on the basis that the annexes hereto are deemed to be incorporated in, and to form part of, this Prospectus.

The financial institution involved in the issuance and offering of the Bonds is a bank, which directly or indirectly has participated, or may participate, in financing transactions and/or other banking business with the Issuer, which are not disclosed herein.

Investors are advised to familiarise themselves with the entire content of this Prospectus.

Auditor / Auditor Supervision

The auditor of the Issuer is Galaz, Yamazaki, Ruiz Urquiza, S.C., a member of Deloitte Touche Tohmatsu, Ave. Juárez 1102, Piso 40, Col. Centro, Monterrey, Nuevo León, México, 64000 (the "**Auditor**").

Potential Investors are informed that the Auditor is supervised by the Public Company Accounting Oversight Board which is recognised by the Swiss Federal Council.

Documents Available

Copies of this Prospectus (or of the documents incorporated by reference see section below) are available at UBS AG, Investment Bank, Swiss Prospectus Switzerland, P.O. Box, 8098 Zurich, Switzerland, or can be ordered by telephone +41-44-239 47 03 (voicemail), fax +41-44-239 69 14 or by e-mail swiss-prospectus@ubs.com.

Prospectus

This Prospectus is available in English language only and provides information about the Issuer and the Bonds. This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Bonds.

No person has been authorized to give any information or make any representation in connection with the offering of the Bonds other than as stated herein and any other information or representation if given or made should not be relied upon as having been authorised by the Issuer or the Lead Manager. Neither the delivery of this Prospectus, nor the issue of the Bonds nor any sale thereof shall, in any circumstances, create any implication that there has been no material adverse change in the affairs of the Issuer since the date hereof.

Authorisation

Pursuant to the Bond Purchase and Paying Agency Agreement dated 14 June 2018 between the Issuer on one side and UBS AG, acting through its business division UBS Investment Bank ("**UBS AG**" or the "**Lead Manager**") on the other side, the Issuer has decided to issue the Bonds of CHF 100,000,000 to be paid on 14 June 2018 and maturing on 14 December 2021.

Use of Net Proceeds

The net proceeds of the Bonds, being the amount of CHF 99,847,000 (the "**Net Proceeds**") will be used by the Issuer for its general corporate purposes. The Lead Manager does not have any responsibility for, or be obliged to concern itself with, the application of the Net Proceeds of the Bonds.

Notices

All notices in relation to the Bonds will be published in electronic form on the internet site of the SIX Swiss Exchange under the section headed Official Notices
(currently: http://www.six-swiss-exchange.com/news/official_notices/search_en.html).

Representation

In accordance with Article 43 of the Listing Rules of the SIX Swiss Exchange, UBS AG has been appointed by the Issuer as representative to lodge the listing application with the SIX Swiss Exchange.

Name, registered office, location

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

Principal Office: Avenida Revolución 3000 Sur, Colonia Primavera, C.P. 64830, Monterrey, N.L., México.

Incorporation, duration, register, system of law, legal form

The Issuer was incorporated on 16 March 1945 as a Bank under the laws of Mexico. Its bylaws were last amended on 30 September 2016. On 10 November 2016 it was registered in the Public Registry of Commerce of Monterrey, Nuevo León under register number 81438*1. The Issuer has an indefinite duration.

The Issuer is a Bank pursuant to the laws of Mexico.

The Issuer's branch ("**Banorte Cayman**") is registered as a branch on the Cayman Island under the license number 91027. It is the holder of a category "B" Banking License issued by the Cayman Islands Monetary Authority, under the Banks and Trust Companies Law (2013 Revision) of the Cayman Islands.

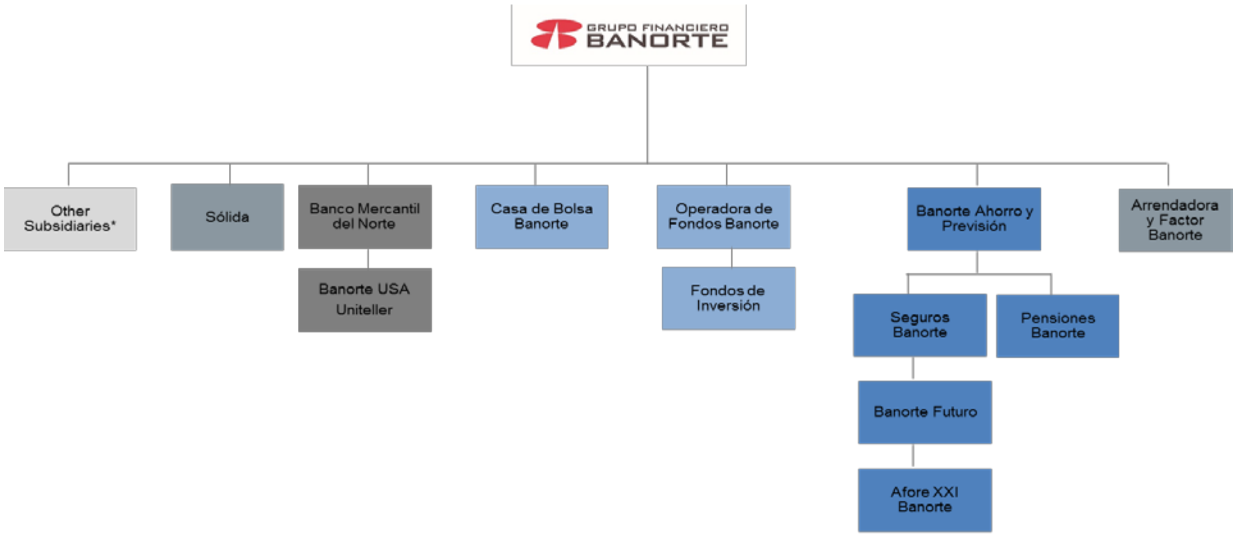
Under Mexican law, the obligations of Banorte Cayman are obligations of Banorte as a whole.

Purpose

The purpose of the Issuer according to article two of their corporate bylaws shall be to provide banking and credit services in accordance with the Credit Institutions Law (*Ley de Instituciones de Crédito*), and enter into operations and banking services permitted in articles 46, 46 Bis 1, 46 Bis 4 y 46 Bis 5 of the aforementioned law.

Group

The chart below illustrates the structure of the Group



* Includes: Almacenadora Banorte, S.A. de C.V., Organización Auxiliar del Crédito, Grupo Financiero Banorte, Ixe Servicios, S.A. de C.V. and Fundación Banorte, A.B.P.

Banco Mercantil del Norte, S.A., Institucion de Banca Multiple, Grupo Financiero Banorte: Credit institution authorized to conduct financial, banking and credit operations in Mexico.

Banorte Ahorro y Prevision, S.A. de C.V.: Act as a sub-holding company of Grupo Financiero Banorte, S.A.B. de C.V., in terms of the Law Regulating Financial Groups, maintaining its share position in the financial entities comprising the Long-Term Savings Sector.

Subsidiaries:

- **Pensiones Banorte, S.A. de C.V., Grupo Financiero Banorte:** Act as insurance institution whose objective is to exclusively manage annuities derived from social security laws.
- **Seguros Banorte, S.A. de C.V., Grupo Financiero Banorte:** Act as insurance and re-insurance institution for individuals and corporations.
- **Afore XXI Banorte, S.A. de C.V.** (*Subsidiary of Banorte Futuro at 50%, which is subsidiary of Seguros*

Banorte): Open, manage and operate workers' individual accounts as well as receive, individualize and channel the resources of subaccounts under the terms of social security laws, as well as manage mutual funds.

Casa de Bolsa Banorte, S.A. de C.V., Grupo Financiero Banorte: Act as authorized intermediary to operate in the stock market, conducting sale and purchase transactions of securities; provide advice on securities' placement and operations with securities and mutual funds.

Operadora de Fondos Banorte, S.A. de C.V., Sociedad Operadora de Fondos de Inversion, Grupo Financiero Banorte: Carry out asset the functions of asset management, distribution, valuation, promotion and acquisition of securities issued by mutual funds, deposit and custody of securities subject to investment and of mutual funds, accounting, and management in the issuance of securities.

Arrendadora y Factor Banorte, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte:

- Celebrate leasing and factoring contracts.
- Obtain loans and financing from credit and insurance institutions to cover liquidity needs.

Almacenadora Banorte, S.A. de C.V., Organizacion Auxiliar del Credito, Grupo Financiero Banorte:

- Store, keep and maintain goods and merchandise.
- Issue deposit certificates and pledged bonds.
- Transform deposited merchandise in order to increase their value.

Solida Administradora de Portafolios, S.A. de C.V., Sociedad Financiera de Objeto Multiple, Entidad Regulada, Grupo Financiero Banorte: Obtain resources from: (i) placing securities previously rated by a Rating Agency, registered in the National Securities Registry, for later offering in the stock market, and (ii) acquiring liabilities with all types of national and international financial entities, in terms of applicable legal provisions, as well as granting loans to the automotive sector.

Ixe Servicios, S.A. de C.V.: Service Subsidiary.

Board of Directors / Management

Board of Directors

Management of our business is vested in our Board of Directors, which is currently composed of 15 regular members, each elected for a one-year term at our annual ordinary general meeting of shareholders, and is responsible for the management of our business.

The following table sets forth our current directors and their alternates:

Directors	Alternate Directors
Carlos Hank González (Chairman)	Graciela González Moreno
Juan Antonio González Moreno	Juan Antonio González Marcos
David Juan Villarreal Montemayor	Carlos de la Isla Corry
José Marcos Ramírez Miguel	Clemente Ismael Reyes Retana Valdés (Independent)
Everardo Elizondo Almaguer (Independent)	Alberto Halabe Hamui (Independent)
Carmen Patricia Armendáriz Guerra (Independent)	Manuel Aznar Nicolín (Independent)
Héctor Federico Reyes Retana y Dahl (Independent)	Roberto Kelleher Vales (Independent)
Eduardo Livas Cantú (Independent)	Robert William Chandler Edwards (Independent)
Alfredo Elías Ayub (Independent)	Isaac Becker Kabacnik (Independent)
Adrián Sada Cueva (Independent)	José María Garza Treviño (Independent)
Alejandro Burillo Azcárraga (Independent)	Javier Braun Burillo (Independent)
José Antonio Chedraui Eguía (Independent)	Humberto Tafolla Núñez (Independent)
Alfonso de Angoitia Noriega (Independent)	Guadalupe Phillips Margain (Independent)
Olga María del Carmen Sánchez Cordero Dávila(Independent)	Eduardo Alejandro Francisco García Villegas (Independent)
Thomas Stanley Heather Rodríguez (Independent)	Ricardo Maldonado Yáñez (Independent)

Alternate Directors have been appointed at our annual shareholders' meeting to substitute for Directors in cases of permanent or temporary absences. An Alternate Director attends meetings of our Board of Directors when called to substitute for a Director.

Principal Officers of Banorte

Name	Position
José Marcos Ramírez Miguel	Chief Executive Officer
Armando Rodal Espinoza	Managing Director, Wholesale Banking
Carlos Eduardo Martinez Gonzalez	Managing Director, Retail Banking
Manuel Romo Villafuerte	Managing Director, Consumer Products
Fernando Solis Soberón	Managing Director, Long Term Savings
Rafael Arana de la Garza	Chief Operating Officer and Chief Financial Officer
Guillermo Chávez Eckstein	Chief Credit and Risk Officer
Isaías Velazquez González	Managing Director, Internal Audit

The members of the Board of Directors and the Principal Officers of Banorte can be contacted at the address of the Issuer.

Our principal committees are the following:

Audit Committee

The purpose, composition, authority and responsibilities of our Audit Committee have been established in a charter approved by the Board of Directors in accordance with Mexican law. The Audit Committee's primary purpose is to assist the Board of Directors in defining, verifying and assessing the effectiveness of our internal control system, overseeing the management and conduct of our business, and fulfilling shareholder resolutions. The Audit Committee is responsible for following up on external and internal audit activities and keeping the Board of Directors informed about their performance. Moreover, the Audit Committee oversees the preparation of financial reports in accordance with regulations and accounting principles applicable to financial institutions. The current members of the Audit Committee, all of whom are independent, are Héctor Federico Reyes Retana y Dahl (Chairman), Carmen Patricia Armendáriz Guerra, Thomas S. Heather Rodríguez, Robert William Chandler Edwards, Manuel Aznar Nicolín and Clement Ismael Reyes Retana Valdés.

Risk Policy Committee

Our Risk Policy Committee is comprised of voting members. The objective of the Risk Policy Committee is to manage our risk. The current voting members are: Eduardo Livas Cantú (Chairman), Everardo Elizondo Almaguer, Héctor Federico Reyes Retana y Dahl, Thomas S. Heather Rodríguez, Manuel Aznar Nicolín, Robert William Chandler Edwards, José Marcos Ramírez Miguel and Guillermo Chávez Eckstein. The Risk Policy Committee can invite guests that shall not have voting privileges, and will include our internal auditor.

Human Resources Committee

Our Human Resources Committee aims to appropriately compensate our staff, protect our integrity, stability, competitiveness and financial soundness and to support our Board of Directors in its functions relating to our compensation system, through the approval of determinations in connection with its human resources and the establishment of a regulatory framework. Our Human Resources Committee is responsible for the implementation, maintenance and evaluation of activities regarding our compensation system. The current members of our Human Resources Committee are: Everardo Elizondo Almaguer (Chairman), Eduardo Livas Cantú, Guillermo Chávez Eckstein, Javier Beltrán Cantú, Rafael Arana de la Garza and Isaías Velázquez González (non voting member).

Business activities

The Issuer is a full-banking institution whose main activities are regulated by the Credit Institutions Law ("**LIC**"), the Mexican Central Bank (*Banco de México*) and the Mexican National Banking and Securities Commission (the "**Commission**"). Its activities consist of receiving deposits, accepting and granting loans and credits, attracting public funds, making investments in securities, carrying out repurchase agreements, performing transactions with derivative financial instruments (futures, swaps, options and forward contracts), together with other full service banking operations, in accordance with the LIC. Its Subsidiaries' activities are supervised by the Commission.

Principal Business Activities

One of our principal goals is to efficiently deliver services and products to our clients. In an effort to meet this goal, we have organized our business operations into the following businesses:

- retail banking, which includes, among others:
  - consumer banking;
  - SME banking; and
  - state and municipal government banking; and

- wholesale banking, which includes, among others:
  - o corporate and enterprise banking;
  - o transactional banking;
  - o federal government banking; and
  - o international banking.

These segments report to the main office in one of our eight territories in Mexico: Northern, Central, Mexico City North, Mexico City South, West, Northeast, North Border and South. In addition, our treasury and the money market divisions are responsible for, among other activities, managing our assets and liabilities while maximizing our income in accordance with certain risk policies and limits established by our Risk Policy Committee. See "—Treasury and Money Market Divisions."

Retail Banking

The retail banking area is responsible for creating value propositions for each segment, in order for us to offer suitable products to each of our customers using diverse channels. Our retail banking area develops strategies to approach every customer in a unique manner, encourages cross-selling, shifts operations to digital platforms and constantly develops innovative products. There are four lines of business within our retail banking:

- **Affluent banking**: Since the last quarter of 2015, our aim is to provide a differentiated service model and proposition to our high value customers. In the first quarter of 2018, we achieved a nationwide coverage and trifold the affluent service model in 497 of our branches. For the year ended December 2017, there are 589 branches that have the new Queue Manager System installed, with the presence of at least one relationship manager; in overall we have 509 relationship managers. Our affluent contact centre (*Línea Preferente*) is now a service referral in the market with a more than 70% solution response at the first call. With 4% of the total customer base, for the three months ended March 31, 2018, affluent banking represented 28% of the wholesale and retail banking of GFNorte.

- **Personal banking**: As of March 31, 2018, this area provided services to more than 11.4 million customers with their own profit and loss, focusing on total relationship balance and profitability by seeking to maintain high-value customers and by creating an exit strategy for low-value customers. We continuously work to migrate the operations of our customers in this area to self-service channels. For the three months ended March 31, 2018, personal banking represented 27% of the wholesale and retail banking of GFNorte.

- **SME banking**: As of March 31, 2018, this area offered innovative and competitive financial products and services to approximately 437,806 SMEs. In March 2016, we also re-launched Banorte SME Integral Solution, a package by which we offer to serve our SME customers all of our financial services under a single contract. For the three months ended March 31, 2018, SME banking represented 14% of the wholesale and retail banking of GFNorte.

- **State and municipal government banking**: We believe we are the nationwide leader in the state and municipal government banking segment in terms of deposits, loans and payroll, as of March 31, 2018, according to information published by the CNBV. For the three months ended March 31, 2018, this area represented 11% of the wholesale and retail banking of GFNorte. We have full coverage in 32 states and over 1,377 municipalities. We believe this area offers unique products and services such as government funds, payroll services, public finance analysis, advisory services and credit risk analysis. We estimate that state and municipal local government banking sales will see significant growth in the following years.

Our retail banking segment targets individual customers and SMEs by providing them with non-specialized banking products and services through our distribution channels. Nearly all of the transactions taking place in this segment occur through our branches, telephone banking, on-line banking and ATMs.

Products and services offered through this segment include checking and deposit accounts, credit cards, mortgage loans and consumer loans. See "—Products and Services." One of our main products in this segment, *CrediActivo Comercial*, is a loan issued in amounts of up to 193,974 million UDIs (equivalent to approximately Ps.32,264 million, as of March 31, 2018) and is targeted towards SMEs.

We are increasingly becoming a more significant retail bank in the Mexican marketplace, and we believe the contribution of this business, particularly credit cards, payroll loans, SME financing and mortgage loans will grow significantly over the next three years.

Wholesale Banking

The wholesale banking division incorporates: Economic, Research & Fundamental Analysis; Private Banking and Wealth Management; Transactional Banking; Corporate and Enterprise Banking; Federal Government Banking; Trading & Institutional Sales; Warehouse, Leasing and Factoring; International Banking; and Treasury Management. Our wholesale banking area's contribution to our total net income may increase as we assume a more prominent position in Mexico's wholesale banking industry, and also as a result of its increasing share in our total loan portfolio.

- **Corporate and Enterprise Banking:** Corporate and enterprise banking is committed to providing integrated financial solutions for our corporate customers through various types of specialized financing, including structured credits, syndicated loans, acquisition financing and financing of investment plans. Other products and services offered to our corporate customers include cash management services, collection services and fiduciary and payroll services. The customers in corporate banking generally consist of Mexican and non-Mexican multinational companies, large Mexican companies and emerging Mexican companies. Our corporate customers consist of 2,650 large corporations. As of March 31, 2018, the average outstanding individual balances of our loans to corporations, of which there were 1,652 was Ps.100.1 million.

  In 2016, we created a team with a high degree of specialization and market recognition in the energy and infrastructure sectors to better position ourselves in light of the opportunities created by the recent reforms adopted in Mexico in these sectors. We expect that this will allow us to increase our market penetration and further enhance our market share of these sectors with current and future clients.

  Our enterprise banking segment specializes in high-margin credit products for medium-sized business customers. Our medium-sized business customers consist primarily of 18,254 enterprises, varying in size from medium businesses to sizable corporate enterprises operating in a broad range of industrial sectors. As of March 31, 2018, the average outstanding individual balance of loans to our enterprise customers was Ps.12.1 million.

  Our main products in this segment are:

  – loans and lines of credit;

  – *CrediActivo Empresarial*, a loan product partially guaranteed by NAFIN;

  – cash management services;

  – fiduciary services;

  – checking account services; and

  – payroll services.

  In 2016, we implemented a new business model aimed at allowing our relationship managers to dedicate more time to attracting clients and increasing sales.

- **Transactional Banking:** Our Transactional Banking area is focused on deploying our cross-selling strategy through sales, implementation and post-sale support of transactional services, to strengthen and deepen our business relationship with existing clients. Through our Transactional Banking area we offer self-service cash solutions to our clients, including: remote deposits, cash counters, addressed payments and online foreign exchange transactions. We have also developed a new cross-selling strategy with Banorte Seguros (GFNorte's insurance subsidiary) to offer specialized insurance products.

  In 2016, as part of our focus on cross-selling opportunities, we expect to deploy a client feedback system to assess our client's perception of our services and products (including net promoter score ("**NPS**"), market valuation, etc.) and to increase our new product allocation such as check counters, SWIFT, T2M checks and BTF Modules.

- **Federal Government Banking:** We have increased our presence as a provider of financial services to Mexican federal governmental entities and their agencies, including social security institutions, unions, public trusts, public works and quasi-governmental entities. Through specialized attention, we expect to maintain our commitment to providing services to this important sector of the economy.

  The products and services offered by our Federal Government Banking segment include, among others, checking accounts, loans (typically subject to a bidding process), payroll processing, cash management, collection and payment processing services to government agencies. Serving these institutions also allow us to cross-sell checking accounts, credit card services, loan products, insurance products and collection services to their employees.

  As of March 31, 2018, the aggregate outstanding balance of our federal government loan portfolio was Ps.36,284 million. We are among the leading providers of loans to federal government entities in Mexico and as of March 31, 2018, we had a 18.2% market share in performing loans, according to the CNBV.

- **International Banking:** Our International Banking area seeks to develop new products and services relating mainly to foreign trade. We have strategic agreements with financial institutions abroad, which allow us to offer highly competitive solutions and financial services locally and globally. Some of the products and services that our International Banking area offers include:

  – credit support for the export of goods and services, including letters of credit, payment orders and checking accounts denominated in U.S. dollars;

  – advisory and credit support in connection with imports of goods and services, including financing for the import of livestock and machinery, financing of working capital and investment projects, letters of credit and payment orders;

– hedging instruments protecting against currency fluctuations, including Peso futures; and exchange products, including currency exchange, travelers' checks and remittances.

These services are also offered to our corporate and enterprise and retail banking segments.

- **Treasury and Money Market Divisions:** Our treasury division is responsible for, among other activities, managing our assets and liabilities, minimizing funding costs and engaging in hedging transactions. Its goal is to maximize our income in accordance with certain risk policies and limits established by our Risk Policy Committee. The treasury division is also responsible for managing our liquidity requirements and cash flows, monitoring market risks and funding costs, obtaining funding for certain loans and obtaining funding in the international market. The treasury division monitors our positions in fixed income securities, foreign currencies and derivatives positions for hedging and liquidity purposes.

  Our money market division is responsible for our repurchase transactions, investments in domestic fixed and floating rate securities and the promotion of instruments and investment alternatives to our high net worth clients. This division also purchases futures to hedge its open risk positions or for trading purposes.

  The treasury and money market divisions are monitored on a daily basis by our risk management unit. Strategies relating to these divisions are assessed on bi-weekly basis by our Assets and Liabilities Committee. Our treasury division does not trade equity securities.

Products and Services

Checking and Deposit Accounts

We continually strive to develop innovative, high-quality products and services that meet our clients' financial needs.

Through our branch network, we offer deposit products which fall into four categories: time and savings deposits, demand deposits, installment deposits and certificates of deposit. Time deposits generally require the customer to maintain a deposit for a fixed term during which interest accrues at a fixed rate and withdrawals may not be made without penalty. Savings deposits allow customers to deposit and withdraw funds at any time and accrue interest at a fixed rate that, in certain cases, increases over time. Demand deposits, which either do not accrue interest or accrue interest at a fixed rate, which is lower than the applicable time and savings deposits rates, allow customers to deposit and withdraw funds at any time and, in the case of "current" deposit accounts, to issue checks against the deposited amount. Installment deposits allow customers to make deposits either on a periodic basis or at any time during a fixed term, during which interest accrues at a fixed rate and there is a penalty for withdrawals. Certificates of deposit, which are sold in a variety of denominations and maturities and are negotiable, require an initial deposit of a fixed amount for a fixed term, during which interest accrues at a fixed rate and withdrawals may not be made without penalty. We believe our products address all of our customers' financial needs, regardless of their segment. Furthermore, we permanently develop special offers by which we aim to make our products more attractive to our customers than those of our competitors.

We have made significant efforts to increase traditional deposits through the retail banking segment in order to continue to reduce the cost of funds and to increase our net interest income.

During the first three months of 2018, we experienced significant growth in the opening of checking accounts and demand deposits. Our focus on the sale of deposit products and related strategic initiatives put into place during 2014 and 2015 led to an aggregate amount of Ps. 648,622 million in total deposits as of December 31, 2017. As of March 31, 2018, our total deposits amounted to Ps. 652,027 million. We have placed particular emphasis on increasing deposits for our low-cost products.

Credit Card Operations

We issue personal credit cards (associated with both MasterCard and Visa) and offer the following products under the Banorte and Ixe brands: Banorte Básica; Banorte Fácil; Banorte Clásica; Banorte Oro; Tarjeta de Crédito Mujer Banorte; Banorte Pachuca; Banorte Platinum; Banorte Infinite; Banorte Empresarial; Tarjeta 40; Ixe Clásica; Ixe Oro; Ixe Platino Ixe Infinite; Platinum Infinite and Universe Infinite, the latter two of which are co-branded with United Airlines. Recently, we launched Banorte POR TI, which is a pure cashback credit card, which we consider to be one of the most attractive in the market. In addition, we offer various rewards programs for our credit card holders.

As of March 31, 2018, we had approximately two million credit cards outstanding, of which 6.06% carried a past-due balance. Credit card approvals are based on an internal credit scoring system, which we believe increases the quality of the portfolio and reduces approval response time. Our credit cards can be used in 53,135 (100%) ATMs across Mexico. Revenues from the credit card operations consist principally of merchant fees paid by retail and service establishments, cash advance fees, installment purchase fees, fees on late payments, variable and fixed interest rates charged on monthly account balances and annual membership fees paid by cardholders.

We currently rank forth, both in number of transactions and in total value of transactions in the Prosa system, an ATM and credit card processing system comprised of seven Mexican banking institutions. Our market share in the Mexican credit card sector was 9% as of March 31, 2018 in terms of performing loans according to the CNBV. Currently, the most important channel for promoting credit cards is our branch network; nevertheless, we are expanding our origination channels for all through a more robust sales force, co-branded offers and a one-step underwriting process (origination and first purchase). We also promote our credit cards by cross-selling them to customers across GFNorte's entities.

We charge an average annual fee of Ps. 602 per credit card. Credit card loans, which are fully underwritten by us, are unsecured, and have an initial maturity of one to two years, accrue interest at effective weighted average annual fixed rates of 27.3%. The average credit limit of credit cards is Ps. 45,500; whereas limits range from Ps.5,000 to Ps.300,000. Moreover, the minimum required monthly salary for all new cardholders is Ps.7,000. As of March 31, 2018, the past-due loan ratio on our credit card portfolio was 6.06% and charge-offs as a percentage of average receivables were 13.9%. The annual attrition rate with respect to our credit card customers was 13.8% for the 12-month period ended March 31, 2018.

We monitor our credit card accounts with an electronic system called "VISION," which allows us to establish credit limit increases, pricing, credit card loan portfolio collection and overdraft protections on an individual cardholder basis.

Mortgages

We offer long-term mortgage financing for individuals and families acquiring houses or apartments. Such financings are generally secured by the purchased property and are denominated in Pesos with fixed interest rates for the entire life of the mortgage. The term of a mortgage ranges from 1 to 20 years for financing of up to 90% of Loan-to-Value. We offer financings exclusively for residential mortgages. Other products we offer include home improvement, construction and land acquisition. For the three-month period ended March 31, 2018, we provided 4,873 mortgages, and the aggregate outstanding balance due from our mortgage loan portfolio was Ps. 8,368 million.

Currently, we focus on providing mortgages for mid-level, residential housing to mid- to high-income customers, which we believe allows us to grow and provide a stable source of revenue. In addition, we plan to keep strengthening our portfolio coupled with a low past-due loan ratio, and to increase our market share by offering competitive products and using all marketing channels available to us.

Consumer Loans

We offer two main personal consumer loans: automotive financing and payroll loans. We provide automotive financing through loans that bear interest at a fixed rate with maturities of up to 6 years. As of March 31, 2018, the aggregate outstanding balance due from our automotive financings was Ps. 20,904 million. *Crédito de Nómina* is a fixed rate loan with automatic payments through payroll deposits. Loan amounts are up to Ps.1.5 million with maximum maturity of five years. As of March 31, 2018, the aggregate outstanding balance due from the *Crédito de Nómina* product was Ps. 52,859 million.

Commercial Loans

We offer various loan products, including general commercial loans, syndicated loans and letters of credit, to our business customers. Our business customers vary from SMEs to large companies that have revenues in excess of Ps.255 million. Of our commercial loans guaranteed by NAFIN, *Banco Nacional de Comercio Exterior, S.N.C.* and the *Fideicomisos Instituidos en Relación con la Agricultura*, 2.44% are secured by collateral.

Collection Services

In 2002, we established an automatic payment collection processing service. This service allows individuals and companies to make payments for telephone bills, school tuition and cellular phone bills, among others, through our branch network and alternative distribution channels. In 2017, we handled approximately 24 million transactions. Collection services are complemented by invoice distribution through the Internet or mobile phone banking.

Payroll Services

Since 1993, we have offered our corporate, enterprise, SME and government customers *Nómina Banorte*, a service through which they can pay their personnel payrolls via direct deposits. As of March 31, 2018, over 60,000 thousand corporate, enterprise, SME and government customers process payrolls of over 6.1 million employees with us. We believe that *Nómina Banorte* improves customer retention and reduces risk in consumer lending by strengthening customer relationships. Every employee that is paid through *Nómina Banorte* may obtain a personal loan of up to nine months of salary and preferential conditions on other types of loans.

Cash Management Services

Cash management services include collecting and disbursing funds on behalf of companies and their suppliers, distributors, clients and employees in order to facilitate cash flow, reduce operating costs and improve information management.

Money Transfer and Remittances Services

Through UniTeller, we offer cross-border money transfers and remittance payment services. We continue to be one of the largest payers of remittances in Mexico, handling in 2017, 20% of the total transactions paid in the US-Mexico corridor. Uniteller continues with the expansion of its payment network in Latin America and Asia, building a network of more than 110,000 payment locations across more than 30 countries. Also, in 2017 Uniteller deployed its digital platform ulinkremit.com to offer a more convenient digital and mobile remittance service to individuals, dramatically improving accessibility and reduced transaction costs, responding to our goal to extend the benefits of our remittance services through different channels.

Distribution Channels

Branch Networks

We seek to create an outstanding multi-channel experience for our customers. Towards that end, we have established a new operating model which we believe will improve all direct channels, customer experience and operational efficiency and, eventually, increase our market share. According to the CNBV, as of March 31, 2018, our branch network accounted for 9.0% of the Mexican market in terms of number of branches as of such date.

As of March 31, 2018, we had 1,152 branches, where 22 corresponded to affluent customer service centers. As of such date, each branch operates with 8 employees. From March 2018 to December 2020, we plan to open 1,152 new branches, with a greater focus on regions where our market share is relatively low. We are also planning to strengthen alternative channels such as ATMs, contact centers, online and mobile banking. We believe that many of our customers have taken advantage of the developments in our ATMs and digital channels, given that as of March 31, 2018, the 336 million transactions in ATMs and digital banking representing an increase of 6% compared to the same period of 2017.

ATMs

Our ATM network has grown from 3,384 ATMs as of June 30, 2007 to 7,937 as of March 31, 2018. According to the CNBV, as of March 31, 2018, we had the third-largest ATM network in the Mexican market. As of March 31, 2018, our ATMs serve approximately 8.9 million customers monthly, representing a 1% increase compared to the same period in 2017 and equivalent to approximately 163 million transactions annually. In order to further increase the number of transactions conducted through this channel, we are developing a platform providing personalized offers, functionalities and upgrades for each customer, and we believe that most of our products and services will be available through this channel, which will initially be tested with our corporate and SME customers. In addition, we aim to continue strengthening our debit card initiative, which can be used at all of our ATMs as well as other ATMs worldwide through our participation in the Visa and Plus ATM networks.

Contact Center

Our contact center allows our customers to check balances, transfer funds between their accounts in Banorte and other banks, pay credit card bills and receive account statements. We differentiate affluent and personal customers, to provide the correct assistance and a customized selling strategy for each group.

Currently the system receives nearly 5.3 million calls per month. Approximately 72% of calls are handled through interactive voice recording systems and 28% by telephone banking customer service representatives. In March 2018, our contact center responded to 1.5 million incoming calls and 219,000 outgoing calls, maintaining favorable levels of efficiency and customer care.

SME Centers

Our specialized SME centers are strategically located in close proximity to our key, as well as potential, customers. We have 11 service centers and regional support executives, covering all geographic regions in the country. Each SME service center offers our "**SME Integral Solutions**", a bundle of products and services aimed at addressing all of our SME customers' needs under a single contract.

Our SME Integral Solution include:

- Checking Solutions: investment and debit checking accounts.
- Financial Solutions: SME loans and business credit cards.
- Technology Solutions: electronic banking, POS and payroll services.
- Business Insurance Solutions: car, home and employees insurances.

Additionally, we have a developed a 21-day credit approval process for new customers, and an expedite 12-day credit approval process for our best customers.

POS Terminals

As of March 31, 2018, our network increased to 169,405 POS terminals, 10.5% more than March 31, 2017. During this same period, the amount transacted increased to Ps. 70,560 million, which represented a 24.42% increase compared to Ps. 56,711 million as of March 31, 2017. Banorte-Ixe's POS network is the third largest in Mexico. Total transactions increased to 88.04 million during the first quarter of 2018, representing an increase compared to 74.14 million in 2017. We believe this was possible due to the dynamic performance of both POS terminals and e-commerce.

Online Banking

Our online banking services allow customers to utilize the Internet to access their credit card and other account balances by means of a 24-hour customer service website with a constant update. Customers are enabled to carry out various operations and transactions, such as checking their accounts, transferring funds domestically and internationally, paying taxes, credit cards and other bills and investing in funds and certificates of deposit. This service is offered to our customers at no additional cost. As of March 31, 2018, more than 1.3 million customers were registered for this service.

As of March 31, 2018, 117 million transactions were carried out through "Banorte by Internet" (*Banorte por Internet*). As of March 31, 2018, over 1.7 of our Online and Mobile customers were signed up for paperless banking services and their monthly bank statements were sent to them through e-mail.

"Banorte in your Business" (*Banorte en su Empresa*) is our corporate online banking service focusing on medium-sized and large companies. Through this service, our corporate customers can access many of the banking services offered at one of our branches, such as transfers of funds, payroll services and payments to suppliers. As of March 31, 2018, more than 131,592 customers used this service.

"Banorte Connection" (*Conexión Banorte*) is host to host direct connection with the enterprise resource planning ("ERP") of our customers. We launched this service in June 2015, with 127 clients, and as of March 31, 2018, 171 clients were using this service.

Mobile Banking

Banking service via mobile phone offers a global, efficient, secure and sustainable solution to a wide segment of our customers. Our platform is compatible with almost any mobile phone, which increases customers reliance on our services and makes branch visits unnecessary for many transactions. During the first three months of 2018, more than 1.1 million customers used our mobile banking service, a 67% increase compared to the same period in 2017, with a total of 56.1 million transactions, a 19% increase compared to the same period in 2017.

During the last few years we have also developed new features, such as the cellphone token, which enables users to generate security codes directly from their cellphone, with no further need of using a physical token. Customers are able to request the Banorte Móvil service by calling the contact center, without having to visit a branch. Also, in 2012, we launched "Banorte Mobile Payment" (*Pagomóvil Banorte*), the first mobile-payment platform in Mexico that enables customers to make direct payments at retail and online establishments without using a physical card.

Third-party Correspondent Banking

Through third-party correspondents we support the penetration of banking services by offering a service to thousands of Mexicans that cannot access financial services, and we believe we have positioned ourselves as an important player in this segment. As of March 31, 2018, we have more than 26,000 correspondent banking points. We continue to develop strategic points to maintain closeness with every customer and to provide easy access to financial services.

As of March 31, 2018, we had established 26,418 points of contact (17,263 located at OXXO stores, 1,889 located at 7-Eleven stores, 1,746 located at TELECOMM-Telégrafos facilities, 1,192 at Extra convenience stores chain, 48 at Netpay, 1,870 at Farmacias Guadalajara, 1,609 at Farmacias del Ahorro, 643 at Soriana stores, 95 at Grupo DSW and 63 at La Comer stores), representing a 1% increase compared to the 26,131 points of contact as of December 31, 2017, which also represented a 9% growth compared to the 24,312 points of contact as of December 31, 2016. During 2017, 36.9 million operations were carried out through these points of contact, representing a 123% increase compared to the 16.5 million operations carried out during 2016.

Anti-Fraud Measures

Our branches have sophisticated tools to minimize fraud in connection with credit and debit cards, checks, branch transactions and internet banking. Anti-fraud programs for credit and debit cards examine transactions occurring at the respective POS or ATM, while anti-fraud programs for checks, branch transactions and internet banking are based on an examination of certain parameters and customer profiles. In each case, alerts as to possible fraud are immediately transmitted and evaluated by a team of our specialists. Any confirmed fraud in connection with credit and debit cards is reported to Visa or MasterCard, as applicable, and is subject to our internal procedures to block cards or accounts and reissue cards. Our anti-fraud department operates 24 hours a day, seven days a week, and is linked with other internal departments, such as investigations, audit, legal, security information and human resources, which are available to provide support for anti-fraud activities.

Strategic Alliances

IBM

On March 11, 2013**,** we entered into a 10-year strategic agreement with IBM to create a new customer-centric banking model, improve our operating efficiency and increase our profitability levels. To reach these objectives, we have developed our business intelligence through multichannel architecture and campaigns based on the analytics of each of our client segments and the use of new generation action tools. Additionally, we designed a new comprehensive risk model to assess our clients' risks through an automated process for account opening. This automated process allows us to enroll clients either at our branches or through seamless digital interactions. This digital platform enhances our ability to cross-sell multiproduct contracts to our clients. To protect our clients' personal data and transactions, we released a new secure online banking website and a new mobile application in

2016. We are currently working to improve our customers' experience by concentrating on multichannel sales, credit simulators, market and operations transformations and automating core processes to increase efficiencies. This agreement seeks to create a sustainable platform to achieve world-class efficiencies as well as high levels of customer service and segmentation, retention and contact with clients, through the existing channels and others to be developed. As a result of these efforts, we seek to become the bank with the best customer service and experience in Mexico and Latin America, leading the sector and setting an example of innovation through smarter use of advanced technologies.

Phoenix Software

In August 2015, we selected Phoenix, a Diebold company, as the new software provider for our entire ATM network. As a long-standing customer of Diebold's hardware and services, we added Phoenix's VISTA™ and COMMANDER™ software platforms as part of our strategy to expand our omni-channel capabilities and integrate key back-end systems with our growing ATM network. As banking consumers continue to utilize the increasing number of touch points available to conduct their banking transactions, we believe that a comprehensive omni145 channel solution is crucial to provide optimal service. We consider that the software suite provides support for both the multi-vendor ATM fleet and in-branch solutions, while allowing us to be more self-sufficient at developing the tools that improve our efficiency and functionality.

Capital structure

The common stock of Banorte consists of 137,303,109,559 shares of the "O" Series with each having a nominal value of Ps. 0.10. The total capital amounts to Ps. $13,730,310,955.90.

Banorte is a subsidiary of Grupo Financiero Banorte, S.A.B. de C.V., which holds 98.22% of the Banorte's stock.

Own equity securities

As of the date of this Prospectus, the Issuer does not hold own shares.

Dividends

In the last five business years the Issuer has paid the following dividends:

Financial Year	**2017**	**2016**	**2015**	**2014**	**2013**
Dividend (*million Ps. total*)	23,380	5,967	5,554	0	5,084

Court, arbitral and administrative proceedings

Due to the nature of our transactions, we frequently encounter judicial, administrative and arbitration proceedings. Customers, users or suppliers may also take legal action against us. We are currently subject to a number of other legal and regulatory proceedings, including tax and labor claims, arising in the ordinary course of our business, none of which our management believes is reasonably likely to have a material adverse effect on our financial position or results of operations.

As of December 31, 2017, there are lawsuits filed against Banorte in civil and labor court cases; however, Banorte's attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact Banorte's consolidated financial position. As of December 31, 2017, Banorte has recorded a reserve for contentious matters of Ps. 488 (Ps. 601 in 2016).

Information on the Issuer's most recent business performance

Save as disclosed in this Prospectus there have been no significant changes in the performance of the Issuer's business since 31 December 2017.

Material changes since the most recent annual financial statements

Except as disclosed in this Prospectus, there has been no material adverse change in the financial condition or operations of the Issuer since 31 December 2017, which would materially affect its ability to carry out its obligations under the Bonds.

TAXATION

The following is a general description of certain tax considerations relating to the Bonds. It does not purport to be a complete analysis of all tax considerations relating to the Bonds. Potential investors of the Bonds are strongly advised to consult their own professional advisers in light of their particular circumstances.

Mexican Tax Considerations

The following summary contains a description of the principal Mexican Federal tax consequences of the purchase, ownership and disposition of Bonds by a Non-Mexican Holder (as defined below). It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, hold or dispose of the Bonds. In addition, it does not describe any tax consequences (i) arising under the laws of any taxing jurisdiction other than Mexico, (ii) arising under laws other than the federal income tax laws of Mexico (excluding the laws of any state or municipality within Mexico), or (iii) that are applicable to a resident of Mexico for tax purposes.

A "**Non-Mexican Holder**" is a holder who is not a resident of Mexico for tax purposes, as defined by the Mexican Federal Fiscal Code (*Código Fiscal de la Federación*), or that does not conduct a trade or business in Mexico through a permanent establishment for tax purposes in Mexico. Under Mexico's tax laws, a natural person is a resident of Mexico for tax purposes if the individual has established his or her permanent home in Mexico. In the event the individual also has a permanent home in another jurisdiction different from Mexico, the individual shall be considered to be a resident of Mexico for tax purposes if his or her "center of vital interests" is in Mexico. A "center of vital interests" is deemed to exist in Mexico if, among other considerations: (i) the source of wealth of more than 50% of the total income obtained by the individual in a given calendar year is located in Mexico, or (ii) when an individual's principal center of professional activities is located in Mexico. Except if proven otherwise, individuals who are Mexican nationals are presumed to be residents of Mexico. Individuals or legal entities who cease to be residents of Mexico must give notice of such fact to the taxing authorities not later than 15 days prior to the date on which the change of tax residence occurs. Individuals of Mexican nationality who evidence having a new residence for tax purposes located in a country or territory wherein their income is subject to a preferred tax regime as provided in the Mexican Income Tax Law (*Ley del Impuesto sobre la Renta*) shall not lose their status as residents of Mexico in the fiscal year in which the notice is submitted and for the three succeeding fiscal years. This shall not apply when the country for which the new tax residence is evidenced has entered into an agreement for the exchange of tax information with Mexico. A legal entity is a resident of Mexico for tax purposes if it has established in Mexico its principal place of business or has its factual seat of management in Mexico.

This summary is based upon the Mexican Income Tax Law and the Mexican Federal Fiscal Code in effect as of the date of this offering circular, which are subject to change. Prospective purchasers of the Bonds should consult their own tax advisers as to the Mexican or other tax consequences of the purchase, ownership and disposition of Bonds, including, in particular, the effect of any foreign state or municipal or local tax laws.

Mexico has entered into, and is negotiating several, tax treaties with various countries, that may affect the Mexican withholding tax liability of Non-Mexican Holders. Prospective purchasers of the Bonds should consult their own tax advisers as to the tax consequences, if any, of such treaties.

Under the Mexican Income Tax Law, and the regulations thereunder, payments of principal and interest on the Bonds (which includes any amounts paid in excess of the issue price for the Bonds, which under Mexican law is deemed to be interest) made by us, through our Grand Cayman Branch, to a Non-Mexican Holder, will not be subject to Mexican withholding or other similar taxes.

Capital gains realized from the sale or other disposition of the Bonds by a Non-Mexican Holder, will not be subject to Mexican income taxes.

A Non-Mexican Holder will not be liable for Mexican estate, gift, inheritance or similar taxes with respect to the acquisition, ownership, or disposition of the Bonds, nor will it be liable for any Mexican stamp, issue, registration or similar taxes.

Other Mexican Taxes

Under current Mexican laws, a Non-Mexican Holder will not be liable for Mexican estate, gift, inheritance, succession or similar taxes with respect to the acquisition, ownership or disposition of the Bonds, nor will it be liable for any Mexican stamp, issue, registration or similar taxes.

Swiss Tax Considerations

Swiss Federal Withholding Tax

At present, payment of interest on the Bonds and repayment of principal of the Bonds are not subject to Swiss federal withholding tax, provided that the Issuer is at all times resident and managed outside Switzerland for Swiss tax purposes.

On 4 November 2015 the Swiss Federal Council announced a mandate to the Swiss Federal Finance Department to institute a group of experts tasked with the preparation of a new proposal for a reform of the Swiss withholding tax system. The new proposal is expected to include in respect of interest payments the replacement of the existing debtor-based regime by a paying agent-based regime for Swiss withholding tax similar to the one published on 17 December 2014 by the Swiss Federal Council and repealed on 24 June 2015 following the negative outcome of the legislative consultation with Swiss official and private bodies. Under such a new paying agent-based regime, if enacted, a paying agent in Switzerland may be required to deduct Swiss withholding tax on any payments or any securing of payments of interest in respect of a Bond for the benefit of the beneficial owner of the payment unless certain procedures are complied with to establish that the owner of the Bond is not an individual resident in Switzerland.

Swiss Federal Securities Turnover Tax

The issue and the sale of a Bond on the issuance day (primary market transaction) are not subject to Swiss federal securities turnover tax (*Umsatzabgabe*). Secondary market dealings in Bonds may be subject to the Swiss federal securities turnover tax at a rate of up to 0.30% of the purchase price of the Bonds, however, only if a securities dealer in Switzerland or Liechtenstein, as defined in the Swiss federal stamp duty act (*Bundesgesetz über die Stempelabgaben*), is a party or acts as an intermediary to the transaction and no exemption applies.

Income Taxation on Principal or Interest

a) *Bonds Held by Non-Swiss Holders*

Payments of interest and repayment of principal by the Issuer to, and any gain realized on the sale or redemption of Bonds by, a holder of Bonds who is not a resident of Switzerland and who during the current taxation year has not engaged in a trade or business through a permanent establishment in Switzerland to which such Bond is attributable will not be subject to any Swiss federal, cantonal or communal income tax in respect of such Bond.

For the potential new Swiss withholding tax legislation replacing the current issuer-based withholding tax system with a paying-agent based system, see above "—*Swiss Federal Withholding Tax*".

b) *Bonds Held as Private Assets by a Swiss Resident Holder*

Individuals who are resident in Switzerland and who hold Bonds as private assets are required to include all payments of interest on such Bonds in their personal income tax return for the relevant tax period and will be taxable on any net taxable income for such tax period.

A capital gain, including a gain relating to accrued interest realized on the sale or redemption of Bonds by such a Swiss resident holder, is a tax-free private capital gain, and, conversely, a respective loss on the Bond is a non-tax-deductible private capital loss.

Bonds without a "predominant one-time interest payment": Holders of Bonds without a predominant onetime interest payment (the yield-to-maturity predominantly derives from periodic interest payments and not from a onetime interest payment) who are individuals receiving payments of interest on Bonds (either in the form of periodic interest payments or as a one-time-interest-payment such as an issue discount or a repayment premium) are required to include such payments in their personal income tax return and will be taxable on any net taxable income (including the payments of interest on the Bonds) for the relevant tax period.

Bonds with a "predominant one-time interest payment": In the case of Bonds with a "predominant one-time interest payment" (the yield-to-maturity predominantly derives from a one-time-interest-payment such as an original issue discount or a repayment premium and not from periodic interest payments), the positive difference (including any capital and foreign exchange gain) between the amount received upon sale or redemption and the issue price (if the Bonds were purchased thereafter) will be classified as a taxable interest payment, as opposed to a tax-free capital gain (differential taxation method). Losses realized on the sale of Bonds with a "predominant onetime interest payment" may be offset against gains realized within the same tax period on the sale of any Bonds with a "predominant one-time interest payment".

c) *Bonds Held as Swiss Business Assets and by Private Persons Classified as Professional Securities Dealers*

Individuals who hold Bonds as part of a business in Switzerland and Swiss resident corporate taxpayers and corporate taxpayers resident abroad holding Bonds as part of a permanent establishment in Switzerland, are required to recognize the payments of interest and any gain realized on the sale or redemption of such Bonds (including a gain relating to interest accrued) and any loss on such Bonds in their income statement for the respective tax period and will be taxable on any net taxable earnings for such period. The same taxation treatment also applies to Swiss resident individuals who, for income tax purposes, are classified as "professional securities dealers" for reasons of, inter alia, frequent dealings and leveraged investments in securities.

Automatic Exchange of Information in Tax Matters

On 19 November 2014, Switzerland signed the Multilateral Competent Authority Agreement (the MCAA). The MCAA is based on article 6 of the OECD/Council of Europe administrative assistance convention and is intended to ensure the uniform implementation of Automatic Exchange of Information (the AEOI). The Federal Act on the International Automatic Exchange of Information in Tax Matters (the AEOI Act) entered into force on 1 January 2017. The AEOI Act is the legal basis for the implementation of the AEOI standard in Switzerland.

The AEOI is being introduced in Switzerland through bilateral agreements or multilateral agreements. The agreements have, and will be, concluded on the basis of guaranteed reciprocity, compliance with the principle of speciality (i.e. the information exchanged may only be used to assess and levy taxes (and for criminal tax proceedings)) and adequate data protection.

Switzerland has concluded a multilateral AEOI agreement with the EU (replacing the EU savings tax agreement) and has concluded bilateral AEOI agreements with several non-EU countries.

Based on such multilateral agreements and bilateral agreements and the implementing laws of Switzerland, Switzerland has begun to collect data in respect of financial assets, including, as the case may be, Bonds, held in, and income derived thereon and credited to, accounts or deposits with a paying agent in Switzerland for the benefit of individuals resident in a EU member state or in a treaty state from, depending on the effectiveness date of the agreement, 2017 or 2018, as the case may be, and begins to exchange it from 2018 or 2019.

RESPONSIBILITY STATEMENT

The Issuer accepts responsibility for all information contained in this Prospectus and has taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects and that there are no other material facts, the omission of which would make any statement herein misleading, whether of fact or opinion.

Monterrey, Nuevo León, México, 12 June 2018

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple,
Grupo Financiero Banorte, acting through its Cayman Islands Branch

TERMS OF THE BONDS

The following is the text of the Terms of the Bonds which will govern the rights and obligations of the Issuer and of each Holder. Capitalised terms not otherwise defined in the Terms of the Bonds shall have the meanings ascribed to them in the Definitions section below.

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, acting through its Cayman Islands Branch (the "**Issuer**") issued 0.875% bonds 2018 – 2021 in the initial nominal amount of CHF 100'000'000 with reopening clause (the "Bonds"). The terms and conditions (each a "**Condition**", and together the "**Terms of the Bonds**") of the Bonds are established pursuant to the Bond Purchase and Paying Agency Agreement. The Terms of the Bonds govern the rights and obligations of the Issuer and the Holders (as defined below) in relation to the Bonds and are as follows:

1. Principal Amount, Reopening and Form of the Bonds

a) The aggregate principal amount of the Bonds of CHF 100,000,000 (one hundred million Swiss Francs) (the "**Aggregate Principal Amount**") is divided into Bonds with denominations of CHF 5,000 (five thousand Swiss Francs) per Bond and integral multiples thereof.

The Issuer reserves the right to reopen this issue and increase the Aggregate Principal Amount at any time and without prior consent of or permission of the holders of such Bonds (the "**Holders**" and, individually, a "**Holder**") through the issue of further bonds which will be fungible with the Bonds (i.e. identical especially in respect of the Terms of the Bonds, security number, final maturity and interest rate) (the "**Reopening**").

b) The Bonds and all rights attached therewith are documented in the form of a Permanent Global Certificate (the "**Permanent Global Certificate**") (*Globalurkunde*) which shall be deposited by UBS AG in its capacity as the principal paying agent (the "**Principal Paying Agent**") with SIX SIS Ltd. in Olten, Switzerland or any other intermediary in Switzerland recognised for such purposes by SIX Swiss Exchange Ltd. (SIX SIS Ltd. or any such other intermediary, the "**Intermediary**"). Once the Permanent Global Certificate is deposited with the Intermediary and entered into the accounts of one or more participants of the Intermediary, the Bonds will constitute intermediated securities (*Bucheffekten*) ("**Intermediated Securities**") in accordance with the provisions of the Swiss Federal Intermediated Securities Act (*Bucheffektengesetz*).

Each Holder shall have a quotal co-ownership interest (*Miteigentumsanteil*) in the Permanent Global Certificate to the extent of his claim against the Issuer, provided that for so long the Permanent Global Certificate remains deposited with the Intermediary the co-ownership interest shall be suspended and the Bonds may only be transferred or otherwise disposed of in accordance with the provisions of the Swiss Federal Intermediated Securities Act, i.e., by the entry of the transferred Bonds in a securities account (*Effektenkonto*) of the transferee.

Neither the Issuer nor the Holders shall at any time have the right to effect or demand the conversion of the Permanent Global Certificate into, or the delivery of, uncertificated securities (*Wertrechte*) or individually certificated bonds ("**Definitive Bonds**") (*Wertpapiere*).

The records of the Intermediary will determine the number of Bonds held through each participant in that Intermediary. In respect of the Bonds held in the form of Intermediated Securities, the Holders will be the persons holding the Bonds in a securities account (*Effektenkonto*).

Printing and delivery of the Bonds shall be excluded (*aufgehobener Titeldruck*).

2. Interest

The Bonds bear interest from (excluding) 14 June 2018 (the "**Payment Date**") until (including) the Maturity Date (as defined below) at the fixed rate of 0.875% (the "**Interest Rate**") of their principal amount per annum, payable annually in arrears on 14 December, in each year (each, an "**Interest Payment Date**"), the first interest payment to occur on 14 December 2018 (short first coupon).

The interest period (the "**Interest Period**") means the period from (excluding) an Interest Payment Date (or the Payment Date) to (including) the next (or the first) Interest Payment Date. The final Interest Payment Date is the Maturity Date.

When interest is required to be calculated for an Interest Period of less than one year, it shall be calculated on the basis of the number of days in the relevant period (excluding) the first day of such period to (including) the last day of such period, all such calculations being made on the basis of a 360-day year consisting of 12 months of 30 days each (30/360).

3. Redemption and Purchases

3.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as specified below, the Issuer shall redeem the Bonds at their Aggregate Principal Amount (at par) on 14 December 2021 (the "**Maturity Date**").

3.2 Redemption for Taxation Reasons

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, upon not less than thirty (30) days' nor more than 60 days' notice to the Principal Paying Agent in accordance with Conditions 11 (Notices) at a redemption price equal to 100% of the then outstanding Aggregate Principal Amount thereof plus accrued but unpaid interest and Additional Amounts (as defined below) due thereon (if any) to the date fixed for redemption if (i) the Issuer provides to the Principal Paying Agent prior to the giving of such notice an opinion of counsel to effect that as a result of any change in, or amendment to, the laws or regulations in Mexico or Switzerland, which change or amendment occurs or becomes effective on or after the Issue Date, or as a result of any application or official interpretation of such laws or regulations not generally known before that date, withholding taxes are or will be liable on payments by the Issuer to the Principal Paying Agent of principal or interest in respect of the Bonds, which withholding taxes or deductions cannot be avoided and, by reason of the obligation to pay Additional Amounts with respect to the Bond, such withholding taxes or deductions are to be borne by the Issuer. Prior to redemption of the Bonds pursuant to this Condition 3.2, the Issuer shall deliver to the Principal Paying Agent an officer's certificate stating that the Issuer is entitled to effect such redemption in accordance with the Terms of the Bonds.

3.3 Purchases

The Issuer or any of its Subsidiaries may, either directly or indirectly, purchase at any time Bonds in the market or otherwise, at any price and for any purpose (including for cancellation purposes). Any purchases shall be made in accordance with applicable laws or regulations, including applicable stock exchange regulations. Such Bonds may be held, resold or, at the option of the Issuer, surrendered to the Principal Paying Agent for cancellation. If purchases are made by public tender, such tender must be available to all Holders alike.

3.4 Cancellation

All Bonds which are redeemed shall forthwith be cancelled and cannot be reissued or resold.

4. Payments

Interest payments and amounts payable on the Bonds will be made available in good time in freely disposable Swiss Francs which will be placed with the Principal Paying Agent in Switzerland on behalf of the Holders.

If the due date for any payment by the Issuer does not fall on a Business Day, the Issuer undertakes to effect payment for value the Business Day immediately following such due date and the Holders will not be entitled to any additional sum thereto.

Upon receipt of the funds in Switzerland and under the same conditions as received, the Principal Paying Agent will arrange for payment to the Holders.

The Issuer undertakes that Bonds shall be payable upon their surrender in freely disposable Swiss Francs without collection cost to the Holders, without any restrictions and whatever the circumstances may be, irrespective of nationality, residence or domicile of the Holders and without requiring any affidavit or the fulfilment of any other formality at the counters in Switzerland of the Principal Paying Agent.

The receipt of the funds by the Principal Paying Agent in Swiss Francs in Switzerland shall release the Issuer of its obligations under the Bonds to the extent of the amounts paid.

5. Taxation / Payment of Additional Amounts

All payments made by the Issuer shall be made free and clear of, and without withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or within Mexico, or any political subdivision thereof or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

In the event that any payments by or on behalf of the Issuer shall be made subject to withholding, deduction or payment of any such Taxes required by law, such additional amounts (the "**Additional Amounts**") shall be payable by the Issuer as may be necessary in order that the net amounts received by the Principal Paying Agent on behalf of the Holders after such withholding, deduction or payment shall equal the respective amounts which would otherwise have been received by the Principal Paying Agent in respect to the relevant Bonds in the absence of such withholding, deduction or payment. Notwithstanding the foregoing, no such Additional Amounts shall be payable by the Issuer on account of any Taxes which:

are payable by reason of a Holder having, or having had, some personal or business connection with Mexico other than the mere holding of the Bonds; or

are required to be withheld or deducted for any payment of or on account of estate, inheritance, gift, sales, excise, transfer, personal property tax or similar, assessment or governmental charge; or

are payable or required to be withheld or deducted where such withholding or deduction is imposed on a payment to an individual or a residual entity and is required to be made based on information exchanged pursuant to a multilateral automatic exchange of information agreement Switzerland has concluded with the EU and several non-EU countries, or

would have been avoided if the Holder had made a declaration of non-residence or similar claim for exemption or reduction of the applicable deduction or withholding but fails to do so; or

are payable by or on behalf of a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or similar claim for exemption to the relevant tax authority; or

are payable by reason of a change in law that becomes effective more than thirty (30) days after the relevant payment becomes due, or is duly provided for and notice thereof is published in accordance with Condition 11 (Notices), whichever occurs later; or

are required to be withheld or deducted pursuant to an agreement between Switzerland and other countries on final withholding taxes (*internationale Quellensteuern / Abgeltungssteuern*) levied by a bank in Switzerland in respect of an individual resident in the other country on interest or capital gain paid, or credited to an account, relating to the Bonds; or

are required to be withheld or deducted on any payment by reason of the signing into law on 18 March 2010 of the United States of America's Hiring Incentives to Restore Employment Act (the "**HIRE Act**" also referred to as "**FATCA**") or any laws or regulations made, or agreements entered into, as a result of or in connection with FATCA; or

are payable or required to be withheld or deducted where such payment, withholding or deduction is on account of Mexican resident withholding tax; or

are payable by reason of a Holder holding the Bonds jointly with another person who is a tax resident in Mexico; or

are any combination of the above;

The Issuer shall provide the Principal Paying Agent with documentation evidencing the payment of such Taxes, if any. Copies of such documentation shall be made available to any Holder or any paying agent, as applicable, upon request therefor.

References in these Conditions to the principal of or interest on, the Bonds shall be deemed also to refer to any Additional Amounts which may be payable in respect thereof under this Condition 5, the Issuer and the Holders acknowledge and understand that the Principal Paying Agent has no responsibility or liability (i) in respect of the calculation or payment of the Taxes and (ii) to monitor compliance by the Issuer or any Holder of this Condition 5.

6. Status of the Bonds

The Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer which will (subject as aforesaid) at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, except for such preferences as are provided for by any mandatorily applicable provision of law.

7. Events of Default

If any of the following events (each event an "**Event of Default**") shall have occurred and be continuing, the Principal Paying Agent in its capacity as Holders' representative (the "**Holders Representative**") has the right, but not the obligation, on behalf of the Holders, to declare all outstanding Bonds immediately due and repayable at the principal amount plus accrued interest:

(a) *Non payment*: the Issuer fails to pay any amount of principal or any amount of interest or any additional amount in respect of the Bonds on the due date for payment thereof, and such default continues for a period of thirty (30) calendar days; or

(b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Terms of the Bonds and (except where the Holders' Representative certifies in writing that, in its opinion, such default is not capable of remedy, when no such notice or continuation as is mentioned below shall be required) such default continues for a period of twenty (20) calendar days following the service by the Holders' Representative on the Issuer of notice requiring such default to be remedied; or

(c) *Cross Default of Issuer or its subsidiaries*:

(i) any other present or future indebtedness of the Issuer or of any of its Subsidiaries for or in respect of monies borrowed is not paid when due (otherwise than, where permitted under the terms of the relevant indenture or agreement, at the option of the relevant debtor) or, as the case may be, within any applicable grace period, or becomes due and payable prior to its stated maturity as a result of an event of default (howsoever described), or any security in respect of any such indebtedness becomes enforceable or any guarantee of, or indemnity in respect of, any such indebtedness given by the Issuer or any of its Subsidiaries is not honoured when due and called upon or, as the case may be, within any applicable grace period, provided that no such event shall be taken into account for the purposes of this paragraph (c) unless the relative indebtedness, either alone or when aggregated with other indebtedness relative to all, if any, other such events which shall have occurred and are continuing shall at any time have an outstanding nominal value of at least CHF [50,000,000] or its equivalent in any other currency or currencies (calculated on the basis of the middle spot rate for the relevant currency against CHF as quoted by any leading bank at the place of payment of such debt on the day on which this paragraph operates); or

(ii) any guarantee, mortgage, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person but not the serving of a payment order (*Zahlungsbefehl*) provided that the aggregate amount of the relevant indebtedness in respect of which such mortgage, lien or other encumbrance was created or permitted to subsist equals or exceeds CHF [50,000,000] or its equivalent in any other currency or currencies (calculated on the basis of the middle spot rate for the relevant currency against CHF as quoted by any leading bank at the place of payment of such debt on the day on which this paragraph operates), and any such steps taken are not abandoned or discontinued within thirty (30) calendar days of being taken; or

(d) *Insolvency, Standstill Agreement*: the Issuer or any of its Subsidiaries is (or is deemed by law or a court to be) insolent, in liquidation (*liquidación* or *resolución*) or bankrupt or unable to pay its debts, stops or suspends payment of all or a material part of its debts, proposes or makes a stay of execution, a postponement of payments (*Stillhaltevereinbarung*), a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any such debts or a moratorium or postponement of payments (*Stillhaltevereinbarung*) is agreed or declared in respect of or affecting all or a substantial part of (or a particular type of) the debts of the Issuer or any of its Subsidiaries; or

(e) *Liquidation, others*: the Issuer or any of its Subsidiaries alters its legal or commercial structure through bankruptcy, winding-up, liquidation (*liquidación or resolución*), disposal of all or substantially all of its assets, change in the objects of the legal entity and/or commercial activities or merger, in so far as the relevant action, in the Holders' Representative's reasonable opinion, has a material adverse effect on the capacity of (i) the Issuer to meet its obligations under the Terms of the Bonds, unless the Holders' Representative considers the situation of the Holders as adequately protected based on securities created or other steps taken by the Issuer; or

(f) *Dissolution or Merger*: a dissolution or merger involving the Issuer as result of which the Issuer, as the case may be, is not the surviving legal entity, unless the successor legal entity assumes all the Issuer's liabilities in respect of the Bonds.

The Issuer undertakes to inform the Holders' Representative without delay if any event mentioned under paragraphs (a) through (f) above has occurred and to provide the Holders' Representative with all necessary documents and information in connection therewith. The Issuer accepts responsibility for the information contained in those documents.

If an Event of Default occurs, the Holders' Representative has the right, but not the obligation, to serve a written notice of default (a "**Default Notice**"), such notice having the effect that the Bonds shall become immediately due and payable at the Aggregate Principal Amount plus accrued interest, if any, on the day the Default Notice is given.

Upon the occurrence of an Event of Default, the Holders' Representative may invite the Holders in accordance with Condition 13 to a Holders' meeting for the taking of a resolution on the serving of a Default Notice, provided the Holders' Representative has not served such Default Notice itself on behalf of the Holders. The legally valid resolution of the Holders' meeting to serve a Default Notice, shall replace the right reserved by the Holders' Representative according to these Terms of the Bonds to serve a Default Notice on behalf of the Holders. If the Holders' meeting votes against the serving of a Default Notice, the right to serve such Default Notice shall revert to the Holders' Representative whereby the Holders' Representative shall not be bound by the resolution of the Holders' meeting if and to the extent that new circumstances arise or become known which require a revised assessment of the facts.

8. Substitution of the Issuer

The Issuer (or any previous substitute of the Issuer under this Condition) may, without the consent of the Holders, at any time substitute itself in respect of all rights and obligations arising under or in connection with the Bonds with any Subsidiary (the "**New Issuer**"), provided that

(i) in the opinion of the Holders' Representative, (i) the New Issuer is in a position to fulfil all payment obligations arising from or in connection with the Bonds in freely convertible and transformable legal tender of Switzerland without any need to withhold or deduct any taxes or duties at source and to transfer without restriction all amounts required to be paid under the Bonds to the Principal Paying Agent and (ii) the interests of the Holders are adequately protected; and

(ii) the Issuer and the New Issuer have entered into such documents as are necessary to give effect to such substitution and provided copies of these documents to the Holders' Representative;

(iii) the New Issuer has obtained all necessary authorizations of the country of its domicile or its deemed residence for tax purposes; and

(iv) the Issuer has issued its irrevocable and unconditional guarantee as per art. 111 of the Swiss Code of Obligations duly enforceable in respect to the obligations of the New Issuer under the Bonds in form and content satisfactory to the Holders' Representative.

Any substitution shall be published in accordance with Condition headed "**Notices**".

In the event of such substitution, any reference to the Issuer shall be deemed to refer to the New Issuer and the Issuer shall thereby be released from its obligations in respect of the Bonds and any reference to Mexico shall be deemed to refer to the country in which the New Issuer has its domicile or is resident for tax purposes.

9. Prescription

Claims against the Issuer in respect of Bonds will become void unless presented for payment within a period of presently ten years (in the case of the principal) and within five years (in the case of interest) from the appropriate relevant due date, by virtue of the statute of limitations of Swiss law.

10. Listing

Application will be made for the admission to trading and listing of the Bonds on the SIX Swiss Exchange.

The Issuer will use its best efforts to have the Bonds listed on the SIX Swiss Exchange, and to maintain such listing during the whole life of the Bonds.

11. Notices

All notices regarding the Bonds shall be given through the Principal Paying Agent on behalf and at the expense of the Issuer (i) for so long as the Bonds are listed on the SIX Swiss Exchange on the website of the SIX Swiss Exchange (where notices are currently published under the address http://www.six-swiss-exchange.com/news/official_notices/search_en.html) or (ii) in case the Bonds were no longer listed on the SIX Swiss Exchange, in a daily newspaper with general circulation in Switzerland (which is expected to be the *Neue Zürcher Zeitung*).

12. Currency Indemnification

If any payment obligation of the Issuer under the Bonds has to be converted from CHF into a currency other than CHF (to obtain a judgment, execution or for any other reason), the Issuer undertakes as a separate and independent obligation to indemnify the Holders for any shortfall caused by fluctuations of the exchange rates applied for such conversions.

The rates of exchange to be applied in calculating such shortfall shall be the Principal Paying Agent's spot rate of exchange prevailing between CHF and the other currency on the date on which the relevant conversion is necessary.

13. Holders' Meeting

(a) The Holders' Representative or the Issuer may at any time convene a meeting of the Holders (a "**Holders' Meeting**").

If an Event of Default has occurred and is continuing and as long as the Holders' Representative has not exercised its rights under Condition 7 with respect thereto, the Holders who wish that a Holders' Meeting should be convened and who represent at least ten (10) per cent. of the Aggregate Principal Amount then outstanding and who are entitled to participate and to vote in accordance with paragraphs (f) and (h) of this Condition may at any time require the Issuer to convene a Holders' Meeting which shall convene such a meeting as soon as commercially possible upon receipt of such request.

(b) The costs of such Holders' Meeting shall be borne by the Issuer or, in the case the Issuer is prohibited by law to pay these costs, by the Holders convening such meeting (each of these Holders shall bear such costs in relation to its respective holding of Bonds at the time of such Holders' request to the Issuer to convene a Holders' Meeting).

(c) A Holders' Meeting may consider any matter affecting the interests of the Holders' Meeting (other than matters on which the Holders' Representative has previously exercised its rights contained in Condition 7 above and Condition 14 (Amendment to the Terms of the Bonds) below), including any modification of, or arrangement in respect of the Terms of the Bonds.

(d) Notice convening a Holders' Meeting shall be given at least twenty (20) calendar days prior to the proposed date thereof. Such notice shall be given in accordance with Condition XX (Notices), at the expense of the Issuer. It shall state generally the nature of the business to be transacted at such Holders' Meeting. If an Extraordinary Resolution (as defined below) is being proposed, the wording of the proposed resolution or resolutions shall be indicated. The notice shall specify the day, hour and place of the Holders' Meeting and also the formal requirements referred to in paragraph (f) of this Condition. The Issuer (at its head office) and the Principal Paying Agent (at the Specified Office) will make a copy of such notice available for inspection by the Holders during normal business hours at each of their respective head offices.

(e) All Holders' Meetings shall be held in Zurich, Switzerland. A chairman (the "Chairman") shall be nominated by the Issuer after consultation of the Holders' Representative in writing. If no person has been so nominated or if the nominated person is not present at the Holders' Meeting within thirty (30) minutes after the time fixed for holding the Holders' Meeting, the Holders present shall choose the Chairman instead.

The Chairman shall lead and preside over the Holders' Meeting. Among others, it shall be his duty to determine the presence of persons entitled to vote and to inquire if the necessary quorum (as set forth below) is present. He shall instruct the Holders as to the procedure of the Holders' Meeting and the resolutions to be considered. He shall sign the minutes referred to in paragraph (l) of this Condition.

In the case of any equality of votes, the Chairman shall have a casting vote.

A declaration by the Chairman that a resolution has been supported or supported by a particular majority in accordance with paragraphs (g) and (i) of this Condition or not supported or not supported by a particular majority in accordance with paragraphs (g) and (i) of this Condition shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

(f) Each person who produces a certificate by a bank in respect of such Bond relating to that Holders' Meeting is entitled to attend and to vote on the resolutions proposed at such Holders' Meeting. Bank certificates shall be dated before the date of the Holders' Meeting and confirm that the respective Bonds are deposited in a securities account (*Effektenkonto*) with that bank and will remain so deposited with such bank until and including the date of the Holders' Meeting and that the Bank has not issued any other such certificate with respect to such Bonds.

(g) The presence quorum necessary in order to vote on resolutions proposed at a Holders' Meeting shall be persons entitled under paragraphs (f) and (h) of this Condition holding or representing persons holding in the aggregate at least the following percentages of the Aggregate Principal Amount of all Bonds then outstanding:

Each Ordinary Resolution: twenty-five (25) per cent.
Each Extraordinary Resolution: sixty-six (66) per cent.

The terms Ordinary Resolution and Extraordinary Resolution are defined below.

If within thirty (30) minutes after the time fixed for any Holders' Meeting a sufficient quorum is not present, the Holders' Meeting shall be dissolved.

(h) Holders' voting rights shall be determined according to the principal amount of the outstanding Bonds held. Each Bond in denomination of CHF 5,000 shall be entitled to one (1) vote.

Bonds held by or on behalf of the Issuer or any other natural person or legal entity:

(i) which directly or indirectly owns or controls more than fifty (50) per cent. of the equity share capital of the Issuer; or

(ii) of which, in the case of a legal entity, more than fifty (50) per cent. of the equity share capital is controlled by the Issuer directly or indirectly; or

(iii) where the Issuer is in a position to exercise, directly or indirectly, a control over the decisions or actions of such natural person or legal entity or representative thereof, irrespective of whether or not the latter is affiliated to the Issuer,

shall not be entitled to vote at a Holders' Meeting.

(i) A resolution shall be validly passed if approved by at least of the following percentages of votes cast at a duly convened Holders' Meeting held in accordance with this Condition:

Each Ordinary Resolution: fifty-one (51) per cent.
Each Extraordinary Resolution: sixty-six (66) per cent.

Every proposal submitted to a Holders' Meeting shall be decided upon a poll.

(j) Any resolution which is not an Extraordinary Resolution in accordance with paragraph (k) of this Condition shall be deemed to be an Ordinary Resolution.

(k) An Extraordinary Resolution shall be necessary to decide on the following matters at a Holders' Meeting:

(i) to postpone the maturity beyond the stated maturity of the principal of any Bonds;

(ii) to reduce the amount of principal payable on any Bonds; or

(iii) to change the date of interest payment on any Bonds; or

(iv) to change the rate of interest, or the method of computation of interest, on any Bonds; or

(v) to change any provision for payment contained in the Terms of the Bonds or the place or the currency of repayment of the principal of any Bonds or interest on any Bonds; or

(vi) to amend or modify or waive the whole or any parts of Condition 7 or paragraphs (f), (g), (h), (i) or (k) of this Condition; or

(vii) to create unequal treatment between Holders; or

(viii) to convert the Bonds into equity; or

(ix) to change the choice of law and the jurisdiction clause contained in Condition 18.

The above-mentioned list of issues for which an Extraordinary Resolution shall be necessary is exclusive.

(l) Any resolution approved at a Holders' Meeting held in accordance with this Condition shall be conclusive and binding on all present or future Holders, whether present or not at the Holders' Meeting, regardless of whether such Holders have approved such resolution. The Holders shall not be entitled to any improvement of their position vis-à-vis the Issuer pursuant to resolution approved at a Holders Meeting without prior written approval of the Issuer. Any resolution approved at a Holders' Meeting, which increased the obligations of the Issuer under the Terms of the Bonds shall become effective only after written approval of the Issuer.

Minutes of all resolutions and proceeding at a Holders' Meeting shall be made and signed by the Chairman pursuant to paragraph (e) of this Condition.

Notice of any resolution passed at a Holders' Meeting will be published by the Holders' Representative on behalf and at the expense of the Issuer in compliance with Condition 13 (Notices) not less than ten (10) calendar days after the date of the Holders' Meeting. Non-publication of such notice shall not invalidate such resolution.

(m) If no Holder or an insufficient number of Holders attend a Holders' Meeting, the right to decide on the redemption of the Bonds or any other measures to protect the interests of the Holders available to the Holders' Representative according to the Terms of the Bonds shall revert to the absolute discretion of the Holders' Representative. Any such decision of the Holders' Representative shall be final and binding upon the Issuer and the Holders. Notice of any such decision shall be published in accordance with Condition 11 (Notices).]

14. Amendment to the Terms of the Bonds

The Terms of the Bonds may be from time to time amended by agreement between the Issuer and the Holders' Representative on behalf of, and without the prior consent of, the Holders, provided that such amendment is if a formal, minor or technical nature or is made to correct a manifest error or is not materially prejudicial to the interests of the Holders. Any such amendment shall be binding on the Holders in accordance with its terms. Notice of any such amendment shall be published in accordance with Condition 11 (Notices).

15. Role of UBS AG

UBS AG has been appointed by the Issuer as the Principal Paying Agent and as the Listing Agent with respect to the Bonds and it will or may also act on behalf of or for the benefit of the Holders' as Holders' Representative, but only in such cases stated explicitly in these Terms of the Bonds. In any other cases, the Holders' Representative is not obliged to take or to consider any actions on behalf of or for the benefit of the Holders.

16. Severability

If at any time any one or more of the provisions of the Terms of the Bonds is or becomes unlawful, invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions shall not be in any way affected or impaired thereby.

17. Definitions

Business Day shall mean any day (other than Saturday or Sunday) on which banks are open the whole day for business in Zurich, Mexico City and in New York.

Issuer shall mean Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, acting through its Cayman Islands Branch.

Listing Agent shall mean UBS AG, appointed as recognised representative pursuant to art. 43 of the listing rules of the SIX Swiss Exchange to file the listing application (including the application for provisional admission to trading) for Bonds with the SIX Swiss Exchange.

Principal Paying Agent shall mean UBS AG in its function as principal paying agent.

SIX SIS Ltd. shall mean SIX SIS Ltd., the Swiss clearing and settlement organisation, Baslerstrasse 100, CH-4600 Olten, or any successor organisation accepted by the SIX Swiss Exchange.

SIX Swiss Exchange shall mean SIX Swiss Exchange Ltd., Selnaustrasse 30, CH-8001 Zurich, Switzerland (P.O. Box 1758, CH-8021 Zurich, Switzerland) or any successor exchange.

Specified Office shall mean the office specified by the Principal Paying Agent for the servicing of the Bonds (Zahlungsdienst) under the Terms of the Bonds: UBS AG, Bahnhofstrasse 45, CH-8001 Zurich, Switzerland or any successor regulator body.

Subsidiary shall mean a legal entity of which all shares carrying voting rights are directly or indirectly held by the Issuer.

UBS AG shall mean UBS AG, Bahnhofstrasse 45, CH-8001 Zurich, Switzerland (P.O. Box, CH-8098 Zurich, Switzerland).

18. Governing Law and Jurisdiction

The Terms of the Bonds, the Bonds and the Permanent Global Certificate shall be governed by and construed in accordance with the substantive laws of Switzerland without regard to the principles of conflict of laws.

Any dispute which might arise based on the Terms of the Bonds, the Bonds and the Permanent Global Certificate shall be settled in accordance with Swiss law and the parties thereto have submitted to the exclusive jurisdiction of the ordinary courts of justice of the Canton of Zurich, the place of venue being Zurich 1, Switzerland, and have expressly and irrevocably waived their right to any other jurisdiction to which they may be entitled by virtue of their present or any future domicile or for any other reason.

The above-mentioned jurisdiction is also valid for the declaration of cancellation of Bonds.

General

Mexico's financial system is currently comprised of commercial banks, national development banks, brokerage firms, development trust funds, limited purpose banks and other non-bank institutions, such as insurance and reinsurance companies, bonding companies, credit unions, savings and loans companies, foreign exchange houses, factoring companies, bonded warehouses, financial leasing companies, mutual fund companies, pension fund management companies and limited purpose financial institutions. In 1990, the Mexican government adopted the Financial Groups Law aimed at achieving the benefits of universal banking, which permits a number of financial services companies to operate as a single financial services holding company, which was amended and restated on January 10, 2014. Most major Mexican financial institutions are members of financial groups.

The main financial authorities that regulate financial institutions are the SHCP, the Mexican Central Bank, the CNBV, the CONSAR, the CNSF, the IPAB and the CONDUSEF.

Trend toward multi-purpose banking institutions

Prior to 1978, the Mexican banking system was comprised primarily of specialized institutions, which were authorized to conduct specified financial activities pursuant to concessions granted by the Mexican Government. During the period from 1978 to the nationalization of commercial banks in 1982, the structure of the Mexican banking system evolved towards the creation of multi-purpose banking institutions, which were allowed to engage in the full range of banking activities.

Nationalization and subsequent privatization

In September 1982, Mexico's president decreed the nationalization of private Mexican commercial banks. Effective November 1982, a constitutional amendment was adopted to implement the nationalization, which granted the Mexican Government a monopoly on banking and credit service. The number of banking institutions was reduced from 68 to 29 in the first two years of nationalized banking. By 1988, the number had been further reduced to 18, of which six had national coverage, five were regional banks and seven were multi-regional banks. Only two banks, Banco Obrero, S.A. and Citibank N.A., were excluded from the nationalization and continued limited operations as privately-owned commercial banks.

Effective June 28, 1990, the Mexican Constitution was amended to permit Mexican individuals and financial services holding companies to own controlling interests in the then-existing 18 Mexican commercial banks owned by the Mexican Government. Subsequently, a new Banking Law was enacted to regulate the ownership and operation of Mexican commercial banks, national development banks and foreign financial institutions. Pursuant to the Banking Law, Mexico began the process of privatizing commercial banks. By the third quarter of 1992, the Mexican Government had privatized all 18 state-owned commercial banks. Since that time, new commercial banks have been chartered and regulations regarding investment in the banking sector by foreign investors have been relaxed.

On November 26, 2013, the Senate approved the Report of the Chamber of Deputies (*Cámara de Diputados*) on the bill presented by President Enrique Peña Nieto amending, supplementing and repealing various provisions with respect to financial matters and issuing the Financial Groups Law (the "**Financial Reform**").

Thirty-four legal statutes were amended in order to foster greater competition in the financial and banking system by creating incentives to increase lending, as well as a new mandate for development banks. Also, the Financial Reform strengthens the scheme for the stability of the financial institutions and the powers of financial authorities in regulatory, monitoring and enforcement matters.

Financial Groups

The enactment of the Financial Groups Law in 1990 permitted the development of the universal banking model in Mexico. By July 1992, most major Mexican financial institutions had become part of financial groups controlled by a financial services holding company, such as ourselves, and made up of a number of financial operating entities. The operations of financial services holding companies are generally restricted to holding shares representing the capital stock of financial services operating subsidiaries. Such subsidiaries, whether direct or indirect, may include Mexican banks, broker-dealers, insurance companies, bonding companies, mutual fund operators, mutual funds, ancillary credit organizations (such as factoring, financial leasing and bond-warehousing companies), Sofomes (*sociedades financieras de objeto multiple)*, foreign exchange service providers, retirement fund administrators and financing companies that provide credit to low income borrowers (*sociedades financieras populares*). As a general rule, a financial services holding company must maintain a majority participation and effective control of at least two financial subsidiaries, provided that the holding of two Sofomes only will not constitute a financial services group.

The Financial Groups Law allows entities controlled by the same financial services holding company:

- to act jointly before the public, offer services that are supplemental to the services provided by the other and hold themselves out as part of the same group;

- use similar corporate names; and
- conduct their activities in the offices and branches of other entities part of the same group.

In addition, the Financial Groups Law requires that each financial services holding company enter into an agreement with each of its financial services subsidiaries pursuant to which the holding company agrees to be responsible secondarily and without limitation for the satisfaction of the obligations incurred by its subsidiaries as a result of the activities that each such subsidiary is authorized to conduct under the applicable laws and regulations, and is fully responsible for certain losses of its subsidiaries, up to the total amount of the holding company's assets. In the event that the assets of the financial services holding company are insufficient to meet the losses of its subsidiaries if occurred simultaneously, the financial services holding company must first meet the liabilities of the banking institutions that are part of the group and subsequently, the liabilities of any other entities that form the group will be prorated. For such purposes, a subsidiary is deemed to have losses if its assets are insufficient to meet its payment obligations. The subsidiaries will never be held liable for the losses of their financial services holding company or for the losses of the other subsidiaries of the group.

Under the Financial Reform, the Mexican Congress approved changes to the Financial Groups Law. Relevant changes include the following:

- *Shareholding Structure* - It provides for the possibility of the holding company to maintain the shareholding of the members of the group through sub-holding companies.
- *Capitalization and Corrective Measures* - A holding company shall maintain net capital that shall not be less than its permanent investments in the subsidiaries of the group. It also authorizes the SHCP to determine corrective measures, such as the potential sale of assets, non-distribution of dividends and suspending payments of bonuses, among others.
- *Corporate Governance* - The new law provides for a new corporate governance structure, setting forth specific duties of care and fiduciary duties applicable to Board members, even if the financial services holding company is not publicly traded, similar to that provided in the Mexican Securities Market Law (*Ley del Mercado de Valores*) for stock-traded corporations.
- Other material changes from the previous law include shareholders' agreements, tied sales, liability agreements, the investment structure of the holding company, accounting and consolidated supervision, among others.
- *Investment Structure of the Holding Company* - In addition to its interest in the financial institutions of the group, a holding company may invest in other instruments, such as securities representing the capital stock of other financial institutions that are not group members, service providers and real estate companies, among others.
- *Investments by Foreign* Governments. Foreign governmental entities to acquire controlling interests and indirect interests in financial services holding companies and banks, in circumstances such as financial distress.

Authorities of the Mexican Financial System

The principal authorities that regulate and supervise financial institutions in Mexico are the Mexican Central Bank, the SHCP, the CNBV, the CONSAR, the CNSF, the IPAB and the CONDUSEF. These authorities are subject to a number of organic laws and other administrative regulations that govern their regulatory, supervisory and other powers. Also, these entities continually enact administrative regulations within the scope of their respective authority for the regulation of the corresponding financial entities, as further mentioned below. We, as a banking institution, are subject to the supervision and regulation of the CNBV. In addition, our parent company (GFNorte) and its other financial subsidiaries are subject to the supervision and regulation of the mentioned CNBV and other corresponding financial authorities, and are in constant interaction with such authorities during their normal course of business.

Mexican Central Bank

The Mexican Central Bank is an autonomous entity that is not subordinated to any other body in the Mexican federal government. Its primary purpose is to issue the Mexican currency, as well as to maintain the acquisition power of such currency, to establish reference interest rates and to ensure that the banking and payments systems perform under safe and sound principles.

Monetary policy decisions are taken by the members of the Governing Board of the Mexican Central Bank. The Governing Board is composed of a Governor and four Deputy Governors, who are appointed by the President and ratified by the Senate or the Permanent Commission of Congress, as applicable.

Among the decisions that only the Governing Board may take are the authorization of the issuance of currency and the minting of coins, the decision to extend credit to the Mexican government, the determination of policies and criteria that the Mexican Central Bank uses in its operations and in the regulations that it issues, and the approval of its rules of procedure, budget, working conditions and similar internal matters.

SHCP

The SHCP is the regulator in charge of proposing, conducting and controlling the economic policy of the Mexican government in matters of economics, tax, finance, public budget, public debt and income. Together with the CNBV and the Mexican Central Bank, it is the primary regulator of commercial banks and national development banks. The SHCP participates in the process of incorporation, revocation, operation, merger, control and stock purchase of financial institutions.

CNBV

The CNBV is a governmental body subordinate to the SHCP, and has independent technical and executive powers. The CNBV is in charge of the supervision and regulation of financial entities, with the purpose of ensuring their stability and sound performance, as well as the maintenance of a safe and sound financial system. The scope of the CNBV's authority includes inspection, supervision, prevention and correction powers. The primary financial entities regulated by the CNBV are commercial banks, national development banks, regulated multiple purpose financial institutions, brokerage firms, as well as publicly traded companies and other entities that have issued debt securities to the public. The CNBV is also in charge of granting and revoking banking and securities brokerage licenses in Mexico.

CONSAR

The CONSAR is a governmental body under the SHCP, and has independent technical and executive powers. The CONSAR was created in 1994 as part of a comprehensive reform of the retirement savings and pensions system, and is in charge of protecting the retirement savings of employees through the regulation and supervision of Afores, entities that manage independent retirement accounts, and *Siefores*, specialized pension funds. The CONSAR evaluates risks borne by the participants in the retirement savings system and makes sure these participants are solvent and maintain adequate liquidity levels.

CNSF

The CNSF is a governmental body under the SHCP, and has independent technical and executive powers. The CNSF is in charge of the supervision and regulation of insurance and bonding companies, promoting the safe and sound development of the insurance and guaranty bond financial sectors.

IPAB

After the 1994 financial crisis, the Mexican government created the IPAB, an independent, decentralized governmental institution with its own legal standing and assets. The IPAB's primary purpose is the protection and insurance of bank deposits, having also powers to provide solvency to banking institutions, contributing to the safe and sound development of the banking sector and the national payments system. The IPAB is also entitled to acquire assets from distressed banking institutions.

CONDUSEF

The CONDUSEF is a governmental body under the SHCP. The CONDUSEF is in charge of protecting and defending the rights of users of financial services and serves as an arbitrator between financial institutions and their customers. Among other powers, CONDUSEF has the authority to order the amendment of standardized agreements used by financial entities when it considers that such agreements contain abusive clauses, it may issue general recommendations to financial institutions, and suspend the distribution of information regarding financial services and products that it considers confusing.

The History of the Banking Sector

Banking activities in Mexico have been and continue to be affected by prevailing conditions in the Mexican economy, and the demand for and supply of banking services have been vulnerable to economic downturns and changes in government policies. Prior to the early 1990s, lending by Mexican banks to the private sector had fallen to very low levels. It is estimated, however, that by the end of 1994, average total indebtedness of the private sector to Mexican commercial banks had grown to represent approximately 40.7% of Mexican GDP, with mortgage loans and credit card indebtedness generally growing faster than commercial loans. The devaluation of the Mexican Peso in December 1994 initiated a crisis, and the resulting high interest rates and contraction of the Mexican economy in 1995 severely impacted most borrowers' ability to both repay loans when due and meet debt service requirements. These effects, among others, caused an increase in the non-performing loan portfolio of Mexican financial institutions, particularly during 1995, which adversely affected the capitalization level of financial institutions. Also, increased domestic interest rates and the deteriorating value of the Peso made it more difficult for financial institutions to renew dollar-denominated certificates of deposit and credit lines.

From 1995 through the end of 1997, the CNBV had assumed or intervened in the operations of 13 banks and had adopted several measures designed to protect, stabilize and strengthen the Mexican banking sector. These measures included:

- creating a temporary capitalization program to assist banks;
- establishing a foreign exchange credit facility with the Mexican Central Bank to help banks with dollar liquidity problems;

- increasing the level of required loss reserves;
- establishing a temporary program for the reduction of interest rates on certain loans;
- establishing various programs to absorb a portion of debt service cost for mortgage loan debtors (including debt restructuring and conversion support programs); and
- broadening the ability of foreign and Mexican investors to participate in Mexican financial institutions.

Reforms to Mexican Banking Law

On January 10, 2014, several amendments to the Mexican Banking Law were published in the Official Gazette, and are currently in effect, with the following purposes:

Update capital requirements according to Basel III. The amendments to the Mexican Banking Law updated the capital requirements for banking institutions by incorporating the requirements of the Basel III accords, currently included in the General Rules Applicable to Mexican Banks. The amendments specify that net capital will be comprised of capital contributions, retained profits and capital reserves. The CNBV is authorized to allow or prevent the inclusion of other items to calculate a bank's net capital, subject to the terms and conditions of the general rules to be issued by CNBV to further regulate the capital requirements for bank institutions. We currently comply with applicable capitalization requirements.

Enhancing the CNBV supervisory practices. The reforms granted ample authority to the CNBV for the supervision of the financial entities under the Mexican Banking Law. The CNBV may perform visits to banks, with the aim to review, verify, test and evaluate the operations, processes, systems of internal control and risk management among others elements that may affect the financial position of banks.

Increasing requirements for the granting of loans to customers. For the granting of loans, banks are required to analyze and evaluate the viability of payment by borrowers or counterparties, relying on an analysis based on quantitative and qualitative information that allows establishing their creditworthiness and ability of timely payment of the loan. Banks must issue guidelines and lending process manuals and credit procedures shall be performed in accordance with such policies.

Establishing new provisions on transparency and reliability. Banks are required to publicly disclose their corporate, financial, administrative, operational, economic and legal information, as determined by the CNBV. Banks must post on their website and in a national newspaper their balance sheets and other relevant information periodically.

Establishing supervisory powers for external auditors. The CNBV has powers of inspection and surveillance with respect to entities that provide external audit services to banks, including those partners or employees who are part of the audit team, in order to verify the compliance with the Mexican Banking Law. The CNBV is allowed to:

- request any information and documentation related to the services rendered;
- practice inspection visits;
- require the attendance of partners, legal representatives and other employees; and
- issue audit procedures to be complied by the auditors, in connection with the tax opinions and practices performed by them.

Limited-purpose banks. The reform introduced limited-purpose banks (*bancos de nicho*), which can only engage in a limited amount of banking activities which are specifically set forth in their bylaws. The minimum required capital of limited-purpose banks can vary depending on the activities carried out by such entities, from a range of 90,000,000 UDIs to 36,000,000 UDIs. UDIs are *Unidades de Inversión*, a Peso-equivalent unit of account indexed for Mexican inflation.

Under the Financial Reform, the Mexican Congress approved additional changes to the Mexican Banking Law. Relevant changes include the following:

Participation of Foreign Governments. It clarifies the rules that require prior approval from the CNBV for the investment of foreign governments in commercial banks, as a temporary prudential measure, in cases where foreign entities receive financial support or are rescued. Such intervention should be through official entities not exercising authority, and participation should be indirect and without control. The shareholding structure in broker-dealers, retirement fund administrators, insurance companies and mutual insurance companies, bonding companies, financial groups and credit information companies was also amended.

Capitalization Requirements. The concepts of "Minimum Basic Capital" and "Capital Supplement" have been incorporated into the law. The law also provides for capital requirements, additions and restrictions, as well as asset disposal in cases where the entities with significant influence on banks are facing liquidity or solvency problems. It also entitles development banks to support banks should they require capitalization.

Limit on Transactions with Related Parties. The limit on the aggregate number of transactions with related parties has changed, which shall not exceed 35 percent of the net capital.

Liquidity Requirements. The amendments to the Mexican Banking Law grant authority to the CNBV to order adjustments to a bank's accounting registries. If a bank fails to meet the liquidity requirements imposed by CNBV and the Mexican Central Bank, the CNBV may order the bank to adopt actions toward restoring the corresponding liquidity requirements, including suspending or partially limiting certain lending, borrowing or service operations of the bank, and requiring the bank to present a liquidity restoration plan.

Risk Control, Banking Resolutions and New Judicial Liquidation/Bank Bankruptcy Rules. The early warning, preventive and corrective action system changed. The Financial Reform entitles the CNBV to determine the maximum number of active transactions and provides for new rules in the event that the Mexican Central Bank acts as lender of last resort so that it requires collateral on the bank's shares. It also introduces the obligation to have a plan of stress scenarios, contingency and resolution plans as well as participation in mock resolutions. It also has amended certain articles regarding the structure of bank resolutions, including new deadlines for exercising the right of audience prior to the revocation of the authorization to operate as a bank and includes a new scheme of judicial liquidation/bank bankruptcy, replacing the provisions of the Bankruptcy Act.

Self-Correcting Programs. The Mexican Banking Law and other financial laws state that the financial institutions may submit to the CNBV self-correcting programs when they detect defaults to the provisions regulating them, taking into consideration that irregularities detected by the CNBV or serious defaults or offenses may not be part of the self-correcting programs.

Transactions with Members of the Same Group or Consortium. New rules and limitations have been established. Transactions with members of the same group shall be agreed to on market terms.

Measures to Encourage Credit and Performance Evaluations. The SHCP is authorized to assess the performance of commercial banks regarding compliance with the support of the country's productive forces and the growth of the economy; the SHCP shall issue the relevant guidelines for such assessment. It also authorizes the CNBV to encourage the channeling of more resources to the productive sector by setting parameters on the execution of transactions with securities. The financial authorities shall take into account the results of the assessments to decide on the authorizations it will grant in general.

Administrative Offenses and Penalties. It significantly increases the number and severity of the sanctions, which are to be disclosed to the general public, although none are definitive or final. It also provides for sanctions for officials involved in transactions with related parties in excess of the statutory limits. Amendments to the administrative sanction system were made consistently in all financial laws amended by the Reform.

SHCP Blacklist. With respect to the prevention of transactions with funds from illegal sources and terrorist financing, it provides for the obligation to immediately suspend transactions with the persons included in the blacklist issued by the SHCP. This obligation is also set for the other financial institutions in their respective laws.

Asymmetric Regulation. It authorizes the SHCP, the CNBV and the Mexican Central Bank to issue asymmetric regulation, *i.e.*, one that considers the regulatory burden in accordance with the size of each institution.

Exchange of Information with Foreign Financial Authorities. It regulates in more detail the procedure for the exchange of information with foreign authorities and verification visits.

Initiatives to Improve Creditors' Rights and Remedies

Mexico has enacted legislation to improve creditors' rights and remedies. These laws include collateral pledge mechanisms and a new bankruptcy law.

Collateral Mechanisms

The Mexican Commerce Code (*Código de Comercio*), the General Law of Negotiable Instruments and Credit Transactions (*Ley General de Títulos y Operaciones de Crédito*), the Mexican Securities Market Law, the Mexican Banking Law and the General Law of Ancillary Credit Organizations and Activities (*Ley General de Organizaciones y Actividades Auxiliares del Crédito*) were amended with the purpose of providing an improved legal framework for secured lending and, as a consequence, encourage banks to increase their lending activities. Among its provisions, the decree eliminated a prior non-recourse provision applicable to non-possessory pledges (which allowed the creation of a pledge over all the assets used in the main business activity of the debtor, but limited recourse to the applicable collateral) and collateral trusts, to allow creditors further recourse against debtors in the event that proceeds derived from the sale or foreclosure of collateral are insufficient to repay secured obligations.

Laws regarding the perfection and enforcement of security interests include mechanism for pledging without transferring possession, as well as a common security device known in Mexico as the security trust. All personal property being used in a debtor's main business activity may be pledged, by making only a generic description of such property. The provisions regulating the security trust are similar to those governing pledges of personal property, except they provide that title to the collateral must be held by the trustee.

Also, for security pledges, there are provisions allowing the transfer of title to pledgee of the pledged assets, if agreed by the parties. Under the latest amendments to the Mexican Securities Market Law, if the transfer of property over the pledged securities is agreed upon by the parties, the pledgee may apply the market value of the pledged securities to the payment of the corresponding obligation in the event of default, without requiring the enforcement of such pledge before a court.

Foreclosure of Securities Loans

The Mexican Congress also approved changes to the Commerce Code intended to expedite proceedings relating to the foreclosure of secured loans by financial institutions. These changes grant authority to Mexican courts to issue interim measures, such as ordering persons not to leave Mexico or ordering assets to be frozen.

Bankruptcy Law

The Mexican Bankruptcy Law (*Ley de Concursos Mercantiles*) provides for a single insolvency proceeding encompassing two successive phases: a conciliatory phase of mediation between creditors and debtor, and bankruptcy.

Only the IPAB or the CNBV may demand the declaration of insolvency of banking institutions, including Banorte. In the case of banking institutions, such as Banorte, with the declaration of bankruptcy (*concurso mercantil*) the judicial procedure is initiated in the bankruptcy phase and not, as in common procedures, in the conciliatory phase. The bankruptcy of a Mexican bank is viewed as an extreme measure (because it results in a liquidation and dissolution), which has not been resorted to in practice, and is preceded by a number of measures that seek to avoid it, such as corrective measures taken by the CNBV, facilities made available by the IPAB and an intervention led by the CNBV. Upon filing of the application for the declaration of insolvency, banking institutions must cease operations and suspend payment of all obligations.

The Mexican Bankruptcy Law establishes precise rules that determine when a debtor is in general default in its payment obligations. The principal indications are failure by a debtor to comply with its payment obligations in respect of two or more creditors, and the existence of any of the following two conditions: (*i*) 35.0% or more of a debtor's outstanding liabilities are 30 days past due; or (*ii*) the debtor fails to have certain specifically defined liquid assets and receivables to cover at least 80.0% of its obligations which are due and payable.

Applicable law provides for the use and training of experts in the field of insolvency and the creation of an entity to coordinate their efforts. Such experts include the intervenor (*interventor*), conciliator (*conciliador*) and receiver (*síndico*). The IPAB acts as the liquidator and receiver and the CONDUSEF may appoint up to three intervenors.

On the date the insolvency judgment is entered, all Peso-denominated obligations are converted into UDIs, and foreign currency-denominated obligations are converted into Pesos at the rate of exchange for that date and then converted into UDIs. Only creditors with a perfected security interest (i.e., mortgage, pledge or security trust) continue to accrue interest on their loans. The Mexican Bankruptcy Law mandates the netting of derivative transactions upon the declaration of insolvency.

The Mexican Bankruptcy Law provides for a general rule as to the period when transactions may be scrutinized by the judge to determine if they were entered into for fraudulent purposes, which is 270 calendar days prior to the judgment declaring insolvency (recently modified as set forth below). This period is referred to as the retroactivity period. Nevertheless, upon the reasoned request of the conciliator, the intervenors, who may be appointed by the creditors to oversee the process, or any creditor, the judge may set a longer period.

In December 2007, the Mexican Bankruptcy Law was amended to incorporate provisions relating to pre-agreed insolvency proceedings, frequently used in other jurisdictions that permit debtors and creditors to agree upon the terms of a restructuring and thereafter file, as a means to obtain the judicial recognition of a restructuring reached on an out-of-court basis. This also provides protection against dissident minority creditors.

The Mexican Congress also approved changes to Mexico's Bankruptcy Law, intended to improve the application of such law. Relevant changes include:

- the consolidation of bankruptcy proceedings affecting parent and subsidiary companies;
- the application of liquid assets provided as collateral, in connection with the netting and close out of derivative and similar contracts;
- setting forth an outside limit to bankruptcy restructuring (three years);
- permitting trustees and other creditor representatives, to submit claims on behalf of groups of creditors;
- expressly recognizing subordinated creditors, and deeming related party creditors as subordinated creditors; and
- making members of the Board of Directors liable to the bankrupt debtor if such member acted when affected by a conflict of interest, self-dealing and otherwise against the interests of the bankrupt debtor.

On January 2014, the Mexican Bankruptcy Law was further amended. Relevant changes include the following:

- First, the law introduces the concept of a statutory "subordinated creditor." "Subordinated creditor" is defined in Article 222 to include an unsecured creditor who has the same board members as the bankrupt debtor, or which is controlled by the debtor or is under common control with the debtor.
- The amendment authorizes the debtor to enter into credit facilities (similar to debtor-in-possession financings), if it is indispensable to continue the operation of the debtor.
- The amendments, provide that the automatic stay is not applicable with respect to collateral consisting of real property collateral, unless such real property is strictly indispensable for the operation of the debtor's business.

Amendments to Financial Regulations Impacting Banks

The Mexican financial system has continued to advance in recent years, consistent with demands from regulators and market participants, developments in other jurisdictions and to address systemic issues resulting from the global financial crisis. In particular, in June 2007, a new Law for the Transparency and Ordering of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*) was approved, which granted the Mexican Central Bank authority to regulate interest rates and fees and the terms of disclosure of fees charged by banks to their customers.

Even though the recent global financial crisis did not affect Mexican banks directly, many Mexican corporations were affected, primarily by having engaged in foreign-currency linked derivative transactions, which increased exposures substantially as a result of the devaluation of the Peso, triggering a new regulation issued by the CNBV that seeks to improve disclosure standards as they relate to derivative transactions.

The Federal Law for Protection of Personal Data Held by Private Persons (*Ley Federal de Protección de Datos Personales en Posesión de Particulares*) that protects personal data collected by private individuals or entities was published on July 5, 2010 and is now fully effective along with its Regulations. Under such law, we are required to ensure the confidentiality of information received from clients. We have modified our processes, procedures and systems as required to implement this law and the supervision of our activities thereunder and as a means to obtain the consent of our customers prior to using any personal information provided by them. We may be subject to fines and penalties in the event of violations to the provisions of such law.

On January 9, 2015, the General Rules Applicable to Financial Entities and Other Entities that Provide Investment Services (*Disposiciones de Carácter General Aplicables a las Entidades Financieras y Demás Personas que Proporcionen Servicios de Inversión*) (the "**Investment Services Rules**") were published in the Official Gazette. The purpose of the Investment Services Rules, among others, was to have a single body of rules applicable to brokerage firms, credit institutions and investment advisors, companies that operate mutual funds and companies or entities that distribute shares of mutual funds.

In accordance with the Investment Services Rules, banks and brokerage firms rendering advisory services in connection with investments shall ensure that any advice, recommendation or suggestion given to the client is reasonable for such client, and consistent with the client's investment profile.

The Investment Services Rules establish an obligation for banks and brokerage firms to create a committee which shall be responsible for the analysis of financial products offered by such entities, and whose members shall be independent from the structuring area of the relevant entity, or an equivalent institution or responsible person.

The Investment Services Rules also require the creation of an Analysis Committee. The Analysis Committee shall maintain minutes for each committee meeting held together with the relevant presentations, which documentation shall be kept by the entity and made available to the CNBV for at least five years.

The Analysis Committee shall approve each financial product offered, compensation of investment portfolios, guidelines in respect of the provision of services, and prior to its delivery, all information given to any client regarding any investment recommendation, which information shall include at least the prospectus or memorandum describing the relevant securities or offering.

The Investment Services Rules also provide that the board of directors of the relevant bank or brokerage firm shall approve the policies and guidelines required for each entity to:

- approve the terms and policies for such financial institutions to make the assessment of the client profile;
- carry out the analysis of the financial products to be offered to the clients;
- comply with the evaluation of the "reasonableness" of recommendations, required to render advisory investment services; and

Such policies and guidelines must be submitted to the CNBV within 10 days from its approval date, and the CNBV may order the relevant entity to incorporate corrections in order to make them consistent with the Investment Services Rules.

The Investment Services Rules provide that each bank and brokerage firm must appoint an officer to verify compliance of each firm with the Investment Services Rules.

Reforms to the Mexican Securities Market Law.

Under the Financial Reform, the Mexican Congress approved additional changes to the Mexican Securities Market Law. Relevant changes include the following:

Offerings of Securities Abroad. The CNBV must be notified of any type of securities' offerings made outside of Mexico, in the case of securities issued by Mexican entities, even if the offerings are private.

Various Modifications to the Obligations Related to the Information of an Issuer. The CEO of the issuer shall be responsible for the content of the disclosed information, the material events and other information that must be disclosed to the public.

It also provides for tighter controls on persons having access to material non-public information, the publication of which is deferred. Persons related to the underwriter, persons providing independent or subordinated personal services to the issuer and third parties that have had contact with those who have access to material non-public information must be included in the list of persons who are considered to have access to privileged information, unless proven otherwise.

Finally, with respect to misleading information, disclosure of information that is prohibited by applicable law has been excluded as an omission of disclosure.

Capitalization Rules for Broker-Dealers. The capitalization of broker-dealers has been harmonized to that of the banking institutions.

Liability of Underwriters. The liability structure of broker-dealers, who may be liable for damages and losses caused by breach of their obligations, has been extended.

Stock Pledge. It provides for modified rules for the application of payments of securities pledged, without any judicial proceeding, and permitting the transfer of title to pledged securities.

SUPERVISION AND REGULATION

The following is a summary of certain matters relating to the Mexican banking system, including provisions of Mexican law and regulations applicable to financial institutions in Mexico. This summary is not intended to constitute a complete analysis of all laws and regulations applicable to financial institutions in Mexico.

Introduction

Our operations are primarily regulated by the Mexican Banking Law and the rules and regulations issued by the SHCP, the CNBV, the Mexican Central Bank and the IPAB. The authorities that supervise us and our operations are the SHCP, the Mexican Central Bank, CONDUSEF and the CNBV.

Banking Regulation

The SHCP, either directly or through the CNBV, possesses broad regulatory powers over the banking system. Banks are required to report regularly to the financial regulatory authorities. Reports to bank regulators are often supplemented by periodic meetings, between senior management of the banks and senior officials of the CNBV. Banks must submit their unaudited monthly and quarterly and audited annual financial statements to the CNBV for review, and must publish on their website and in a national newspaper their unaudited quarterly balance sheets and audited annual balance sheets. The CNBV may order a bank to modify and republish such balance sheets.

Additionally, each bank must publish on its website, among other information:

- the bank's basic consolidated and audited annual financial statements, together with a report containing the management's discussion and analysis of the financial statements and the bank's financial position, including any important changes thereto and a description of the bank's internal control systems;
- a description of the bank's Board of Directors, identifying independent and non-independent directors and including their respective resumes;
- a description and the total compensation and benefits paid to the members of the Board of Directors and senior officers during the past year;
- unaudited quarterly financial statements for the periods ending March, June and September of each year, together with the notes thereto;
- any information requested by the CNBV to approve the special accounting criteria and special registries;
- a detailed explanation of the main differences in the accounting standards used by the bank to prepare the financial statements;
- the credit rating of their portfolio;
- the capitalization level of the bank, its classification (as determined by the CNBV) and any modifications thereto;
- financial ratios;
- a brief summary of the resolutions adopted by any shareholders' meeting, debenture holders' meeting, or by holders of other securities or instruments; and
- the bank's by-laws.

The CNBV has the authority to impose fines for failure to comply with the provisions of the Mexican Banking Law, or the regulations issued thereunder. In addition, the Mexican Central Bank has authority to impose certain fines and administrative sanctions for failure to comply with the provisions of the Law of the Mexican Central Bank (*Ley del Banco de México*) and its regulations and the Law for the Transparency and Ordering of Financial Services, particularly as violations relate to interest rates, fees and the terms of disclosure of fees charged by banks to clients. Violations of specified provisions of the Mexican Banking Law are subject to administrative sanctions and criminal penalties.

The Mexican Banking Law permits foreign governments to acquire equity securities of Mexican banks, on a temporary basis in connection with rescue or similar packages, which was not possible in the past, and to acquire control of Mexican banks, with the prior approval of the CNBV.

Mexican banks are now required to expense carefully, through their boards of directors, compensation payable to officers and, for that purpose, will be required to observe general rules to be issued by the CNBV and to establish and maintain a compensation committee.

Changes approved by the Mexican Congress clarify capitalization requirements, causes for revocation of a license and terms pursuant to which the Mexican government may provide assistance to troubled Mexican banks.

The amended Mexican Banking Law includes a provision for self-correcting irregularities detected by Mexican banks, arising from non-compliance with applicable law. Programs for self-correction are required to be approved by the board of directors of the applicable Mexican bank and must be supervised by the bank's audit committee.

General rules implementing the provisions are expected to be issued by the CNBV.

New provisions have been added to the Mexican Banking Law, in connection with the dissolutions and liquidation of Mexican banks facing liquidity or solvency problems. A Mexican bank may only be dissolved and liquidated, if the CNBV has issued a determination to that effect. Prior to such dissolution and liquidation, the IPAB may provide temporary financial assistance to Mexican banks having liquidity problems.

Non-viable Mexican banks will be liquidated pursuant to a procedure set forth in the Mexican Banking Law, under which the IPAB will act as liquidator, will conduct the procedures necessary to collect fees and pay creditors (respective parties specified under the Mexican Banking Law) and will take all measures conducive to the bank's liquidations. The Mexican Banking Law now reflects provisions that were regulated by the Mexican Bankruptcy Law, as they relate to the dissolutions and liquidation of Mexican banks. Liquidation proceedings may be conducted in-court or out of court, depending upon the circumstances affecting the relevant Mexican bank. In addition to liquidation proceedings, Mexican banks may be declared in bankruptcy pursuant to a specialized proceeding set forth in the Mexican Bankruptcy Law.

Licensing of Banks

An authorization of the Mexican government is required to conduct banking activities. The CNBV, with the approval of its Governing Board and subject to the prior favorable opinion of the Mexican Central Bank, has the power to authorize the establishment of new banks, subject to minimum capital standards, among other things. Approval of the CNBV is also required prior to opening, closing or relocating offices, including branches outside of Mexico or transfer of assets or liabilities between branches.

Intervention

The CNBV, with the approval of its Governing Board, may declare the managerial intervention (*intervención*) of a banking institution pursuant to Articles 129 through 141 of the Mexican Banking Law (a "**CNBV Intervention**"). In addition, the Governing Board of the IPAB may also appoint a peremptory manager (*administrador cautelar*) if the IPAB provides liquidity, in accordance with applicable law, to a banking institution.

A CNBV Intervention pursuant to Articles 129 through 141 of the Mexican Banking Law will only occur when:

- during a calendar month, any of the Capital Ratios of a bank is reduced from a level equal to or above the minimum Capital Ratios required under the Mexican Capitalization Requirements, to 50% or less than such minimum Capital Ratios;
- the banking institution does not comply with the minimum Capital Ratios required under the Mexican Banking Law and it does not submit itself to the conditional operation regime under Article 29 Bis 2 of the Mexican Banking Law; or
- the banking institution defaults with respect to any of the following payment obligations:
  - o in the case of obligations in an amount greater than 20,000,000 UDIs or its equivalent: (1) loans granted by other banking institutions, foreign financial institutions or Mexican Central Bank, or (2) payments of principal or interest on securities issued, that have been deposited with a clearing system; and
  - o in the case of obligations in an amount greater than 2,000,000 UDIs or its equivalent, if during two business days or more, (1) it does not pay its obligations with one or more participants in clearing systems or central counterparts or does not pay three or more checks for a total amount of two million UDIs, that have been excluded from a clearinghouse for causes attributable to the drawee institution in terms of the applicable provisions, or (2) it does not pay in two or more of its branches, banking deposits claimed by 100 or more of its customers, could occur.

In addition, a CNBV Intervention may occur when the CNBV, in its sole discretion, determines the existence of irregularities that affect the stability or solvency of the bank or the public interest or the bank's creditors.

The peremptory manager will be appointed by the IPAB, if the IPAB has granted extraordinary financial support to a bank in accordance with the Mexican Banking Law. The peremptory manager appointed by the IPAB will assume the authority of the Board of Directors and the shareholders. The peremptory manager will have the authority to represent and manage us with the broadest powers under Mexican law, will prepare and submit to the IPAB the bank's budget (for approval), will be authorized the contract liabilities, make investments, undertake acquisitions or dispositions and incur expenses, is authorized to hire and fire personnel and may suspend operations. The appointment of the peremptory manager must be registered in the Public Registry of Commerce of the corresponding domicile.

Revocation of a License; Payment of Guaranteed Obligations by IPAB

Revocation of Banking License. In the case that the CNBV revokes a license to be organized and operate as a banking institution, the IPAB's Governing Board will determine the manner under which the corresponding banking institution shall be liquidated in accordance with Articles 165 through 220 of the Mexican Banking Law. In such a case, the IPAB's Governing Board may determine to carry out the liquidation through any or a combination of the following transactions:

- transfer the liabilities and assets of the banking institution in liquidation to another banking institution directly or indirectly through a trust set up for such purposes;
- constitute, organize and manage a new banking institution owned and operated directly by the IPAB with the exclusive purpose of transferring the liabilities and assets of the banking institution in liquidation; or
- any other alternative that may be determined within the limits and conditions provided by the Mexican Banking Law that the IPAB considers as the best and least expensive option to protect the interests of bank depositors.

As described above, amendments to the Mexican Banking Law approved by the Mexican Congress will substitute these provisions.

Causes to Revoke a Banking License. The abovementioned amendments significantly expanded the events upon which the CNBV may revoke a banking license. The following are among the most relevant events:

- if the bank does not starts operations within the term of thirty days as from the notification of such authorization;
- if the banking institution is dissolved or initiates liquidation according to the procedure in the Mexican Banking Law;
- if the banking institution:
  - o does not comply with any minimum corrective measures ordered by the CNBV pursuant to Article 122 of the Mexican Banking Law;
  - o does not comply with any special corrective measure ordered by the CNBV pursuant to such Article 122; or
  - o consistently does not comply with an additional special corrective measure ordered by the CNBV;
- if the banking institution does not comply with the minimum Capital Ratios required under the Mexican Banking Law and the Mexican Capitalization Requirements;
- if the banking institution defaults with respect to any of the following payment obligations:
  - o in the case of obligations in an amount greater than 20,000,000 UDIs or its equivalent: (1) loans granted by other banking institutions, foreign financial institutions or Mexican Central Bank, or (2) payments of principal or interest on securities issued, that have been deposited with a clearing system; and
  - o in the case of obligations in an amount greater than 2,000,000 UDIs or its equivalent, if during two business days or more, (1) it does not pay its obligations with one or more participants in clearing systems or central counterparts, or (2) it does not pay in two or more of its branches, banking deposits claimed by 100 or more of its customers; or
- if the assets of the banking institution are insufficient to meet its liabilities.

Upon publication of the resolution of the CNBV revoking a banking license in the Official Gazette and in two newspapers of wide distribution in Mexico and registration of such resolution with the corresponding Public Registry of Commerce, the relevant banking institution will be dissolved and liquidation will be initiated. Upon liquidation of a banking institution, the IPAB shall proceed to make payment of all "guaranteed obligations" of the relevant banking institution, in compliance with the terms and conditions set forth by the Mexican Banking Law, other than those "guaranteed obligations" that have been actually transferred pursuant to article 186 of the Mexican Banking Law.

Obligations of a banking institution in liquidation that are not considered "guaranteed obligations" pursuant to the Banking Deposit Insurance Law (*Ley de Protección al Ahorro Bancario*) ("**IPAB Law**"), and that are not effectively transferred out of the insolvent banking institution, will be treated as follows:

- term obligations will become due (including interest accrued);
- unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in Pesos or UDIs will cease to accrue interest;
- unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in foreign currencies, regardless of their place of payment, will cease to accrue interest and will be converted into Pesos at the prevailing exchange rate determined by the Mexican Central Bank;
- secured liabilities, regardless of their place of payment will continue to be denominated in the agreed currency, and will continue to accrue ordinary interest, up to an amount of principal and interest equal to the value of the assets securing such obligations;
- obligations subject to a condition precedent, shall be deemed unconditional;
- obligations subject to a condition subsequent, shall be deemed as if the condition had occurred, and the relevant parties will have no obligation to return the benefits received during the period in which the obligation subsisted; and
- derivatives, repos and securities loans will be early terminated and netted after two business days following the publication of the resolution of the CNBV revoking a banking license in the Official Gazette and in two

newspapers of wide distribution in Mexico.

- Liabilities owed by the banking institution in liquidation will be paid in the following order of preference:
- liquid and enforceable labor liabilities;
- secured liabilities;
- tax liabilities;
- liabilities to the IPAB, as a result of the partial payment of obligations of the banking institution supported by the IPAB in accordance with the Mexican Banking Law;
- bank deposits, loans and other liabilities as provided by Article 46, Sections I and II of the Mexican Banking Law, to the extent not transferred to another banking institution, as well as any other liabilities in favor of the IPAB different from those referred to above;
- any other liabilities (other than those referred to below);
- preferred subordinated debentures;
- non-preferred subordinated debentures (such as the Bonds); and
- the remaining amounts, if any, shall be distributed to stockholders.

Financial Support

Determination by the Banking Stability Committee. The BSC includes representatives of the SHCP, the Mexican Central Bank, the CNBV and the IPAB. In the case that the BSC determines that if a bank were to default on its payment obligations and such default may (*i*) generate, directly or indirectly, severe negative effects in one or more commercial banks or other financial entities, endangering their financial stability or solvency, and such circumstance may affect the stability or solvency of the financial system, or (*ii*) put in risk the operation of the payments' systems required for the development of the economic activity, then the BSC may determine, on a case-by-case basis, that a general percentage of all of the outstanding obligations of the troubled bank that are not considered "guaranteed obligations" under the IPAB Law and guaranteed obligations in amounts equal to or higher than the amount set forth under Article 11 of the IPAB Law (400,000 UDIs per person per entity), be paid as a means to avoid the occurrence of any of such circumstances. Notwithstanding the foregoing, under no circumstance may the transactions referred to in Sections II, IV and V of Article 10 of the IPAB Law (which include transactions such as liabilities or deposits in favor of shareholders, members of the Board of Directors and certain senior officers, and certain illegal transactions) or the liabilities resulting from the issuance of subordinated debentures, be covered or paid by the IPAB or any other Mexican governmental agency.

Types of Financial Support. In the case that the BSC makes the determination referred to in the prior paragraph, then the IPAB's Governing Board will determine the manner according to which the troubled commercial bank will receive financial support, which may be through either of the options described below:

- If the BSC determines that the full amount of all of the outstanding liabilities of the relevant troubled bank (guaranteed and non-guaranteed) must be paid, then the financial support may be implemented through (a) capital contributions granted by the IPAB in accordance with Articles 151 through 155 of the Mexican Banking Law, or (b) credit support granted by the IPAB also in accordance with Articles 156 through 164 of the Mexican Banking Law, and in either case the CNBV shall refrain from revoking the banking license granted to such commercial bank.
- If the BSC determines that less than the full amount of all the outstanding liabilities of the troubled commercial bank (guaranteed and non-guaranteed) must be paid, then the support will consist of the payment of the general percentage of outstanding obligations of the relevant troubled banking institution in determined by the BSC, in terms of article 198 of the Mexican Banking Law, or transferring the assets and liabilities of such bank to a third party, as set forth in Articles 194 or 197 of the Mexican Banking Law.

Conditional Management Regime. As an alternative to revoking the banking license, the relevant bank may request, with the prior approval of its shareholders, the application of a conditional management regime. The conditional management regime may be requested when any of the Capital Ratios of the relevant bank is below the minimum required pursuant to the Mexican Capitalization Requirements. In order to qualify for such regime, the relevant commercial bank should (*i*) deliver to the CNBV a plan for the reconstitution of its capital, and (*ii*) transfer at least 75% of its shares to an irrevocable trust.

Banking institutions that fail to meet the minimum core capital required by the Mexican Capitalization Requirements may not adopt the conditional management regime.

Bank Liquidation Process

According to the latest amendments to the Mexican Banking Law, enacted on January 10, 2014, upon publication of the resolution of the CNBV revoking a banking license, in the Official Gazette and two newspapers of wide distribution in Mexico and registration of such resolution with the corresponding Public Registry of Commerce, the relevant banking institution will be dissolved and liquidation will be initiated, in terms of the procedure set forth in the Mexican Banking Law. The IPAB will be appointed liquidator of the banking institution.

In the event that the banking license is revoked because the assets of the relevant bank are insufficient to meet its liabilities, the IPAB shall undertake the liquidation procedure before a competent Federal court, according to the terms and conditions provided for a court liquidation (*liquidación judicial*) procedure under the Mexican Banking Law, in substitution of the *concurso mercantil* under the Mexican Bankruptcy Law. Moreover, the IPAB will be appointed as receiver (*liquidador judicial*) for purposes of the court liquidation procedure.

The IPAB will carry out the creditors' identification process. The IPAB must also comply with the following preference for the payment of the banking institution´s debts: first, secured creditors; second, labor obligations; third, debts with a special privilege provided by statute; fourth, the unpaid balance in respect to the of the deposits insured by the IPAB and thereafter, payments shall be made in the preference provided in article 241 of the Mexican Banking Law, noting that the last debts to be paid are subordinated preferred and non-preferred obligations.

Capitalization

The minimum subscribed and paid-in capital for banks is set in accordance with three different components: credit risk, market risk and operational risk. Pursuant to the Mexican Banking Law and the General Rules Applicable to Mexican Banks, banks may participate in any of the activities and render the services as provided under Article 46 of the Mexican Banking Law, as well as those permitted under other laws.

In accordance with the capitalization rules in effect on the date of this Prospectus, the minimum equity capital required for banks that engage in all banking activities under the Mexican Banking Law (such as Banorte) is 90,000,000 UDIs (approximately Ps.5.9970 million as of June 12, 2018).

The Mexican Capitalization Requirements set forth the methodology to determine the net capital (*capital neto*) relative to market risk, risk-weighted assets incurred in its operation, and operations risk, which may not be less than the capital required in respect of each type of risk. The Mexican Capitalization Requirements set forth the methodology to determine the net capital relative to market risk, risk-weighted assets and operations risk. Under the relevant regulations, the CNBV may impose additional capital requirements. The Mexican Capitalization Requirements provide capitalization standards for Mexican banks similar to international capitalization standards, particularly with respect to the recommendations of the Basel Committee which includes the supervisory authorities of twelve major industrial countries.

Adoption of Basel III Standards in Mexico

On July 26, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, reached broad agreement on the overall design of a capital and liquidity reform package for internationally active banking organizations around the world, known as Basel III, which includes, among other things, the definition of capital, the treatment of counterparty credit risk, the leverage ratio and the global liquidity standard. On September 12, 2010, the Basel Committee announced a substantial strengthening of existing capital requirements in connection with Basel III. The full text of the Basel III rules and the results of a quantitative impact study to determine the effects of the reforms on banking organizations were published on December 16, 2010.

On November 28, 2012, the CNBV published an amendment to the Mexican Banking Regulations anticipating the adoption of Basel III guidelines. Most aspects of the new set of rules became effective on January 1, 2013, while others will be phased until the year 2022. The new regulation aims to, among others: (i) strengthen the composition of the net capital of banking institutions under Basel III guidelines, and (ii) allow certain securities issued by commercial banks to have the ability to absorb losses incurred by these institutions when submitting a detriment in their capital, either through a conversion into their shares or by the loss of the agreed value at the time of issuance in order to be recognized as part of the net capital of such institutions.

Among other changes, the amendments to the General Rules Applicable to Mexican Banks implementing the Basel III rules include the following:

Quality and level of capital. Greater focus on common equity and Fundamental Capital. The minimum Fundamental Capital was raised to 4.5% of risk-weighted assets, after deductions.

Capital loss absorption at the point of non-viability. Contractual terms of capital instruments include a clause that allows – at the discretion of the relevant authority – write-off or conversion to common shares if the bank is judged to be non-viable. This principle increases the contribution of the private sector to resolving future banking crises.

Capital conservation buffer. Banks shall constitute a Capital Supplement of 2.5% of the risk-weighted assets, bringing the total minimum Fundamental Capital standard to 7%. Constraint on a bank's discretionary distributions will be imposed when banks fall into the buffer range.

Countercyclical buffer. This buffer is imposed within a range of 0-2% comprising Fundamental Capital, when the CNBV judges that a credit growth is resulting from an unacceptable build-up of systemic risk, and is based on the credit activities carried by the financial institution in foreign markets.

Pursuant to the General Rules Applicable to Mexican Banks, this capital supplement is calculated taking into consideration the financing activities performed by banks in different jurisdictions.

Systemically Important Domestic Banks. D-SIBs must have higher loss absorbency capacity to reflect the greater risks that they pose to the domestic financial system. The additional loss absorbency requirements are to be met with a progressive Fundamental Capital requirement ranging from 0.60% to 2.25%, depending on a bank's systemic importance.

The General Rules Applicable to Mexican Banks, currently specify that Mexican banks may be classified in several categories based on their Net Capital Ratio, Tier 1 Capital and Fundamental Capital. The relevant corrective measures applicable to us are determined based on the following classifications.

		Net Capital Ratio (*ICAP*)				
Fundamental Capital or CET1 (*CCF*)	**Tier 1 Capital (*CCB*)**	**≥ 10.5% + CBF**	**≥ 8.0%**	**≥ 7.0% + CBF**	**≥ 4.5%**	**< 4.5%**
≥ 7% +CBF	≥ 8.5% + CBF	I	II			
	≥ 7% + CBF	II	II	III		
≥ 4.5%	≥ 8.5% + CBF	II	II			
	≥ 6%	II	II	III	IV	
	≥ 4.5%	III	III	IV	IV	
< 4.5%						V

Where:

ICAP = Net Capital Ratio (*Índice de Capitalización*)

CCB = Tier 1 Capital Ratio (*Coeficiente de Capital Básico*)

CCF = Fundamental Capital Ratio (*Coeficiente de Capital Básico Fundamental*)

CBF = Capital Supplements (Systemically Important Bank Capital Supplement + Countercyclical Capital Supplement)

This table is based upon the tables set forth in Article 220 of the General Rules Applicable to Mexican Banks, which should be consulted for a complete understanding of the applicable requirements, including in relation to the applicable Capital Supplements to be constituted by the Bank.

Furthermore, the General Rules Applicable to Mexican Banks provide that:

- The Net Capital will include a Tier 1 Capital (*capital básico*) and a Tier 2 Capital (*capital complementario*). The minimum Net Capital ratio required for each bank shall be equal to 8%;
- The Tier 1 Capital shall include:
    - a Tier 1 Capital coefficient of at least 6%;
    - a Fundamental Capital coefficient of at least 4.5%; and
    - (a) a capital conservation buffer equivalent to 2.5% of the Weighted Assets Subject to Risk, (b) in case of D-SIBs, the Systemically Important Bank Capital Supplement, and (c) the Countercyclical Capital Supplement.
- The Tier 1 Capital of the Net Capital will be divided into a Fundamental Capital (*capital básico fundamental*) and a Non-Core Tier 1 Capital (*capital básico no fundamental*).

For clarification purposes, Tier 1 Capital refers to the basic portion (*parte básica*) of total Net Capital, as such term is defined in the General Rules Applicable to Mexican Banks. Tier 1 Capital is comprised of the two components of basic capital (*capital básico fundamental* and *capital básico no fundamental*) as such terms are defined in the General Rules Applicable to Mexican Banks. Fundamental Capital (*capital básico fundamental*) means only the amount of the fundamental capital as such term is defined in the General Rules Applicable to Mexican Banks. Non-Fundamental Capital (*capital básico no fundamental*) means the non-fundamental basic capital as such term is defined in the General Rules Applicable to Mexican Banks. Tier 2 Capital refers to the additional portion (*parte complementaria*) of total Net Capital, as such term is defined in the General Rules Applicable to Mexican Banks.

The General Rules Applicable to Mexican Banks require banks to maintain a Net Capital Ratio of at least 10.5% to avoid the imposition of corrective measures notwithstanding that the minimum required Net Capital Ratio is 8%.

Total Net Capital consists of Tier 1 Capital (which, in turn, consists of Fundamental Capital and Non-Fundamental Capital) and Tier 2 Capital. The Mexican Capitalization Requirements include among the Core Equity Tier 1 Capital, mainly, paid-in capital, which represents the most subordinated right to collect in case of liquidation of a credit institution, which are not due and do not grant reimbursement rights, profits (mainly including retained profits), and capital reserves, and subtract from such Fundamental Capital, among other things, certain subordinated debt instruments, issued by financial and non-financial entities, securities representing residual parts of portfolio securitization, investments in the equity of venture-capital funds and investments in or credits to related companies, reserves pending creation, loans and other transactions that contravene applicable law, and intangibles (including goodwill). Non-Fundamental Capital is comprised of preferential shares, regarding which the issuer has the right to cancel the dividend payments, and subordinated debt instruments, which are not subject to a due date or forced conversion, regarding which it is possible to cancel the interest payments and which may become shares of a credit institution or a controlling entity or are subject to cancellation (when capitalization problems arise).

Tier 2 Capital comprises capitalization instruments, as long as such capitalization instruments are registered with the RNV, are subordinated to deposits and any other debt of the credit institution, do not have any specific guarantee, have a term of at least five years and may be convertible into shares at their maturity date or are subject of write-down procedures. These instruments shall be included as capital based on their maturity date: 100% if the due date exceeds five years, 80% if the due date exceeds four years but is less than five years, 60% if the due date exceeds three years but is less than four years, 40% if the due date exceeds two years but is less than three years, 20% if the due date exceeds one year but is less than two years, and 0% if the due date is less than one year.

Every Mexican bank must create certain legal reserves (*fondo de reserva de capital*), that are considered to be part of Tier 1 Capital. Banks must separate and allocate 10.0% of their net income to such reserve each year until the legal reserve equals 100.0% of their paid-in capital (without adjustment for inflation). The remainder of net income, to the extent not distributed to shareholders as dividends, is added to the retained earnings account. Under Mexican law, dividends may not be paid out against the legal reserve.

On May 1st, 2016, as a bank of systemic importance, Banorte was required by CNBV to constitute a Systemic Important Bank Capital Supplement of 0.90%. This requirement was ratified by the CNBV on April 10, 2017, confirming Banorte as a Grade II D-SIB. Also, an initial Countercyclical Capital Supplement of 0.001% was imposed. These Capital Supplements are required to be implemented by Banorte in a four-year period, one fourth each December, starting December 31, 2016.

As a result of the foregoing, and considering the Capital Supplements to be created by Banorte during the four-year period commencing December 31, 2016, the minimum Capital Ratios applicable to the Bank as of the date hereof, to remain classified as Class I pursuant to the Mexican Capitalization Requirements are as follows:

	Starting December 31, of Previous Year			
	2017	**2018**	**2019**	**2020**
Minimum Capital Ratios				
Total Net Capital (*capital neto*)	10.73%	10.95%	11.18%	11.40%
Tier 1 Capital (*capital básico*)	8.73%	8.95%	9.18%	9.40%
Fundamental Capital (*capital básico fundamental*)	7.23%	7.45%	7.68%	7.90%

As of March 31, 2018, Banorte's Capital Ratios were (i) 17.58% in the case of Total Net Capital, (ii) 15.54% in the case of Tier 1 Capital and (iii) 12.58% in the case of Fundamental Capital. As of December 31, 2017, Banorte's Capital Ratios were (i) 17.32% in the case of Total Net Capital, (ii) 15.20% in the case of Tier 1 Capital, and (iii) 12.10% in the case of Fundamental Capital, which in both cases exceed the current regulatory requirements.

Banorte is currently classified as Class I and, as a result, it is not subject to any corrective measures.

Corrective Measures

The Mexican Banking Law and the General Rules Applicable to Mexican Banks establish the minimum corrective and special additional measures that banks must fulfill according to the category in which they were classified based on their capital. These corrective measures are designed to prevent and, when necessary, correct the operations of the banks that could negatively affect their solvency or financial stability. The CNBV is required to notify the relevant bank in writing of the corrective measures that it must observe, within five business days after Mexican Central Bank has notified the CNBV the capitalization ratio of the bank, as well as verify its compliance with the corrective measures imposed. Class I is exempted from any corrective measure, but for the remainder of the categories such corrective measures include:

For Class II:

- requiring the bank to:
  - o inform the Board of Directors about the bank's classification, as well as the causes for the CNBV to make such classification, and submit a detailed report containing a comprehensive evaluation of the bank's financial situation, its level of compliance with the regulatory framework and the main indicators that reflect the degree of stability and solvency of the bank, within 20 business days after the bank has received the CNBV notification of the corrective measure;
  - o include in such report the causes of the weakening of their Capitalization Ratio and the Tier 1 Capital and Tier 2 Capital;
  - o include in such report any observations mandated, in accordance with their respective scope of authority, by each of the CNBV and the Mexican Central Bank;

- o report in writing the financial situation to the chief executive officer and chairman of the board of directors of the bank or the board of directors of the bank's holding company, in the event the bank is part of a financial group;
- o abstain from entering transactions that will cause its Capitalization Ratio to be lower than required under the Capitalization Requirements;
- o abstain from increasing the current amounts of the financings granted to relevant related parties; and
- o submit for approval to the CNBV, a plan for capital restoration which has as a result an increase of its Capitalization Ratio in order for the institution to be placed in Class I.

Such plan shall be presented to the CNBV no later than 20 business days after the date the bank receives the CNBV notification of the corrective measure.

In addition to the corrective measures applicable to Class II, for Class III and above:

- requiring the bank's Board of Directors to:
  - o within 15 business days as of the notice of its classification, submit to the CNBV, for its approval, a plan for capital restoration that will result in an increase in its Capitalization Ratio, which may contemplate a program for improvement in operational efficiency, streamlining costs and increasing profitability, the carrying out of contributions to the capital and limits to the operations that the banks may carry out in compliance with their bylaws, or to the risks derived from such operations. The capital restoration plan shall be approved by such bank's board of directors before being presented to the CNBV. The bank shall determine in the capital restoration plan that, in accordance with this subsection, it must submit, periodic targets, as well as the date in which the capital of such bank will get the capitalization level required in accordance with the applicable provisions. The CNBV, through its governing board, must resolve all that corresponds to the capital restoration plan that has been presented to them, in a maximum of 60 calendar days from the date the plan was submitted; and
  - o comply with the plan within the period specified by the CNBV, which in no case may exceed 270 calendar days starting the day after the bank was notified of the respective approval. To determine the period for the completion of the restoration plan, the CNBV shall take into consideration the bank's category, its financial situation, as well as the general conditions prevailing in the financial market. The CNBV, by agreement of its governing board, may extend the deadline once by a period that will not exceed 90 calendar days. The CNBV will monitor and verify compliance with the capital restoration plan, without prejudice of the provenance of other corrective measures depending on the category in which the corresponding bank is classified;
- requiring the bank to:
  - o suspend any payment of dividends to its shareholders, as well as any mechanism or act that involves the transfer of any economic benefits to the shareholders. If the bank belongs to the holding company, the measure provided in this subsection will apply to the holding company to which the bank belongs, as well as the financial entities or companies that are part of such holding company. This restriction on the payment of dividends for entities that are part of the same financial group will not apply in the event the dividend is being applied to the capitalization of the bank;
  - o requiring the bank to suspend any capital stock repurchase programs of the bank and, in the event that the bank belongs to a financial group, also the programs of the holding company of such group;
  - o requiring the bank to defer or cancel the interest payments on outstanding subordinated debt and, when applicable, defer the payment of the principal or exchange the debt into shares of the bank in the amount necessary to cover the capital deficiency, in advance and proportionately, according to the nature of such obligations. This corrective measure will be applicable to those obligations that are identified as subordinated debt in their indenture or issuance document;
  - o requiring the bank to suspend payment of any extraordinary benefits and bonuses that are not a component of the ordinary salary of the chief executive officer or any officer within the next two levels, as well as not granting any new benefits in the future for the chief executive officer and the officers until the bank complies with the minimum levels of capitalization required by the CNBV;
  - o requiring the bank to refrain from increasing outstanding amounts of any credit granted to any individual who is a related party; and

In addition to the corrective measures applicable to Class II and Class III, for Class IV and above:

- refraining from making new investments on non-financial assets, opening branches or performing activities other than those made in the ordinary course of business.

In addition to the minimum corrective measures, the CNBV may order the implementation of additional and special corrective measures for banks with a classification from II to V. The additional and special corrective measures that, if applicable, the banks must comply with are:

- define the concrete actions that it will carry out in order not to deteriorate its Capitalization Ratio;

- inform the chief executive officer of the foreign holding company about the bank's classification, as well as the causes that caused the CNBV to make such classification, and submit a detailed report containing a comprehensive evaluation of the bank's financial situation, its level of compliance with the regulatory framework and the main indicators that reflect the degree of stability and solvency of the bank, within 20 business days after the bank has received the CNBV notification of the corrective measure, only in case of banks owned by foreign financial groups;
- hire the services of external auditors or any other specialized third party for special audits on specific issues;
- refrain from agreeing to increases in the salaries and benefits of the officers and employees in general, except for agreed salary revisions and in compliance with labor rights;
- substitute officers, members of the board or external auditors with appointed persons occupying the respective positions;
- undergo other actions or be subject to other limitations as determined by the CNBV, based on the result of its functions of monitoring and inspection, as well as with sound banking and financial practices; or
- refrain from entering into new agreements that may cause an increase on the Weighted Assets Subject to Risk or may cause a higher deterioration on the Capitalization Ratio.

Reserve and Compulsory Deposit Requirements

The compulsory reserve requirement is one of the monetary policy instruments used as a mechanism to control the liquidity of the Mexican economy to reduce inflation. The objective of the Mexican Central Bank's monetary policy is to maintain the stability of the purchasing power of the Mexican Peso and in this context, to maintain a low inflation level. Given the historic inflation levels in Mexico, the efforts of the Mexican Central Bank have been directed towards a restrictive monetary policy.

Under this policy, the Mexican Central Bank has elected to maintain a short-term financial creditor stance with respect to the Mexican financial money markets, where every day, market commenced operations with a liquidity deficit which is then compensated by the Mexican Central Bank through daily operations in the money market to provide adequate liquidity and stability to those markets. The Mexican Central Bank's own experience has shown that its implementation of monetary policy is more effective if it starts from a deficit liquidity position at the beginning of each market day.

In order to manage its maturity exposures to the Mexican financial markets, the Mexican Central Bank has been extending the maturities of its liabilities for longer terms to avoid the need for continuing refinancing of its liabilities. Those liabilities have been restructured into voluntary and compulsory deposits (*Depósitos de Regulación Monetaria*), and into investment securities such as longer-term government bonds (*Bondes*) and compulsory monetary regulatory bonds (*Brems*). At the same time, the Mexican Central Bank has elected to hold short-term assets, thus allowing it the ability readily to refinance its positions of assets and reduce its maturity exposure to the financial markets.

The Mexican Central Bank imposes reserve and compulsory deposit requirements on Mexican commercial banks. Bulletin 36/2008 published on August 1, 2008, stated that the total compulsory reserve deposit required of Mexican commercial banks was Ps.280.0 billion, which had to be deposited in eight installments by eight deposits of Ps.35.0 billion each on August 21 and 28; September 4, 11, 18 and 25; and October 2 and 9, 2008. The amount of the deposit that each bank had to make was determined based on each bank's pro rata share of total Mexican financial institution time deposits allocated as of May 31, 2008. Likewise, in addition to the compulsory reserve abovementioned, the Mexican Central Bank imposed an addition l reserve and compulsory deposit requirement on Mexican commercial banks. Bulletin 11/2014 published on June 27, 2014, stated an additional compulsory reserve deposit of Ps.41.5 billion, which had to be deposited in four installments by four deposits of Ps.10.4 billion each on August 14; September 11, October 9 and November 6, 2014. The amount of the deposit that each bank had to make was determined based on each bank's pro rata share of total Mexican financial institution time deposits allocated as of May 31, 2014.

The compulsory deposit reserves required under the terms of the Bulletins 36/2008 and 11/2014 have an indefinite term. During the time these reserves are maintained on deposit with the Mexican Central Bank, each banking institution receives interest on such deposits every 28 days. The Mexican Central Bank will provide advance notice of the date and the procedure to withdraw the balance of these compulsory deposits at such time, if any, that the compulsory deposit reserves are suspended or terminated.

Classification of Loans and Allowance for Loan Losses

Non-performing loan portfolio

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

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

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

Interest is recognized and accrued as income when earned. The accrual of interest income is suspended when loans are transferred to the past-due portfolio. The fees charged the initial granting, restructuring and renewal of loans will be recorded as a deferred credit, which will be amortized as interest income, using the straight line method over the loan's contractual term, except those originating from revolving loans, which are amortized over a 12-month period.

Annual credit card fees, whether the first annual charge or subsequent of a renewal, are recorded as a deferred credit and amortized over a 12-month period against the year's results in the commission and fee income line item. The costs and expenses associated with the initial granting, restructuring and renewal of a loan are stated as a deferred charge which is amortized against the year's earnings as interest expense for the duration of the loan, except those originating from revolving loans and credit cards as they are amortized over a 12-month period.

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

Renewed loans in which the borrower has not paid on time or when the accrued interest balance equals at least 25% of the original loan amount are considered past-due until evidence of sustained payment is obtained.

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

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

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

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

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

Allowance for loan losses

The loan portfolio is classified according to the rules issued by the SHCP and the methodology established by the CNBV. Our internal methodology authorized by such CNBV may also be used. In the case of consumer mortgage and commercial loans, we apply the General Rules Applicable to Mexican Banks for rating the loan portfolio as issued by the CNBV and published in the Official Gazette on June 24, 2013.

On June 24, 2013, the CNBV issued changes to commercial loan rating provisions. Such changes state that in order to rate a loan, the likelihood of default, gravity of the loss and exposure to noncompliance should be taken into account, as indicated later in this section.

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

The commercial loan portfolio rating procedure requires that credit institutions apply the established methodology (general or internal) based on quarterly information for the periods ending in March, June, September and December of each year, whereas also recording the allowances determined at the close of each month in their financial statements. Furthermore, during the months following each quarterly close, financial institutions must apply the respective rating to any loan used at the close of the immediately preceding quarter, based on the outstanding balance in effect on the last day of the aforementioned months. The allowances for loan risks that have exceeded the amount required to rate the loan will be 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 CNBV

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

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

Depending on the type of loan, the probability of default, loss given default and exposure to default are determined by considering the following:

Probability of Default

- For non-revolving consumer loans, the probability of default is determined based on the number of days past due, the payments made on outstanding balances, the loan to asset value ratio, the type of consumer loan and the term to maturity, among others.
- For revolving consumer loans, the probability of default is determined based on the current situation and historical behavior of the borrower regarding the number of past due payments, number of days past due, the payments made on outstanding balances, as well as the percentage of utilization of the authorized line of credit.
- For mortgage loans, the probability of default is determined based on the number of days past due, highest number of past due payments over the last four periods, the borrower's willingness to pay and the loan to asset value ratio.
- For commercial loans, the probability of default is determined based on the type of borrower, the borrower's historical payment behavior, payment history with Infonavit, rating agencies' evaluation, financial risk, social-economical risk, financial soundness, country and industry risk, market positioning, transparency, standards and corporate governance.

Loss Given Default

- For consumer loans (non-revolving and revolving), the loss given default is determined based on the number of past due payments.
- For mortgage loans, the loss given default is determined based on the outstanding balance of the mortgage loan, unemployment insurance and the state where the loan was granted.
- For commercial loans, the loss given default is determined based on the value of the financial and nonfinancial collateral securing the loan, as well as guarantees granted by the borrower.

Exposure at Default

- For non-revolving consumer loans, the exposure at default is determined based on the outstanding loan balance as of the grading date.
- For revolving consumer loans, the exposure at default is determined based on the current percentage of utilization of the authorized line of credit line, which is used to estimate how much such utilization would increase in the event of a default.
- For mortgage loans, the exposure at default is determined based on the outstanding loan balance as of the grading date.
- For commercial loans, the exposure at default (i) in the case of uncommitted lines of credit, it is determined based on the outstanding loan balance as of the grading date and (ii) in the case of committed lines of credit, it is determined based on the current percentage of utilization of the authorized line of credit, which is used to estimate how much such utilization would increase in the event of a default.

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

Liquidity Requirements for Foreign Currency-Denominated Liabilities

Pursuant to regulations of the Mexican Central Bank, the total amount of maturity-adjusted (by applying a factor, depending upon the maturity of the relevant liability) net liabilities denominated or indexed to foreign currencies that Mexican banks, their subsidiaries or their foreign agencies or branches may maintain (calculated daily), is limited to 1.83 times the amount of their Tier 1 Capital. To calculate such limit, maturity-adjusted foreign currency-denominated or indexed assets (including liquid assets, assets with a maturity of less than one year, short term derivatives and spot foreign exchange transactions) are subtracted from maturity-adjusted foreign currency-denominated or indexed liabilities, and the aforementioned factor is applied to the resulting amount.

The maturity-adjusted net liabilities of Mexican banks denominated or indexed to foreign currencies (including dollars) are subject to a liquidity coefficient (i.e., to maintaining sufficient foreign currency-denominated or indexed liquid assets). These permitted liquid assets include, among others:

- U.S. dollar-denominated cash or cash denominated in any other currency freely convertible;
- deposits with the Mexican Central Bank;
- treasury bills, treasury bonds and treasury notes issued by the United States government or debt certificates issued by agencies of the U.S. government, which have the unconditional guarantee of the U.S. government;
- demand deposits or one-day deposits or one- to seven-day deposits in foreign financial institutions rated at least P-2 by Moody's, or A-2 by S&P;
- investments in mutual or similar funds or companies approved by the Mexican Central Bank, that satisfy certain requirements; and
- unused lines of credit granted by foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P, subject to certain requirements.

Such liquid assets may not be posted as collateral, lent or be subject to repurchase transactions or any other similar transactions that may limit their transferability.

We are in compliance with the applicable reserve requirement and liquidity coefficients in all material aspects.

Lending Limits

In accordance with the General Rules Applicable to Mexican Banks, limits relating to the diversification of a bank's lending transactions are determined in accordance with the bank's compliance with Mexican Capitalization Requirements. For a bank with:

- a Capitalization Ratio greater than 8.0% and up to 9.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank, is limited to 12.0% of the bank's Tier 1 Capital;
- a Capitalization Ratio greater than 9.0% and up to 10.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 15.0% of the bank's Tier 1 Capital;
- a Capitalization Ratio greater than 10.0% and up to 12.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 25.0% of the bank's Tier 1 Capital;
- a Capitalization Ratio greater than 12.0% and up to 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 30.0% of the bank's Tier 1 Capital; and
- a Capitalization Ratio greater than 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 40.0% of the bank's Tier 1 Capital.

These lending limits are required to be measured on a quarterly basis. The CNBV has discretion to reduce the aforementioned limits, if internal control systems or the risk management of the bank is inadequate.

The following financings are exempt from these lending limits:

- financings guaranteed by unconditional and irrevocable security interests or guarantees, that may be enforced immediately and without judicial action, granted by Mexican credit institutions or foreign financial institutions with investment grade ratings and established in a country member of the European Union or the Organization for Economic Cooperation and Development (which guarantees must be accompanied with a legal opinion as to their enforceability);
- securities issued by the Mexican government and financings made to the Mexican government, Mexican local governments (subject to such financings being guaranteed by the right to receive certain Federal taxes), the Mexican Central Bank, the IPAB and development banks guaranteed by the Mexican government; and
- cash (transferred to the bank lender under a deposit that may be freely disposed of by the lender).

However, such financings may not exceed 100% of a bank's Tier 1 Capital.

Likewise, financings granted to Sofomes for which the bank owns at least 99% of its capital stock, are exempted from the aforementioned limits, but such financings may not exceed 100% of a bank's Tier 1 Capital. In turn, the controlled Sofomes maintain or grant financing (regardless of the origin of the resources) to a person or a group of persons representing common risk; such financing shall comply with the aforementioned limits.

The aggregate amount of financings granted to the three largest borrowers of a bank, may not exceed 100.0% of the bank's Tier 1 Capital.

Banks are not obligated to comply with the aforementioned limits with respect to financings granted to the Mexican federal government, local governments (subject to such financings being guaranteed by the right to receive certain Federal taxes), the Mexican Central Bank, the IPAB and development banks guaranteed by the

Mexican government. The aforementioned guidelines do not apply to financings made to Mexican banks. The aggregate financings to Mexican banks and to government-controlled companies and decentralized agencies may not exceed 100.0% of such bank's Tier 1 Capital.

Banks are required to disclose, in the notes to their financial statements for Mexican Banking GAAP purposes, (*i*) the number and amount of financings that exceed 10.0% of Tier 1 Capital, and (*ii*) the aggregate amount of financings made to their three largest borrowers.

Funding Limits

In accordance with the General Rules Applicable to Mexican Banks, Mexican banks are required to diversify their funding risks. In particular, a Mexican bank is required to notify the CNBV, on the business day following the occurrence of the event, in the event it receives funds from a person or a group of persons acting in concert that represent in one or more funding transactions, more than 100% of such bank's Tier 1 Capital. None of our liabilities to a person or group of persons exceeds the 100% threshold.

Related Party Loans

Pursuant to the Mexican Banking Law, the total amount of the transactions with related parties may not exceed 35% of the bank's Tier 1 Capital. For the case of loans and revocable credits, only the disposed amount will be counted.

The General Rules Applicable to Mexican Banks establish that the aggregate amount of operations subject to credit risk relating to relevant related parties shall not exceed 25% of the bank's Tier 1 Capital corresponding to the immediately preceding month. If the amount exceeds 25%, then the excess must be subtracted in order to determine Tier 1 Capital.

Foreign Currency Transactions

The Mexican Central Bank regulations govern transactions by banks, denominated in foreign currencies. Mexican banks may, without any specific additional approval, engage in spot, foreign exchange transactions (i.e., transactions having a maturity not exceeding four business days). Other foreign currency transactions are deemed derivative transactions and require approvals as discussed below. At the end of each trading day, banks are generally obligated to maintain a balanced foreign currency position (both in the aggregate and by currency). However, short and long positions are permitted in the aggregate, so long as such positions do not exceed 15% of a bank's Tier 1 Capital. In addition, Mexican banks must maintain certain minimum liquidity, prescribed by regulations issued by the Mexican Central Bank, in connection with maturities of obligations denominated in foreign currencies (see "—Liquidity Requirements for Foreign Currency-Denominated Liabilities").

Derivative Transactions

The Mexican Central Bank has issued rules that apply to derivative transactions entered into by Mexican banks. Mexican banks are permitted to enter into swaps, credit derivatives, futures, forwards and options with respect to the following underlying assets:

- specific shares, groups of shares or securities referenced to shares that are listed in a securities exchange,
- stock exchange indexes,
- Mexican currency, foreign currencies and UDIs,
- inflation indexes,
- gold or silver,
- pork bellies, pork and cattle;
- wheat, corn, soybean and sugar,
- rice, sorghum, cotton, oats, coffee, orange juice, cocoa, barley, cattle, swine, milk, canola, soybean oil, and soybean paste, lean value hog carcasses, natural gas, heating oil, gasoline, gas oil, crude oil, aluminum, copper, nickel, platinum, lead and zinc,
- nominal or real interest rates with respect to any debt instrument,
- loans or other advances; and
- futures, forwards, options and swaps with respect to the underlying assets mentioned above.

Mexican banks require an express general approval, issued in writing by the Mexican Central Bank to enter into, as so-called intermediaries, derivative transactions, with respect to each class or type of derivative. Mexican banks that have not received the relevant general approval would require a specific approval from the Mexican Central Bank to enter into such derivative transactions (or even if in possession of such general approval, to enter into derivative transactions with underlying assets different from the assets specified above). Mexican banks may, however, enter into derivatives without the authorization of the Mexican Central Bank, if the exclusive purpose of such derivatives is to hedge the relevant bank's existing risks. Authorizations may be revoked if, among other things, the applicable Mexican bank fails to comply with Mexican Capitalization Requirements, does not timely comply with reporting requirements, or enters into transactions that contravene applicable law or sound market practices.

Banks that execute derivative transactions with related parties or with respect to underlying assets of which the issuer or debtor are related parties, shall comply with the corresponding limits set forth in the Mexican Banking Law in respect of related party transactions.

Institutions may collateralize derivative transactions through cash deposits, receivables and/or securities of its portfolio. Derivative transactions that are entered into in over-the-counter (OTC) markets, may be collateralized only when the counterparties are credit institutions, brokerage firms, foreign financial institutions, mutual funds, pension fund managers, Sofomes, and any other counterpart authorized by the Mexican Central Bank. Mexican banks are required to periodically inform their Board of Directors with respect to the derivative transactions entered into, and whether or not the Mexican bank is in compliance with limits imposed by the Board of Directors and any applicable committee. Mexican banks must also inform the Mexican Central Bank periodically of derivative transactions entered into and whether any such transaction was entered into with a related party. The counterparties in respect of hedging derivatives transactions entered into by Mexican banks must be other Mexican banks, or Mexican financial entities authorized to enter into such derivatives by the Mexican Central Bank or foreign financial institutions or recognized markets. Derivatives must be entered into pursuant to master agreements that must include terms and guidelines, similar to international standards such as ISDA master agreements and master agreements approved for the domestic market. As an exception to applicable rules, Mexican banks may pledge cash, receivables and securities to secure obligations resulting from their derivative transactions.

We have received approval from the Mexican Central Bank to engage in swaps, forwards and options related to stocks, indices, currencies and interest rates.

Repurchase Operations and Securities Lending

Under a circular issued by the Mexican Central Bank, Mexican banks may enter into repurchase operations with Mexican and foreign counterparts. Repurchase operations may be entered into in respect of bank securities, Mexican Government securities, debt securities registered with the CNBV and certain foreign securities. Repurchase operations must be entered into under master agreements, such as the master agreements of the International Securities Market Association and the Public Securities Association. Collateral may be provided in connection with repurchase operations.

Mexican Central Bank has also authorized Mexican banks to participate in securities lending activities on terms similar to those applicable to repurchase operations.

Limitations on Investments in Other Entities

Under the Financial Groups Law, subsidiaries of a financial services holding company may not directly or indirectly own capital stock of their own financial services holding company, unless they hold such stock as institutional investors under the Financial Groups Law. Institutional investors under the Financial Groups Law are insurance and bond companies that invest their technical reserves, investment funds and pension funds. In addition, members of a financial group may not extend credit in connection with the acquisition of their capital stock, the capital stock of their financial services holding company or the capital stock of other subsidiaries of their financial services holding company. Without the prior approval of the SHCP (which shall take into consideration the opinions of the Mexican Central Bank and the primary Mexican regulatory commission supervising the financial entity), members of a financial group may not accept as collateral shares of stock of Mexican financial institutions. Mexican banks may not acquire or receive as collateral, certain securities issued by other Mexican banks in authorization from the SHCP is required prior to acquisition of shares of capital stock of non-Mexican financial entities.

In addition, Mexican Banking Law imposes certain restrictions on investments by Mexican banks in equity securities of companies engaged in non-financial activities. Mexican banks may own equity capital in such companies in accordance with the following guidelines:

- up to 5.0% of the capital of such companies at any time;
- more than 5.0% and up to 15.0% of the capital of such companies for a period not to exceed three years, upon prior authorization of a majority of the members of each class of the bank's board of directors; and
- for higher percentages and for longer periods, or in companies engaged in new long-term projects or carrying out development related activities, with prior authorization of the CNBV.

The total of all such investments made by a bank may not exceed 30.0% of such Tier 1 Capital.

Restrictions on Liens and Guarantees

Under the Mexican Banking Law, banks are specifically prohibited from, among others: (*i*) pledging their properties as collateral (except when pledging collection rights or securities in transactions with the Mexican Central Bank, development banks, public federal trust and IPAB or if the CNBV so authorizes or as described above with respect to derivative transactions, securities, lending and repurchase transactions) and (*ii*) guaranteeing the obligations of third parties, except, generally, in connection with letters of credit and bankers' acceptances.

Bank Secrecy Provisions; Credit Bureaus

Pursuant to the Mexican Banking Law, a Mexican bank may not provide any information relating to the identity of its customers or specific deposits, services or any other banking transactions (including loans) to any third parties (including any purchaser, underwriter or broker, or holder of any of the bank's securities), other than:

- the depositor, debtor, accountholder or beneficiary and their legal representatives or attorneys-in-fact;
- judicial authorities in trial proceedings in which the accountholder is a party or defendant;
- the Mexican federal tax authorities for tax purposes;
- the SHCP for purposes of the implementation of measures and procedures to prevent terrorism and money laundering;
- the Federal Auditor (*Auditoría Superior de la Federación*), to exercise its supervisory authority (including information on accounts or agreements involving federal public resources);
- the supervisory unit of the federal electoral agency (*Unidad de Fiscalización de los Recursos de los Partidos Políticos*);
- the Federal Attorney General's office (*Procuraduría General de la República*) for purposes of criminal proceedings;
- the Treasurer of the Federation (*Tesoreria de la Federación*), as applicable, to request account statements and any other information regarding the personal accounts of public officers, assistants and, as the case may be, individuals related to the corresponding investigation; and
- the Secretary and undersecretaries of the Ministry of Interior (*Secretaría de la Función Pública*) when investigating or auditing the estates and assets of federal public officers, among others.

In most cases, the information needs to be requested through the CNBV. The CNBV is authorized to furnish foreign financial authorities with certain protected information under the Mexican bank secrecy laws, provided that an agreement must be in effect between the CNBV and such authority for the reciprocal exchange of information. The CNBV must abstain from furnishing information to foreign financial authorities if, in its sole discretion, such information may be used for purposes other than financial supervision, or by reason of public order, national security or any other cause set forth in the relevant agreement.

Banks and other financial entities are allowed to provide credit related information to duly authorized Mexican credit bureaus.

Money Laundering Regulations

Mexico has in effect rules relating to money laundering; the set of rules applicable to banking institutions have been in effect since April 21, 2009 and have subsequently been amended (the "**Money Laundering Rules**").

Under the Money Laundering Rules, we are required to satisfy various requirements, including:

- the establishment and implementation of procedures and policies, including client identification and know your customer policies, to prevent and detect actions, omissions or transactions that might favor, assist or cooperate in any manner with terrorism or money laundering activities (as defined in the Mexican Federal Criminal Code (*Código Penal Federal*));
- implementing procedures for detecting relevant, unusual and suspicious transactions (as defined in the Money Laundering Rules);
- reporting of relevant, unusual and suspicious transactions to the SHCP, through the CNBV; and
- the establishment of a communication and control committee (which, in turn, must appoint a compliance officer) in charge of, among other matters, supervising compliance with anti-money laundering provisions.

We are also required to organize and maintain a file before opening an account or entering into any kind of transaction, for the identification of each client (each, an "**Identification File**").

An individual's Identification File shall include, among other information, a copy of the following documentation or data (which must be maintained and updated): (*i*) full name, (*ii*) sex, (*iii*) date of birth, (*iv*) nationality and country of birth, (*v*) tax identification number and the certificate evidencing the tax identification number issued by the SHCP or the population registry identification number and evidence thereof issued by the Ministry of Interior, as the case may be, (*vi*) occupation, profession, main activity or line of business, (*vii*) complete domicile (including telephone number), (*viii*) e-mail address, if any, and (*ix*) advanced electronic signature series number, when applicable.

An entity's Identification File shall include, among other information, a copy of the following documentation or data (which must be maintained and updated): (*i*) corporate name, (*ii*) domicile, (*iii*) nationality, (*iv*) name of the sole administrator, the members of the Board of Directors, the general manager or any relevant attorney-in-fact, (*v*) main activity or line of business, (*vi*) tax identification number and the certificate evidencing the tax identification number issued by the SHCP, (*vii*) advanced electronic signature series number, when applicable, and (*viii*) copy of the public deed containing its constitutive documents.

Identification Files shall be maintained for the complete duration of the corresponding agreement entered into with such client, and for a minimum term of ten years from the date such agreement is terminated.

The Mexican Banking Law requires banks to have a manual for anti-money laundering procedures that is approved by the board of directors and certified by the CNBV.

Under the Money Laundering Rules, we must provide to the SHCP, through the CNBV:

- quarterly reports (within ten business days from the end of each quarter) with respect to transactions equal to, or exceeding, U.S.$10,000;
- monthly reports (within 15 business days from the end of the month) with respect to international funds transfers, received or sent by a client, with respect to transactions equal to, or exceeding, U.S.$10,000;
- reports of unusual transactions, within 60 calendar days counted from the date an unusual transaction is detected by our systems; and
- periodic reports of suspicious transactions, within 60 calendar days counted from the date the suspicious transaction is detected.

In June 2010 new regulations were issued by the SHCP, as amended in September and December 2010 and August 2011, which restrict cash transactions denominated in U.S. dollars that may be entered into by Mexican banks. Pursuant to such regulations, Mexican banks are not permitted to receive physical cash amounts, in U.S. dollars, from individuals in excess of U.S.$4,000 per month for deposits. Mexican banks are also not permitted to receive physical cash amounts, in U.S. dollars, from their corporate clients, except in very limited circumstances.

Also, Mexican banks are not permitted to receive physical cash amounts, in U.S. dollars, from individuals, in excess of U.S.$300 per day for individual foreign exchange transactions. In each case, the monthly amount per individual for such transactions cannot exceed U.S.$1,500.

In addition, the newly enacted regulations set forth certain reporting obligations for Mexican banks regarding their U.S. dollar cash transactions, to the SHCP (through the CNBV).

On October 17, 2012, the Federal Law to Prevent and Identify Transactions with Illegal Proceeds (*Ley Federal para la Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita*) was published in the Official Gazette of the Federation (the "**New Money Laundering Law**"). The New Money Laundering Law became effective on July 17, 2013. Under such law, the SHCP is given broad authority to obtain information about unlawful activities, coordinate activities with foreign authorities and present claims related to unlawful activities. This law also grants authority to the Federal Attorney General to investigate and prosecute illegal activities, in coordination with the SHCP. Pursuant to the law, we are required to satisfy the following requirements:

- the establishment and implementation of policies and procedures, including client identification and know your customer policies, to prevent and detect actions, omissions or transactions that might favor, assist or cooperate in any manner with terrorism or money laundering activities;
- the reporting of relevant, unusual and suspicious transactions to the SHCP, through the CNBV; and
- the maintenance of information and documentation regarding the client identification, as well as of relevant, unusual and suspicious transactions, for at least 10 years;

Additionally, pursuant to the Mexican Banking Law reforms published on the Official Gazette on January 10, 2014, the following sanctions were included, with the purpose of preventing and detecting operations that might encourage acts of terrorism:

- A fine of 10% to 100% of the amount of the activity, operation or service performed by an entity for a client or user the entity knows to be on the blocked persons list prepared by the SHCP;
- A fine of 10% to 100% of the amount of any unreported unusual transaction and, if applicable, any additional transactions related to same client or user involved in the unreported transaction.
- A fine of 30,000 to 100,000 days' worth of the minimum wage applicable in Mexico for significant transactions or, if applicable, a series of related transactions involving international transfers and unreported transactions in cash undertaken in a foreign currency.
- A fine of 5,000 to 50,000 days' worth of the minimum wage applicable in Mexico for other failures to comply with applicable law.

The amendments to the General Provisions on Money Laundering and Terrorist Financing published on the Official Gazette on April 25, 2014, September 12, 2014 and December 31, 2014, added the following obligations to the prevention of money laundering and terrorist financing:

- Provide the CNBV, through the Financial Intelligence Unit (*Unidad de Inteligencia Financiera*), within the first ten business days of January, April, July and October of each year, a report for each issuance or payment of cashier's checks carried out with its clients or users in the previous three months in an amount equal to or exceeding U.S.$10,000.

- Inform the CNBV prior to, or simultaneously with, the sharing of information regarding money laundering and terrorist financing activities.
- Immediate cancellation of any transaction or service related to a client or user identified to be on the SHCP's blocked persons list and notification to the client that it has been included on such list.

Amendments to the regulation on money laundering prevention and financing of terrorism applicable to financial institutions

In March 2017, amendments to the General Provisions on Money Laundering Terrorism Financing were published in the Official Gazzete. The following are the principal changes resulting from such amendments:

1. Implementation of a Risk-Based Approach

Banks must incorporate and implement methodology to carry out a risk assessment arising from their products, services, practices and information technologies. Such methodology must establish the processes for the identification, measurement and mitigation of risks, for which the identified risk factors must be taken into account, together with the national risk assessment and its respective updates conducted by SHCP, and communicated to the CNBV.

In the case of entities that are part of a financial group, like the Bank, the results of the methodology that, if applicable, has been implemented by the other entities that are part of the same financial group should be taken into account.

2. Identification of the shareholdings and corporate structure of clients that are legal entities

In respect of clients that are legal entities, information that identifies the following must be gathered in the identification file of the client: (i) shareholding structure and (ii) in the event that the client has a degree of risk other than "low," its internal corporate structure, which refers to the organizational chart of the client as a legal entity, taking into account at least the full name and position of those individuals who occupy the positions of CEO and the immediate lower positions, as well as the full name and corresponding position of each of the members of its board of directors or equivalent. Likewise, the beneficiaries (i.e., the individuals who benefit from an account, contract or transaction and are ultimately the owners) who have the control of the clients that are legal entities must be identified.

3. Threshold of Relevant Transactions

The threshold is modified in the definition of "relevant transaction" to include in such definition a transaction carried out with the bills and coins of legal tender in the United Mexican States or in any other country, as well as with traveler's checks, and coins minted in platinum, gold and silver for an amount equal to or greater than the equivalent in national currency at US $7,500. Previously, this threshold was US $10,000.

4. Terms for the submission of Unusual Transactions and Alarming Internal Transactions

For each unusual transaction identified by a bank, a corresponding report must be submitted to the SHCP through the CNBV within three business days from the conclusion of the determination that establishes such transaction as unusual. For purposes of carrying out such resolution, the bank, through the communication and control committee, will have a term that will not exceed 60 calendar days from the generation of the alert through the respective system, model, process, or by the employee of the bank, whichever occurs first.

5. Internal appointment of a Compliance Officer for a specific period

To be able to comply with the applicable provisions regarding the obligation to have, at all times, an officer who acts as a representative with authorities, it is possible to appoint an internal compliance officer in case the current officer in charge is revoked from his position or is unable to carry out his duties. The period for which the internal compliance officer may occupy the position shall be up to ninety calendar days in a calendar year.

6. Agreement for the exchange of information between Entities that belong to the same financial group

Financial entities that belong to the same financial group in accordance with the Financial Groups Law may exchange information with regard to the prevention of transactions with resources of illicit origin and financing of terrorism at a group level.

Financial entities have a maximum term of 45 calendar days counted from the implementation of the applicable resolution, in order to, at the latest within 270 calendar days, make the necessary adjustments to their systems and start to collect the client information according to the stated terms, submit their internal policies to the CNBV and comply with the rest of the imposed obligations.

Rules on Interest Rates

The Mexican Central Bank regulations limit the number of reference rates that may be used by Mexican banks as a basis for determining interest rates on loans. For Peso-denominated loans, banks may choose any of a fixed rate, the TIIE, *Cetes* rate, CCP (*costo de captación promedio a plazo*), the rate determined by the Mexican Central Bank as applied to loans funded by or discounted with NAFIN, the rate agreed upon with development banks in loans funded or discounted with them, the weighted bank funding rate (*tasa ponderada de fondeo interbancario*) and the weighted governmental funding rate (*tasa ponderada de fondeo gubernamental*). For UDI-denominated loans, the reference rate is the UDIBONOS. For foreign currency- denominated loans, banks may choose any of a fixed rate or floating market reference rates that are not unilaterally determined by a financial institution, including LIBOR or the rate agreed upon with international or national development banks or funds, for loans funded by or discounted with such banks or funds. For dollar-denominated loans, banks may choose either a fixed rate or any of the rates referred to in the prior sentence or CCP-Dollars, as calculated and published in the Official Gazette by the Mexican Central Bank.

The rules also provide that only one reference rate can be used for each transaction and that no alternative reference rate is permitted, unless the selected reference rate is discontinued, in which event a substitute reference rate may be established. A rate, or the mechanism to determine a rate, may not be modified unilaterally by a bank. Rates must be calculated annually, based upon 360-day periods.

On November 11, 2010, the Mexican Central Bank published new rules that regulate the issuance and use of credit cards. Such rules standardize the regulations and forms that enable cardholders to authorize charges for recurrent payments relating to goods and services and standardize the procedures for objecting to improper charges and cancelling such services quickly and securely. The rules also establish the way in which credit card issuers shall determine the amount of the minimum payment in each period by means of a formula that favors payment of a part of the principal at the time of each minimum payment, with the aim of achieving payment of debts within a reasonable time period. Such rules also include certain protection provisions for card users in case of theft or loss of their credit cards, the creation of incentives to credit card issuers to adopt additional measures to reduce risks derived from use of credit cards in internet transactions and the wrongful use of information contained in credit cards.

In June 2014, the Mexican Supreme Court of Justice issued jurisprudential guidance, of mandatory application, allowing federal judges to determine *ex officio* if an interest rate agreed on a promissory note is evidently excessive, violating an individual's human rights and, consequently, establish a reduced rate. The elements the judge should take into account to determine if a rate is evidently excessive are: (a) the type of relationship between the parties; (b) the qualification of the persons intervening in the subscription of the note and if the activity of the creditor is regulated; (c) the purpose of the extension of credit; (d) the amount of the loan; (e) the term of the loan; (f) the existence of guaranties for the payment of the loan; (g) the interest rates applied by financial institutions in transactions similar to the one under analysis, as a mere reference; (h) the variation of NCPI during the term of the loan; (i) market conditions; and (j) other issues that the judge may deem relevant.

Fees

Under the Mexican Central Bank regulations, Mexican banks and Sofomes may not, in respect of loans, deposits or other forms of funding and services with their respective clients, among others:

- charge fees that are not included in their respective, publicly disclosed, aggregate annual cost (*costo anual total*):
- charge alternative fees, except if the fee charged is the lower fee; and
- charge fees for the cancellation of credit cards issued.
- In addition, among other things, Mexican banks may not:
- charge simultaneous fees, in respect of demand deposits, for account management and relating to not maintaining minimum amounts;
- charge fees for returned checks received for deposit in a deposit account or as payment for loans granted;
- charge fees for cancellation of deposit accounts, debit or teller cards, or the use of electronic banking services; or
- charge different fees depending upon the amount of a money transfer. Under the regulations, fees arising from the use of ATMs must be disclosed to users.

Mexican banks and Sofomes operating or permitting customers to use ATMs must choose between two options for charging fees to clients withdrawing cash or requesting balances: (*i*) specifying a fee for the relevant transactions, in which case, Mexican banks and Sofomes issuing credit or debit cards may not charge cardholders any additional fee (credit or debit card issuers are entitled to charge operators the respective fee), or (*ii*) permit credit card or debit card issuers to charge a fee to clients, in which case, banks and Sofomes may not charge additional fees to clients.

The Mexican Central Bank, on its own initiative or as per request from the CONDUSEF, banks or Sofomes, may assess whether reasonable competitive conditions exist in connection with fees charged by banks or Sofomes in performing financial operations. The Mexican Central Bank must obtain the opinion of the Mexican Antitrust Commission in carrying out this assessment. The Mexican Central Bank may take measures to address these issues.

On October 3, 2014, the Mexican Central Bank published a bulletin that modified the rules on ATM user fees which limited our ability to charge fees for the use of ATMs by customers and the amount of such fees for services including:

- cash withdrawals;
- checking account balances;
- account deposits; and
- credit payments, both in bank windows and ATMs operated by the clients' bank.

The bulletin also specifies that ATMs shall show a clear legend on their screens regarding costs of the transaction so the client may decide whether to proceed with the transaction.

IPAB

The IPAB Law, which became effective January 20, 1999, provides for the creation, organization and functions of the IPAB, the bank savings protection agency. The IPAB is a decentralized public entity that regulates the financial support granted to banks for the protection of bank deposits. Only in exceptional cases may the IPAB grant financial support to banking institutions.

According to the IPAB Law, banks must provide the information required by the IPAB for the assessment of their financial situation and notify the IPAB about any event that could affect their financial stability. The IPAB Law expressly excludes the release of such data from bank secrecy provisions contained in the Mexican Banking Law and expressly provides that the IPAB and the CNBV can share information and databases of banks.

The IPAB is authorized to manage and sell the loans, rights, shares and any other assets that it acquires to perform its activity according to the IPAB Law, to maximize their recovery value. The IPAB must ensure that the sale of such assets is made through open and public procedures. The Mexican President is required to present annually a report to Congress prepared by the IPAB with a detailed account of the transactions conducted by the IPAB in the prior year.

The IPAB has a governing board of seven members:

- the Minister of Finance and Public Credit;
- the Governor of the Mexican Central Bank;
- the President of the CNBV; and
- four other members appointed by the President of Mexico, with the approval of two-thirds of the Senate.

The deposit insurance to be provided by the IPAB to a bank's depositors will be paid upon determination of liquidation of a bank. The IPAB will act as liquidator or receiver, or both, in the liquidation of banks, according to the Mexican Banking Law. The IPAB will guaranty obligations of banks to certain depositors and creditors (excluding, among others, financial institutions) only up to the amount of 400,000 UDIs per person per bank. The IPAB will not guarantee:

- deposits and loans constituting negotiable instruments and bearer promissory notes;
- liabilities for financial institutions or subsidiaries of the bank;
- liabilities not incurred in the ordinary course of business and related party transactions; or
- liabilities assumed in bad faith or in connection with money laundering or other illegal activities.

Banks have the obligation to pay the IPAB ordinary and extraordinary contributions as determined from time to time by the Governing Board of the IPAB. Under the IPAB Law, banks are required to make monthly ordinary contributions to the IPAB, equal to 1/12 of 0.4% multiplied by the average of the daily outstanding liabilities of the respective bank in a specific month, less:

- holdings of term bonds issued by other commercial banks;
- financing granted to other commercial banks;
- financing granted by the IPAB;
- subordinated debentures that are mandatorily convertible in shares representing the capital stock of the banking institution; and
- certain forward- operations.

The IPAB's Governing Board also has the authority to impose extraordinary contributions in the case that, given the conditions of the Mexican financial system, the IPAB does not have available sufficient funds to comply with its obligations. The determination of the extraordinary contributions is subject to the following limitations: (*i*) such extraordinary contributions may not exceed, on an annual basis, the amount equivalent to 0.3% multiplied by the total amount of the liabilities outstanding of the banking institutions that are subject to the IPAB contributions; and (*ii*) the aggregate amount of the ordinary and extraordinary contributions may not exceed, in any event, on an annual basis, an amount equivalent to 0.8% multiplied by the total amount of the liabilities outstanding of the applicable banking institution.

The Mexican Congress allocates funds to the IPAB on a yearly basis to manage and service the IPAB's liabilities. In emergency situations, the IPAB is authorized to incur additional financing every three years in an amount not to exceed 6% of the total liabilities of Mexican banks.

Limitations on Investments in Other Entities

The Mexican Banking Law imposes certain restrictions on investments by Mexican banks in equity securities of companies engaged in non-financial activities. Mexican banks may own equity capital in such companies in accordance with the following guidelines:

- up to 5.0% of the capital of such companies at any time, without any approval;
- more than 5.0% and up to 15.0% of the capital of such companies, for a period not to exceed three years, upon prior authorization of a majority of the members of the bank's Board of Directors; and
- higher percentages and for longer periods, or in companies engaged in new long-term projects or carrying out development related activities, whether directly or indirectly, with prior authorization of the CNBV.

The total of all such investments (divided considering investments in listed and in non-listed companies) made by a bank may not exceed 30.0% of such bank's Mexican Tier 1 Capital.

A Mexican bank requires the prior approval of the CNBV to invest in the capital stock of companies that render ancillary services to such bank and of companies that hold real estate where the offices of the applicable bank may be located.

Under the Mexican Banking Law, the approval of the CNBV is required prior to the merger of a commercial bank with any other entity taking into consideration the opinion of the Mexican Antitrust Commission and the favorable opinion of the Mexican Central Bank.

At the end of 2014, pursuant to the new Mexican Financial Groups Law, the SHCP issued the General Rules for Financial Groups. These rules repealed the previous General Rules for the Incorporation and Operation of Financial Groups and provide the requirements for the operation of financial groups.

Law for the Protection and Defense of Financial Services Users

A Law for the Protection and Defense of Financial Services Users is in effect in Mexico. The purpose of this law is to protect and defend the rights and interests of users of financial services. To this end, the law provides for the creation of CONDUSEF, an autonomous entity that protects the interests of users of financial services and that has very wide authority to protect users of financial services (including imposing fines). CONDUSEF acts as mediator and arbitrator in disputes submitted to its jurisdiction and seeks to promote better relationships among users of financial institutions and the financial institutions. As a banking institution, we must submit to CONDUSEF's jurisdiction in all conciliation proceedings (initial stages of a dispute) and may choose to submit to CONDUSEF's jurisdiction in all arbitration proceedings that may be brought before it. The law requires banks, such as us, to maintain an internal unit designated to resolve any and all controversies submitted by clients. We maintain such a unit.

CONDUSEF maintains a Registry of Financial Service Providers (*Registro de Prestadores de Servicios Financieros*), in which all financial services providers must be registered, that assists CONDUSEF in the performance of its activities. This Registry will be replaced as explained below. CONDUSEF is required to publicly disclose the products and services offered by financial service providers, including interest rates. To satisfy this duty, CONDUSEF has wide authority to request any and all necessary information from financial institutions.Furthermore, CONDUSEF may scrutinize banking services provided by approving and supervising the use of standard accession agreements.

We may be required to provide reserves against contingencies which could arise from proceedings pending before CONDUSEF. We may also be subject to recommendations by CONDUSEF regarding our standard agreements or information used to provide our services. We may be subject to coercive measures or sanctions imposed by CONDUSEF. As of the date of this offering memorandum, we are not the subject of any material proceedings before CONDUSEF.

As part of the financial reform being undertaken in Mexico in 2013, the Mexican Congress approved changes to the Law for the Protection and Defense of Financial Services Users pursuant to which, among other things:

- CONDUSEF is entitled to initiate class actions against Mexican financial institutions, in connection with events affecting groups of users of financial services;
- CONDUSEF shall maintain a new Bureau of Financial Entities (*Buró de Entidades Financieras*), which is to set forth any and all information deemed material for users of financial services;
- CONDUSEF is empowered to order amendments to any of the standard form commercial banking documentation (such as account and loan agreements) used by financial institutions, if it considers provisions thereof as detrimental to users;

- CONDUSEF is permitted to issue resolutions as part of arbitration proceedings, for the benefit of issuers, that would permit users to attach assets of a financial institution prior to the completion of arbitration proceedings; and
- CONDUSEF is given broader authority to fine financial institutions, if any such financial institution does not comply with an order issued by CONDUSEF.

Law for the Transparency and Ordering of Financial Services

The Law for the Transparency and Ordering of Financial Services regulates:

- the fees charged to clients of financial institutions for the use and/or acceptance of means of payment, as with debit cards, credit cards, checks and orders for the transfer of funds;
- the fees that financial institutions charge to each other for the use of any payment system;
- interest rates that may be charged to clients; and
- other aspects related to financial services, all in an effort to make financial services more transparent and protect the interests of the users of such services.

This law grants Mexican Central Bank the authority to regulate interest rates and fees and establish general guidelines and requirements relating to payment devices and credit card account statements (see "—Rules on Interest Rates" and "—Fees" above). The Mexican Central Bank has the authority to specify the basis upon which each bank must calculate its aggregate annual cost (*costo anual total)*, which comprises interest rates and fees, on an aggregate basis, charged in respect of loans and other services. The aggregate annual cost must be publicly disclosed by each bank. The law also regulates the terms that banks must include in standard accession agreements and the terms of any publicity and of information provided in account statements. We must inform the Mexican Central Bank of any changes in fees at least 30 calendar days before they become effective.

As part of the financial reform passed in 2013, the Mexican Congress approved changes to the Law for the Transparency and Ordering of Financial Services pursuant to which the Mexican Central Bank may issue temporary regulations applicable to interest rates and fees, if it or the Mexican Federal Economic Competitive Commission determine that no reasonable competitive conditions exist among financial institutions. Also, the Mexican Central Bank and the CNBV are given authority to issue rules regulating the means to obtain funds (i.e., credit cards, debit cards, checks and funds transfers), as a means to ensure competition, free access, no discrimination and protecting the interests of users.

Law on Transparency and Development of Competition for Secured Credit

The Law on Transparency and Development of Competition for Secured Credit (*Ley de Transparencia y de Fomento a la Competencia en el Crédito Garantizado*) ("**Secured Credit Law**") provides a legal framework for financial activities and certain other services performed by private credit institutions (as opposed to governmental entities) in connection with secured loans relating to real property in general and housing in particular (i.e., purchase, construction, restoration or refinancing). In particular, the Secured Credit Law established specific rules requiring the following:

- the disclosure of certain information by credit institutions to their clients prior to the execution of the relevant loan agreement, including the disclosure of certain terms relating to interest rates, aggregate costs and expenses payable;
- the compliance by credit institutions and borrowers with certain requirements in the application process;
- the binding effect of offers made by credit institutions granting secured loans;
- the inclusion of mandatory provisions in loan agreements; and
- the assumption of certain obligations by public officers (or notaries) before whom secured loans are granted.

In addition, the Secured Credit Law seeks to foster competition among credit institutions by permitting security interests underlying a secured loan to survive any refinancing thereof, even if such loans were granted by different credit institutions. This provision of the Secured Credit Law is designed to reduce expenditures made by borrowers.

Financial Groups Statutory Responsibility

The Financial Groups Law requires that each financial services holding company enter into an agreement with each of its financial services subsidiaries. Grupo Financiero Banorte, S.A.B. de C.V. has entered into such an agreement with its financial services subsidiaries, which includes us. Pursuant to such agreement, the financial services holding company is responsible secondarily and without limitation for the satisfaction of the obligations undertaken by its subsidiaries as a result of the activities that each such subsidiary is authorized to conduct under the applicable laws and regulations, and is fully responsible for the losses of its subsidiaries, up to the total amount of the holding company's assets. For such purposes, a subsidiary is deemed to have losses if its assets are insufficient to meet its payment obligations.

In the event of a financial services holding company's statutory responsibility with respect to a bank, the IPAB must determine the amount of the preliminary losses of such bank. The financial services holding company is required to create a capital reserve for the amount of such losses. The financial services holding company is also required to collateralize the payment of the bank's losses that are paid by the IPAB pursuant to the Mexican Banking Law. Such collateral may be created over the financial services holding company's assets or over such company's shares or those of its subsidiaries.

A financial services holding company is not allowed to pay any dividends or transfer any monetary benefit to its shareholders as of the date on which the IPAB determines the bank's losses, up to the date on which the financial services holding company has paid for the bank's losses.

No subsidiary is responsible for the losses of the financial services holding company or of the financial services holding company's subsidiaries.

Ownership Restrictions; Foreign Financial Affiliates

Ownership of a financial services holding company's capital stock is no longer limited to specified persons and entities under the Financial Groups Law and the group's corporate charter. Series F shares may be purchased, directly or indirectly, by foreign financial institutions who are residents of a country that has entered into a free trade agreement with Mexico and must represent at all times at least 51% of the paid-in capital.

Notwithstanding the above, under the Financial Groups Law, foreign governments cannot purchase a financial services holding company's capital stock, directly or indirectly, except:

- pursuant to preventive temporary measures, such as financial support or rescue programs;
- when control over such institution is held through official entities (such as funds or support governmental entities) and there is evidence that such entities do not exercise any authority functions and their decision making bodies operate separately from the relevant foreign government; and
- when the participation is indirect and does not imply the control by the relevant foreign government over the financial services holding company.

Mexican financial entities, including those that form part of a financial group, cannot purchase a financial services holding company's capital stock, unless such entities are qualified investors as defined in the Financial Groups Law. In accordance with applicable law:

- the capital of banks may be composed of voting Series O shares, which may be owned both by Mexican and non-Mexican investors, by Series F shares, which may be owned only by foreign financial institutions or Series B shares, which represent a minority interest in a bank controlled by a foreign financial institution and may be owned by Mexican or foreign investors;
- any transfer of shares representing more than 2% of the outstanding capital stock of a Mexican bank is required to be reported to the CNBV;
- the CNBV has been granted broader discretion to authorize the acquisition of more than 5% of the outstanding shares of a Mexican bank; and
- the composition of the boards of directors of Mexican banks has been limited to a total of 15 members and their alternates (as opposed to the former rule of 11 members or multiples thereof), 25% or more of whom must qualify as independent.

Minority shareholders own our Series B shares.

The change in foreign ownership rules continued the liberalization of the Mexican banking system commenced under NAFTA. Pursuant to NAFTA, the Free Trade Agreement between Mexico and the European Union, the Free Trade Agreement between Mexico and Japan, the Free Trade Agreement between Mexico and European Free Trade Zone and applicable Mexican laws and regulations, foreign financial entities incorporated in the United States, Canada, Member States of the European Union, Japan and other countries with which Mexico has executed relevant international trade agreements, or financial services holding companies formed in Mexico by such foreign financial entities, will be treated identically to Mexican investors when investing in affiliate banks and other financial entities.

A holder that acquires shares in violation of the foregoing restrictions, or in violation of the percentage ownership restrictions, will have their corporate and economic rights under such shares suspended, and may not be enforced until the necessary authorizations have been obtained or the necessary requirements have been met, as required under the Financial Groups Law.

New Regulation Applicable to our Business

Bill on Financial Discipline for States and Municipalities

On February 5, 2015, a positive opinion was published on the draft bill aiming to amend and add several provisions of the Mexican Constitution regarding Financial Discipline for States and Municipalities for the purposes of legislative programming.

The bill considers the following:

- Financial stability is considered the foundation for development and it should be observed when preparing and implementing the National Development Plan, and the states' and municipalities' plans.
- The Mexican Congress has the faculty to set the guidelines on how subnational governments should resort to financial debt and to issue laws on fiscal accountability aiming to manage finance adequately. Such guidelines will include the following concepts:
  - Limits and procedures for subnational governments to modify their contributions in order to secure their loans and meet their payment obligations;
  - The obligation to register and publish the total amount of loans and payment obligations in a single public register, indicating, for each loan or obligation: debtor, creditor, amount, interest rate, maturity date, type of guaranty or source of payment, and any other information deemed necessary to enhance transparence and access to information;
  - The creation of a warning system on debt management;
  - Sanctions to government officials for improper management of public resources and public debt; and
  - Limits and requirements for contracting short term liabilities which should be settled, at the latest, three months before the end of the government term.
- A bicameral committee will be created, through which, the Congress will analyze the adjustment strategy made by the federal government in order to strengthen public finance for those states and municipalities with high indebtedness. Such states will be able to celebrate agreements with the federal government to obtain guarantees. The committee should be informed in the case such an agreement has been celebrated.
- Greater Tax Audit. The Superior Audit Office of Mexico will be in charge of auditing revenues, expenditures, debt and guarantees that the Federal Government grants in the form of states and municipalities loans. In the case of those states that have a guaranty from the Federation, the SAO will audit the fiscal year and the destination of the corresponding resources of the local governments. At the local level, the audit bodies from the state legislatures will be responsible for auditing the states and municipalities actions regarding funds, local resources and public debt.
- Accountability of government officers. State and municipality officers in office will be accountable for improper management of public resources and public debt.
- Destination of the loan and negotiation of agreements under the best market conditions. Subnational governments can only take on obligations or loans destined for productive public investment, refinancing or restructure; and these should be negotiated under the best market conditions. The Regulatory Act will establish the arrangements and conditions of the public debt that should be selected through a bidding process, as well as the mechanisms to ensure the market conditions or even better ones. Under no circumstances loans should be destined to cover current expenditure.
- Local congresses will authorize the debt under the following conditions:
  - By the vote of two thirds of its members.
  - Establishing a debt ceiling and ensuring negotiation of agreements under the best market conditions.
  - Previous analysis of the loan destination, ability to pay, the grant of guaranty and the source of payment.

The purpose of this law is to support government entities by helping them obtain improved financing terms and conditions to foster growth and development without damaging public finances and continue endorsing state sovereignty and independence, through a transparent system, accountability, and efficient public spending leading to a Financial Discipline for States and Municipalities.

SIGNIFICANT DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND U.S. GAAP

Mexican banks prepare their financial statements in accordance with Mexican Banking GAAP as prescribed by the CNBV. Mexican Banking GAAP encompasses general accounting rules for banks as issued by the CNBV and MFRS prescribed by the CINIF to the extent that the aforementioned accounting criteria do not address or supersede the accounting to be followed. Mexican Banking GAAP differs in certain significant respects from U.S. GAAP. Such differences might be material to the financial information contained in this Prospectus. A summary of the significant differences that relate to balances or transactions maintained by Banorte is presented below. We have made no attempt to identify or quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of the Company, including the terms of this offering and the financial information contained in this Prospectus. Potential investors should consult with their own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP, and how those differences might affect the financial information herein.

This summary should not be taken as exhaustive of all differences between Mexican Banking GAAP and U.S. GAAP. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented in financial statements, including the notes thereto. We have not included in this Prospectus a reconciliation of our Mexican Banking GAAP financial statements to U.S. GAAP.

Loan Loss Reserve

On December 2, 2005, the General Rules Applicable to Mexican Banks became effective (amended through July 24, 2017) which include the accounting criteria applicable to banks. These accounting criteria also include the methodology for bank loan portfolio ratings. These provisions require the rating and creation of allowances for loan losses for each type of loan, providing for the assignment of a rating based on risk (*i.e.*, country, financial and industry), payment records and the value of guarantees for each borrower balance that exceeds 4,000,000 UDIS. The remainder is classified parametrically based on the number of months elapsed as of the first default. In its amendments effective June 1, 2017, the accounting criteria require that, when using the rating methodology for consumer and mortgage loan portfolios, financial institutions also consider payment records of the borrower with other financial institutions. This rating is used, among other things, to estimate a potential loan loss provision. However, the new provisions continue to allow the loan rating and creation of loan loss reserves based on internal methodologies previously authorized by the CNBV. Also, the CNBV allows the creation of additional reserves based on preventive criteria.

We assign an individual risk category to each commercial loan based on the borrower's financial and operating risk level, its credit experience and the nature and value of the loans' collateral. A loan loss reserve is determined for each loan based on a prescribed range of reserves associated to each risk category. In the case of the consumer and mortgage loan portfolio, the risk rating procedure and the establishment of loan reserves considers the accounting periods reporting past due, the probability of noncompliance, the severity of the loss based on its balance and the nature of any loan guarantees or collateral.

The outstanding balance of past-due loans is recorded as non-performing as follows:

- when there is evidence that the customer has declared bankruptcy;
- loans with a single payment of principal and interest at maturity are considered past due 30 calendar days after the date of maturity;
- loans with a single payment of principal at maturity and with scheduled interest payments are considered past due 30 calendar days after principal becomes past due and 90 calendar days after interest becomes past due;
- loans whose payment of principal and interest had been agreed to in scheduled payments are considered past due 90 days after the first installment is past due;
- in the case where a revolving line of credit is granted, loans are considered past due when payment has not been received for two normal billing periods or, when the billing period is not monthly, 60 calendar days following maturity; and
- customer bank accounts showing overdrafts are reported as non-performing loans at the time the overdraft occurs.

The U.S. GAAP methodology for recognition of loan losses is provided by the Financial Accounting Standards Board ("**FASB**") Accounting Standard Codification ("**ASC**") 450 *Contingencies* (previously Statement of Financial Accounting Standard ("**SFAS**") No. 5, "Accounting for Contingencies") and ASC 310 *Receivables* (previously SFAS No. 114, "Accounting by Creditors for Impairment of a Loan"), which establish that an estimated loss should be accrued when, based on information available prior to the issuance of the financial statements, it is probable that a loan has been impaired at the date of the financial statements and the amount of the loss can be reasonably estimated. For larger non-homogeneous loans, all individual loans should be assessed for impairment under ASC

310 (except for large groups of smaller-balance homogeneous loans which are collectively evaluated for impairment). Specific provisions are calculated when it is determined that it is probable that a bank will not recover the full contractual principal and interest on a loan (impaired loan), in accordance with the original contractual terms.

Under U.S. GAAP, estimated losses on impaired loans that are individually assessed are required to be measured at the present value of expected future cash flows discounted at the loan's effective rate, the loan's observable market price or at the fair value of the collateral if the loan is collateral dependent. To calculate the allowance required for smaller-balance impaired loans and unimpaired loans, historical loss ratios are determined by analyzing historical loss trends. These ratios are determined by loan type to obtain loss estimates for homogeneous groups of clients. Such historical loss ratios are updated to incorporate the most recent data reflective of current economic conditions, in conjunction with industry performance trends, geographic or obligor concentrations within each portfolio segment, and any other pertinent information. These updated ratios serve as the basis for estimating the allowance for loan losses for such smaller-balance impaired loans and non-impaired loans.

Under Mexican Banking GAAP, loans may be written-off when collection efforts have been exhausted or when they have been fully provisioned. On the other hand, for U.S. GAAP, loans (or portions of particular loans) should be written-off in the period that they are deemed uncollectible.

Non-Accrual Loans

Under Mexican Banking GAAP, the recognition of interest income is suspended when loans become past due based on the number of past due periods as established by the CNBV.

Under U.S. GAAP, the accrual of interest is generally discontinued when, in the opinion of management, it is expected that the borrower will not be able to fully pay its principal and interest. Generally this occurs when loans are 90 days or more past due. Any accrued but uncollected interest is reversed against interest income at that time.

Foreclosed Assets

Under Mexican Banking GAAP, there are two categories of foreclosed assets: (1) those received as payment in-kind and (2) those that are repossessed by judicial order. For both categories, foreclosed assets are recorded at the lesser of cost or estimated net realizable value.

On date of foreclosure, if the book value (contractual value) of the loan to be foreclosed is higher than net realizable value of the foreclosed asset the difference will be charged to the loan loss allowance. If the book value (contractual value) of the loan to be foreclosed is lower than the net realizable value of the repossessed asset, the carrying amount of the foreclosed asset is the book value of the loan. Foreclosed assets are subsequently adjusted by standard provisions as issued by the CNBV. The provisions depend on the nature of the foreclosed asset and the number of months outstanding.

Under U.S. GAAP, as required by ASC 470 *Debt* (previously SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings"), foreclosed assets received in full satisfaction of a receivable are reported at the time of foreclosure or physical possession at their estimated fair value less estimated costs of sale. If the foreclosed asset qualifies as an asset held for a long lived asset to be disposed by sale in accordance with ASC 360 *Property, Plant and Equipment* (previously SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"), such asset is thereafter carried at the lower of its carrying amount or fair value less estimated sale costs. Those assets not eligible for being considered as assets to be disposed of by sale are considered assets to be held and used and are depreciated based on their useful lives and are subject to impairment tests under ASC 360.

Investment Valuation

Under Mexican Banking GAAP, investments are divided into the following categories:

- Trading securities are defined as those in which management invests to obtain gains from short-term price fluctuations. The unrealized gains or losses resulting from the mark-to-market of these investments are recognized in the statement of income for the period.
- For-sale securities are those in which management invests to obtain medium-term earnings. The unrealized gains or losses resulting from the mark-to-market of equity securities, net of deferred taxes, is recognized in stockholders' equity.
- Held-to-maturity investments are those instruments in which management invests with the intention of holding them until maturity and are recorded at amortized cost. Furthermore, on November 9, 2009, the CNBV issued a ruling to amend the General Rules Applicable to Mexican Banks, which allows securities to be reclassified to the category of securities held to maturity or from the category of trading securities to that of securities available for sale, albeit with the prior express authorization of the CNBV.

Under Mexican Banking GAAP, the fair value amounts are determined by independent third party price quotes or in certain cases based on internal valuation methods. The fair value adjustment for for-sale equity securities is reflected in equity and includes the related deferred income tax effects and loss from monetary position (if determined). All amounts are reversed into earnings upon sale or maturity of the securities.

Under Mexican Banking GAAP, provisions must be made for permanent impairment of for-sale or held-to-maturity securities. If the conditions that led to the provision being established improve sufficiently, then the provision can be reversed.

For U.S. GAAP, under ASC 320 *Investments—Debt and Equity Securities* (previously SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities"):

- Debt securities must be classified, according to management's intent and ability to hold the security, within one of the following categories: held-to-maturity, trading, or available-for-sale. Marketable equity securities must be classified as either trading securities or available-for-sale securities.
- Trading securities are those actively bought and sold. Such securities are recorded at fair value, with resulting unrealized gains and losses recognized in the statement of income.
- Securities which management has the intent and ability to hold to maturity are classified as held-to-maturity, a classification allowed only for debt securities, except for preferred stock with required redemption dates. Held-to-maturity securities are carried at amortized cost.
- All other debt securities and marketable equity securities that are not classified as debt securities or held-to-maturity securities are classified as available-for-sale securities. Available-for-sale securities are recorded at fair value with the resulting unrealized gains and losses recorded net of applicable deferred taxes as other comprehensive income ("**OCI**"), a separate component of shareholders' equity until realized, at which time the realized gain or loss is recorded in the income statement. Non-marketable equity securities are valued at cost, less a provision for other than temporary impairment in value.

U.S. GAAP has specific criteria limiting reclassifications of securities within the held-to-maturity classification. If any sales are made from the held-to-maturity portfolio other than in certain specific circumstances, then all held-to-maturity securities are deemed to be tainted and are consequently classified as available-for-sale.

U.S. GAAP does not contemplate the monetary position effect which is presently recognized under Mexican Banking GAAP. Nevertheless, under U.S. GAAP, if there is a decline in carrying amount of an available-for-sale or held-to-maturity security below its fair value, it is judged to be other-than-temporary, the cost basis of the individual security is written down to its fair value and the amount of the write-down is recorded as charged to income. The new written down value of the security forms the new cost basis of the security. An impairment loss cannot be reversed if conditions improve.

For Mexican Banking GAAP purposes, any foreign currency effects on available-for-sale debt securities are reported in earnings. However, under U.S. GAAP and per ASC 310-10-35 (*Fair Value Changes of Foreign-Currency-Denominated Available-for-Sale Debt Securities* paragraphs 36-37) (formerly EITF 96-15 "Accounting for the Effects of Changes in Foreign Currency Exchange Rates on Foreign-Currency-Denominated Available-for-Sale Debt Securities"), the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities should be reported in stockholders' equity. This fair value serves as the basis under which other-than temporary impairment is considered.

Fair Value of Financial Instruments

Mexican Banking GAAP defines fair value as the amount an interested and informed market participant would be willing to exchange for the purchase or sale of an asset or to assume or settle a liability in a free market. This definition can consider either an entry or an exit price.

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition only considers an exit price. Consideration must be given to the principal and most advantageous market and the highest and best use of the asset.

Furthermore, U.S. GAAP establishes a three-level hierarchy to be used when measuring and disclosing fair value in a company's financial statements. Categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The following is a description of the three hierarchy levels:

- Level 1—Listed prices for identical instruments in active markets.
- Level 2—Listed prices for similar instruments in active markets; listed prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Repurchase Agreements

Under Mexican Banking GAAP, at the contracting date of the repurchase transaction, when the financial institution is the reselling party, the entry of cash or a debit settlement account, and an account payable at fair value, initially at the agreed-upon price, is recorded and represents the obligation to restitute cash to the repurchasing party. Subsequently, during the term of the repurchase transaction, the account payable is valued at fair value by recognizing the interest on the repurchase agreement using the effective interest method in results of the year. In relation to the collateral granted, the credit institution will reclassify the financial assets in its balance sheet as restricted, which will be valued based on the criteria described above in this note until the maturity of the repurchase transaction.

When an entity acts as repurchasing party, the withdrawal of funds available is recognized on the contracting date of the repurchase transaction or a credit settlement account, with an account receivable recorded at fair value, initially at the agreed-upon price, which represents the right to recover the cash paid. The account receivable will be valued subsequently during the term of the repurchase agreement at fair value through the recognition of interest on the repurchase agreement based on the effective interest method in the results of the year. Similarly, if the repurchasing party becomes a reselling party based on the performance of another repurchase transaction with the collateral received in guarantee for the initial transaction, the interest generated by the second repurchase transaction must be recognized in the results of the year when accrued, according to the effective interest method, and also affects the valued account payable according to the applied cost.

Under U.S. GAAP, repurchase agreements are transfer transactions subject to specific provisions and conditions that must be met in order for a transaction to qualify as a sale rather than a secured borrowing. In most cases, banks in the U.S. enter into repurchase transactions that qualify as secured borrowings. Accordingly, our assets subject to a repurchase agreement would not be derecognized.

Derivatives

Under Mexican Banking GAAP, the assets and/or liabilities arising from transactions with derivative financial instruments are recognized or cancelled in the financial statements on the date the transaction is carried out, regardless of the date of settlement or delivery of the asset. Financial institutions initially recognize all derivatives as assets or liabilities in the balance sheet at fair value, taking into consideration the execution price. Any transaction costs that are directly attributable to the acquisition of the derivative are directly recognized in results. All derivatives are valued at fair value without deducting any estimated sale costs or other types of disposal. The period net valuation effects are recognized in the results of the period as trading gain/loss.

Under Mexican Banking GAAP, a financial institution should consider the following the CNBV requirements for the purposes of classifying a derivative financial instrument:

- Hedging of an open risk position - Consists of the purchase or sale of derivative financial instruments to reduce the risk of a transaction or group of transactions. If they are fair value hedges, the primary position covered is valued at market and the net effect of the derivative hedge instrument is recorded in results of the period. If they are cash flow hedges, the hedge derivative instrument is valued at market and the valuation for the effective portion of the hedge is recorded within OCI account in stockholders' equity. Any ineffective portion is recorded in results.

- Trading positions - Consist of the positions assumed by the financial institution as market participant for purposes other than hedging risk positions. In forward and futures contracts, the balances represent the difference between the fair value of the contract and the contracted forward price. If the difference is positive, it is considered as surplus value and presented under assets; however, if negative, it is considered as a shortfall and presented under liabilities. In options, their balance represents the fair value of the premium and they are valued at fair value, recognizing the valuation effects in the results for the year. In swaps, the balance represents the difference between the fair value of the swap asset and liability.

Under U.S. GAAP, ASC 815 *Derivatives and Hedging* (previously SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities") provides that:

- Derivative financial instruments, although considered to be an effective hedge from an economic perspective that have not been designated as a hedge for accounting purposes are recognized in the balance sheet at fair value with changes in the fair value recognized in earnings concurrently with the change in fair value of the underlying assets and liabilities.

- For all derivative instruments that qualify as fair value hedges for accounting purposes, of existing assets, liabilities or firm commitments, the change in fair value of the derivative should be accounted for in the statement of income, and be fully or partially offset in the statement of income by the change in fair value of the underlying hedged item.

- For all derivative contracts that qualify as hedges of cash flows for accounting purposes, the change in the fair value of the derivative should be initially recorded in OCI in stockholders' equity. Once the effects of the underlying hedged transaction are recognized in earnings, the corresponding amount in OCI is reclassified to the statement of income to offset the effect of the hedged transaction.

- All derivative instruments that qualify as hedges are subject to periodic effectiveness testing. Effectiveness is the derivative instrument's ability to generate offsetting changes in the fair value or cash flows of the underlying hedged item. The ineffective portion of the change in fair value for a hedged derivative is immediately recognized in earnings, regardless of whether the hedged derivative is designated as a cash flow or fair value hedge.

Under Mexican Banking GAAP, the designation of a derivative instrument as a hedge of a net position ("macro hedging") is allowed. However, macro hedging is not permitted under U.S. GAAP.

However under U.S. GAAP, certain implicit or explicit terms included in host contracts that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument, must be separated from the host contract and accounted for at fair value. Under Mexican Banking GAAP, the recognition of embedded derivative instruments is required beginning in 2009.

Securitized Transactions and the Consolidation of Special-Purpose Entities

Under Mexican Banking GAAP, as of January 1, 2009, securitized transactions must fulfill the requirements established in accounting criterion C-1 "Recognition and derecognition of financial assets" in order to be considered a sale and transfer of assets. If this is not the case, these assets must remain on the balance sheet, together with the respective debt issuances and the effects on results based on this criterion. Furthermore, a company must consolidate a special-purpose entity (SPE) when the economic basis of the relationship between both entities shows that the SPE is controlled by the former. Also, all securitized transactions made before the effective date of criterion C-1, are not consolidated since this criterion was issued considering a prospective implementation.

Under U.S. GAAP, ASC 860 *Transfers and Servicing* (previously SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement 125") provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. The guidance focuses on control. Under that approach, after a transfer of financial assets (*e.g.* a securitization), an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. This Statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings.

A transfer of financial assets in which the transferor surrenders control over those assets is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The transferor has surrendered control over transferred assets if and only if all of the following conditions are met:

- The transferred assets have been isolated from the transferor (beyond the reach of the transferor and its creditors), even in bankruptcy;

- Each transferee (or, if the transferee is a qualifying special-purpose entity ("**QSPE**") (for more information on control that eliminates the QSPE exemption under U.S. GAAP beginning in 2016, see "- Consolidation"), each holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received, and no condition both constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor; and

- The transferor does not maintain effective control over the transferred assets through either (1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, (2) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call, or (3) an agreement that permits the transferee to require the transferor to repurchase the transferred financial assets at a price that is so favorable to the transferee that it is probable that the transferee will require the transferor to repurchase them.

Business Combinations

Through December 31, 2004, under Mexican Banking GAAP, the excess of the purchase price over the adjusted book value of net assets acquired was recorded as goodwill and amortized over 20 years (negative goodwill if book value exceeded the purchase price was recognized over a period not exceeding five years). Upon the adoption of NIF B-7, "Business Acquisitions," which is similar to the required accounting practices established by U.S. GAAP, requires the purchase price to be ascribed to the fair value of separately identifiable assets and liabilities acquired and that the difference between the purchase price and the fair value of identifiable assets and liabilities be allocated to goodwill or negative goodwill, as applicable.

Under U.S. GAAP, prior to January 1, 2009, SFAS No. 141, "Business Combinations" required the purchase price over the book value of assets and liabilities acquired to be allocated to the fair value of separately identifiable assets and liabilities acquired.

Under U.S. GAAP, beginning in January 1, 2009, ASC 805-10 (SFAS No. 141(R), "Business Combinations – a replacement of FASB No. 141"), now requires an acquirer in a business combination to (a) recognize assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at fair value as of the acquisition date, and (b) expense all acquisition-related costs. ASC 805-10 (SFAS No. 141(R)), also amends ASC 740-10 (SFAS No. 109, "Accounting for Income Taxes") to require that any reductions to an acquired entity's valuation allowances on deferred taxes and acquired tax contingencies that occur after the measurement period be recorded as a component of income tax expense.

Employee Retirement Obligations

Mexican Banking GAAP requires the recognition of a severance indemnity liability calculated based on actuarial computations. Similar recognition criteria under U.S. GAAP are established in ASC 712 *Compensation—Nonretirement Postemployment Benefits* (previously SFAS No. 112, "Employers' Accounting for Post-employment Benefits"), which requires that a liability for certain termination benefits provided under an ongoing benefit arrangement such as these statutorily mandated severance indemnities, be recognized when the likelihood of future settlement is probable and the liability can be reasonably estimated.

Under Mexican Banking GAAP, pension and seniority premium obligations are determined in accordance with NIF D-3. Under U.S. GAAP, such costs are accounted for in accordance with ASC 715 *Compensation—Retirement Benefits* (previously SFAS No. 87, "Employers' Accounting for Pensions"), whereby the liability is measured, similar to Mexican Banking GAAP, using the projected unit credit method at either corporate or government bonds based discount rates. The U.S. GAAP standard became effective on January 1, 1989 whereas NIF D-3 became effective on January 1, 1993. Therefore, a difference between Mexican Banking GAAP and U.S. GAAP exists due to the accounting for the transition obligation at different implementation dates.

Post-retirement benefits are accounted for under U.S. GAAP in accordance with ASC 715 (previously SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"), which applies to all post-retirement benefits, such as life insurance provided outside a pension plan or other postretirement health care and welfare benefits expected to be provided by an employer to current and former employees. The cost of postretirement benefits is recognized over the employees' service periods and actuarial assumptions are used to project the cost of health care benefits and the present value of those benefits. For Mexican Banking GAAP purposes, as required by NIF D-3, we account for such benefits in a manner similar to U.S. GAAP. SFAS No. 106 became effective on January 1, 2003 whereas NIF D-3 became effective on January 1, 1993.

In addition, under U.S. GAAP, the accounting for defined benefit postretirement plans, which include seniority premiums within Mexico, was amended in 2006 such that an employer is required to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position, recognizing changes in that funded status in the year in which the changes occur through OCI. Accordingly, unrecognized items may exist in Mexican FRS which are included as part of the employee benefit liability under U.S. GAAP.

Starting January 1, 2016, amendments to NIF D-3 became effective, in which unrecognized actuarial items, should be treated as follows:

a) the whole balance of the modifications to the plan (past service) not yet recorded, should be recorded affecting the retained earnings of the oldest period presented;

b) the accumulated unrecorded Profit or Losses of the Plan (GPP) (for entities that used the projected unit credit method), should be recorded affecting the initial balance of OCI for remedies of the oldest period presented.

Therefore, a difference arises since U.S. GAAP has not amended the recognition of actuarial remeasurements.

Guarantees

For Mexican Banking GAAP purposes, guarantees are recorded at cost at inception and disclosed in memorandum accounts unless payments in connection with the guarantee are probable, where the amounts expected to be paid are recorded.

For U.S. GAAP purposes, guarantees are accounted for under ASC 460 *Guarantees* (previously FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB interpretation No. 34"), which requires that an entity recognizes, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing such guarantee.

For Mexican Banking GAAP purposes, guarantees are recorded at cost at inception and disclosed in memorandum accounts unless payments in connection with the guarantee are probable, where the amounts expected to be paid are recorded.

Equity Method Investees

Under Mexican Banking GAAP, investments in associated companies in which we have more than a 10% ownership, are accounted for by the equity method.

For U.S. GAAP purposes, investments in associated companies in which we have a 20 to 50% ownership over which we can exert significant influence on the company, but do not have a controlling interest, are accounted for by the equity method. Investments in which we have less than a 20% ownership are generally accounted for under the cost method.

Retained Earnings Adjustments

Where specific approval is given by the CNBV, certain adjustments and provisions which are created during the year may be charged to retained earnings and not to the statement of income for the period.

Under U.S. GAAP, when adjustments which relate to correction of errors in the prior year occur, the prior period financial statements are required to be restated. Under U.S. GAAP, loss provisions or other operating and non-operating expenses are recognized as a charge to income.

Deferred Income Tax

Mexican Banking GAAP is similar to U.S. GAAP with respect to accounting for deferred income taxes in that an asset and liability approach is required. Under Mexican Banking GAAP, deferred tax assets must be reduced by a valuation allowance if it is "highly probable" that all or a portion of the deferred tax assets will not be realized. The determination of the need for a valuation allowance must consider future taxable income and the reversal of temporary taxable differences. Net deferred income tax assets or liabilities are presented within long-term assets or liabilities.

Under U.S. GAAP, deferred income taxes are also accounted for using the asset and liability approach. However, under U.S. GAAP, a valuation allowance is recognized if, based on the weight of all positive and negative available evidence, it is "more likely than not" that all or a portion of the deferred tax asset will not be realized. In order to make this determination, entities must consider future reversals of taxable temporary differences, future taxable income, taxable income in prior carryback years and tax planning strategies. Additionally, if the company has experienced recurring losses, little weight, if any, may be placed on future taxable income as objective evidence to support the recoverability of a deferred income tax asset.

Consolidation

Under Mexican Banking GAAP, an entity is required to consolidate subsidiaries over which it is has established control, despite not holding a majority of the voting common stock of the subsidiary. Determining whether an entity has control is based on an analysis of corporate governance and economic risk and benefits.

Under U.S. GAAP, when a company has a controlling financial interest (either through a majority voting interest or through the existence of other control factors) in an entity, such entity's financial statements should be consolidated, irrespective of whether the activities of the subsidiary are non-homogeneous with those of the parent. In addition to the traditional concept of consolidation, on January 17, 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities- an Interpretation of ARB No. 51," replaced in December 2003, by Interpretation ASC 810 Consolidation (previously No. 46(R) "Consolidation of Variable Interest Entities- an interpretation of APB 51" ("FIN 46R")), which contained certain clarifications to address accounting for variable interest entities. The primary purpose of ASC 810 is to provide guidance on the identification of, and financial reporting for, entities over which control is achieved through means other than voting rights; such entities are known as variable-interest entities ("VIEs"). Generally, VIEs are to be consolidated by the primary beneficiary which represents the enterprise that will absorb the majority of the VIEs' expected losses if they occur, receive a majority of the VIEs' residual returns if they occur, or both. Through 2009, QSPEs and certain other entities are exempt for the consolidation provisions of FIN 46R. As described in ASC 840-40 Transfers to Qualifying Special Purpose Entities (previously SFAS No. 140, par. 35), a QSPE is a trust or other legal vehicle that meets certain conditions. Under U.S. GAAP, a QSPE is not consolidated in the financial statements of a transferor or its affiliates.

Effective beginning January 1, 2019, Accounting Standards Update No. 2009-16, seeks to improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting

Effects of Inflation

Through December 31, 2007, Mexican Banking GAAP required that the effects of inflation be recorded in financial information and that financial statements be restated to constant Pesos as of the latest balance sheet date presented. Beginning January 1, 2008, Mexican Banking GAAP modified the accounting for the recognition of the effects of inflation and defines two economic environments: (i) an "inflationary environment", in which the cumulative inflation of the three preceding years is 26% or more, in which case the effects of inflation should be recognized using the comprehensive method; and (ii) a "non-inflationary environment', in which the cumulative inflation of the three preceding years is less than 26%, in which case, no inflationary effects should be recognized in the financial statements. Additionally, beginning January 1, 2018 amendments to NIF B-10 require that, in a non-inflationary environment, entities disclose the accumulated inflation rate for the last three years, and that it served as basis to classify the economic environment in which they operated in the current year as non-inflationary; the accumulated inflation rate of the last two years, and the inflation rate for the reporting period.

Under U.S. GAAP, historical costs must be maintained in the basic financial statements. Business enterprises are encouraged to disclose certain supplemental information concerning changing prices on selected statement of income and balance sheets items. Typically, however, no gain or loss on monetary position is recognized in the financial statements. However, specific rules and regulations established by the SEC allow for the presentation of inflation in a company's reconciliation from local GAAP to U.S. GAAP for companies registering securities with the SEC for sale in the United States, when, for local purposes, such company prepares comprehensive price-level adjusted financial statements, as required or permitted by their home-country GAAP.

The recording of appraisals of fixed assets is prohibited, with the objective of maintaining historical cost in the balance sheet. Although the effects of inflation are not recognized in the financial statements under U.S. GAAP, the SEC recognizes that presentation indicating the effects of inflation is more meaningful than historical cost-based financial reporting for Mexican entities because it represents a comprehensive measure of the effects of price level changes in the inflationary Mexican economy. For this reason, the effects of inflation accounting are generally not eliminated from the financial statements of Mexican companies making offerings in the United States securities markets in situations when Mexican MFRS or Mexican Banking GAAP are reconciled to U.S. GAAP.

In addition, under MFRS, NIF B-15, "Foreign Currency Transactions and Translation of Financial Statements of

Foreign Operations" allows the restatement of information for prior periods in order to compare such information to information of the most current period presented, based on a weighted average restatement factor that reflects the relative inflation and currency exchange movements of the countries in which we operate. The restatement provisions of NIF B-15 do not meet the SEC's Regulation S-X requirement that the financial statements be stated in the same currency for all periods, because changes in foreign currency exchange rates are included in the restatement factor. Under U.S. GAAP, the primary financial statements should be presented in the same constant reporting currency for all periods.

Recent Mexican Banking GAAP Accounting Standards

As part of its efforts to converge Mexican standards with international standards, CINIF issued the following Mexican Financial Reporting Standards (NIF), Interpretations to Financial Information Standards (INIF) and improvements to NIF applicable to profitable entities which became effective for fiscal years that begin on January 1, 2017 [(1)] and 2018[(2)].

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

- NIF B-7, Business acquisitions - A modification was made to the prospective adoption of the improvements to NIF 2016, which establishes that acquisitions under common control should not form part of the scope of such NIF. [(1)]
- NIF B-13, Events after the reporting period - If an agreement is reached as of the authorization date for the issuance of the financial statements to maintain the contractual long-term payments of a debt instrument that is in default, such liability may be classified as a long-term item at the date of the financial statements; early application of this guidance as of January 1, 2016 is permitted. [(1)]
- NIF C-11, Stockholders' equity - Establishes that the costs incurred to list shares in a stock market which at the date of such listing were already owned by investors, and for which the issuing entity had already received the respective proceeds, should be recognized in net income or loss at the time of their accrual, because it is considered that there was no equity transaction. It also clarifies that any expense incurred in the re-issuance of repurchased shares should be recognized as a reduction of the capital issued and placed. [(1)]
- NIF D-3, Employee benefits - Is modified to establish, as a basic principle, that the discount rate to be used in the determination of the present value of the long-term defined benefit obligation should be a free market rate with a very low credit risk, which represents the value of money over time. Consequently, either the government bond market rate or the market rate for high-quality corporate bonds in absolute terms in a deep market, could be used, indistinctly, provided that the latter complies with the requirements established in Appendix B– Application guidance, B1– Guidance for the identification of issues of high-quality corporate bonds in absolute terms in a deep market. Early application is allowed. [(1)]
- NIF C-14, Transfer and disposals of financial assets – States that the recognition of the change to this NIF, effective from January 2018, should be made retrospectively for all financial statements presented in comparative periods. The change establishes that an entity should recognize a transferred asset as long as it has a continuous involvement, and that subsequent recognition for such asset should be based on the applicable NIF, according to the class of asset and its classification as determined by the entity. These requirements are consistent to those set out in ASC 860 for the transfer and disposal of financial assets. [(2)]

Furthermore, in January 2017, the CNBV published an amendment to Mexican Banking GAAP with respect to the methodology for

Additionally, CINIF issued the following Mexican Financial Reporting Standards (NIF), Interpretations to Financial Information Standards (INIF) and improvements to NIF applicable to credit institutions, which become effective for fiscal years that begin on January 1, 2019:

- NIF B-17 "Fair value measurement".
- NIF C-2 "Investments in financial instruments".
- NIF C-3 "Accounts receivable".
- NIF C-9 "Provisions, contingencies, and commitments".
- NIF C-10 "Derivative financial instruments and hedging activities".
- NIF C-16 "Impairment of receivable financial instruments".
- NIF C-19 "Payable financial instruments".
- NIF C-20 "Receivable financial instruments, principal and interests".
- NIF D-1 "Revenues from contracts with customers".
- NIF D-2 "Costs from contracts with customers".

At the date of this report, the Institution's management is in the process of assessing the effects of adopting these new standards on its financial information, which will be informed once the CNBV has officially published the A-2

Criterion, "Applicability of Particular Standards", which might include specifics about the adoption of the abovementioned standards for financial institutions.

Recent U.S. GAAP Accounting Standards

In January 2016, the FASB issued ASU 2016-06. The ASU amends ASC 820, Fair Value Measurements and Disclosures (SFAS No. 157) to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This ASU amends guidance on employers' disclosures about postretirement benefit plan assets under ASC 715, Compensation – Retirement Benefits, to require that disclosures be provided by classes of assets instead of by major categories of assets. The guidance in the ASU is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. In the period of initial adoption, entities will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. However, those disclosures are required for periods ending after initial adoption. Early adoption is permitted.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this ASU also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition the amendments in this ASU eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. This ASU is effective for annual reporting periods beginning after December 15, 2018.

In February 2016, the FASB issued ASU 2016-02, Leases, which introduces a lessee model that brings most leases on the balance sheet. The new standard also aligns many of the underlying principles of the new lessor model with those of ASC 606, the FASB's new revenue recognition standard (e.g., those related to evaluating when profit can be recognized). Furthermore, the ASU addresses other concerns related to the current leases model. For example, the ASU eliminates the requirement in current U.S. GAAP for an entity to use bright-line tests in determining lease classification. The ASU also requires lessors to increase the transparency of their exposure to changes in value of their residual assets and how they manage that exposure. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2019 with early application permitted.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this ASU are effective for annual periods beginning after December 15, 2017 with early adoption permitted.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. The ASU eliminates the probable initial recognition threshold in current guidance and, instead, requires an entity to reflect its current estimate of all expected credit losses. This ASU affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this ASU are effective for annual periods beginning after December 15, 2020.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments – a consensus of the FASB Emerging Issues Task Force, which addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The ASU is effective for annual periods beginning after December 15, 2018 with early adoption permitted.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740) Intra-Entity Transfers of Assets Other Than Inventory, which requires that entities recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments in this Update do not change US GAAP for the pre-tax effects of an intra-entity asset transfer under Topic 810, Consolidation, or for an intra-entity transfer of inventory. This ASU is effective for annual periods beginning after December 15, 2018 with early adoption permitted.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash – a consensus of the FASB Emerging Issues Task Force, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. This ASU is effective for annual periods beginning after December 15, 2018 with early adoption permitted.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which provides a screen to determine when an integrated set of assets and activities (referred to collectively as a “set”) is not a business. If the screen is not met, it (1) requires that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) removes the evaluation of whether a market participant could replace the missing elements. This ASU is effective for annual periods beginning after December 15, 2018.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU Topic 350, Intangibles—Goodwill and Other (Topic 350), currently requires an entity that has not elected the private company alternative for goodwill to perform a two-step test to determine the amount, if any, of goodwill impairment. In Step 1, an entity compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the entity performs Step 2 and compares the implied fair value of goodwill with the carrying amount of that goodwill for that reporting unit. An impairment charge equal to the amount by which the carrying amount of goodwill for the reporting unit exceeds the implied fair value of that goodwill is recorded, limited to the amount of goodwill allocated to that reporting unit. The amendments in this ASU remove the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. This ASU is effective for annual periods beginning after December 15, 2021 with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

In March 2017, the FASB issued ASU 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Postretirement Benefit Cost. The amendments in this ASU require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Additionally, only the service cost component is eligible for capitalization, when applicable. This ASU is effective for fiscal years beginning after December 15, 2018 with early adoption permitted.

In May 2017, the FASB issued ASU 2017-09 Scope of Modification Accounting for Share -Based Payment Arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. For all entities, the ASU is effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period.

These updates and amendments are not significantly different to the accounting principles established by NIF, and therefore, they would not create material differences in the financial information of the Company once they are applied.

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

Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016, and Independent Auditors' Report Dated February 21, 2018

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

Independent Auditors' Report and Consolidated Financial Statements as of December 31, 2017 and 2016

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Independent Auditors’ Report to the Board of Directors and Shareholders of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and Subsidiaries

Opinion

We have audited the accompanying consolidated balance sheets of Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and Subsidiaries (the Institution) as of December 31, 2017 and 2016, and the related consolidated income statements, changes in stockholders’ equity and cash flows for the years then ended, as well as a summary of the significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Parent Company as of December 31, 2017 and 2016, as well as its consolidated results of operations and cash flows for the years ended These dates, in accordance with the accounting criteria established by the National Banking and Securities Commission (the Commission) through the "General Provisions applicable to Credit Institutions" (the Accounting Criteria).

Fundamentals of Opinion

We have conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under these standards are explained more fully in the section Responsibilities of the auditor in relation to the audit of the consolidated financial statements of our report. We are independent of the Parent Company in accordance with the Code of Ethics for Accounting Professionals of the International Standards Board for Accountants (IESBA Code of Ethics) and with the Mexican Institute of Public Accountants (IMCP Code of Ethics), And we have fulfilled all other ethical responsibilities in accordance with the IESBA Code of Ethics and the IMCP Code of Ethics. We believe that the audit evidence we have obtained provides a sufficient and adequate basis for our opinion.

Audit key issues

Key audit issues are those matters that, according to our professional judgment, have been of the greatest significance in our audit of the consolidated financial statements of the current period. These issues have been addressed in the context of our audit of the consolidated financial statements and in forming our opinion thereon, and we do not express a separate opinion on those issues. We have determined that the issues described below are the key audit issues to be reported in our report.

Preventive estimates of credit risks (see Note 4 and 11 to the consolidated financial statements)

The methodology for calculating the preventive estimate 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 non-compliance. It has been considered a key audit issue because of the relative importance of the integrity and accuracy of the source information used for its determination and updating of each of the aforementioned credit risk factors in the calculation of that estimate.
Our audit procedures to cover this key audit issue included:
A) Test the design and operational effectiveness of the relevant controls regarding the valuation of the Preventive Estimate for credit risks of the Holding Company.
B) Recalculate the valuation on a sample of credits, considering the risk factors and the source of information used to carry out this calculation. In addition, we review the source of information used to determine and update each of the risk factors in the calculation.
C) Involve our team of Regulatory Compliance specialists.
D) We validate the correct presentation and disclosure in the consolidated financial statements.
The results of our auditing procedures described above were reasonable and we found no exceptions.

Investments in securities (see note 4 and 6 to the consolidated financial statements)

We identified risks in (i) the classification of investments in securities since, according to their intention, valuation effects could be recorded in results or in stockholders' equity in accordance with the Accounting Criteria issued by the Commission and (ii) The Parent does not recognize the effect of impairment even if there is objective evidence that a security is impaired.

Our audit evidence, with respect to what was mentioned in the previous paragraph, included the following:

A) We review the integrity by confirmation of the custodian (SD INDEVAL, Institution for the Deposit of Securities, SA de CV or "INDEVAL") and its valuation according to the price vector, and that in turn, it is recorded in results or Stockholders' equity according to their intention and classification.

B) In the item of investments with characteristics of equity instruments, we reviewed i) the valuation, obtaining as evidence the fair value determined by an independent price provider and ii) the presentation according to the intention and classification of the instrument.

C) In investments that show signs of deterioration and for which the Management of the Company performed an impairment analysis, we verify that these calculations are carried out in accordance with the accounting regulations, in addition we prove the controls that the Company has implemented for said procedure .
The results of our auditing procedures described above were reasonable and we found no exceptions.

• *Derivative financial instruments (See notes 4 and 8 to the consolidated financial statements)*

The valuation of the financial instruments of the Company was considered as a key issue in our audit given the degree of complexity involved in the valuation techniques used for some of the financial instruments and the importance of the judgments and estimates made by the Management of the Tenedor.

In the accounting policies of the Parent Company, Management has described the main sources of information involved in determining the valuation of derivative financial instruments and in particular, how fair value is established using a valuation technique when the estimate can not Be carried out with inputs directly observed in an active market. Our audit included review of the evidence of valuation adjustments, including those by inclusion of the collateral.

Our auditing procedures to cover these significant items included:

A) Test the design and operational effectiveness of the key controls with respect to the valuation of derivative financial instruments of the Holding Company.

B) Review methodologies and inputs through the recalculation of valuation, on a sample of derivative financial instruments. In those cases where the results had presented differences in the valuations, we ensured that such variations were reasonable.

C) Involve our team of Capital Market specialists.

D) We review the correct presentation and disclosure in the consolidated financial statements.
The results of our auditing procedures described above were reasonable and we found no exceptions.

Subordinated debentures (see Notes 4 and 23)

On July 6, 2017, the Institution concluded an issuance of Subordinated NonPreferred Non-Cumulative Tier 1 Capital Notes (Tier 1) (Notes) in the international markets.

The Notes issued are perpetual and with write-down contingent, with payment of interest in a discretionary manner at the election of the issuer.

Our audit procedures with respect to the paragraphs referred to above, were the following:

a) Review that the notes issued shall be recorded in accordance with the consultation of accounting criterion issued by the Commission on January 28, 2018.

b) Review that the cash flow received was recorded on the bank statement on behalf of Banorte.

c) Review that the repayments of capital and interest shall be recorded in accordance with the consultation of accounting criterion issued by the Commission.

d) Review the correct presentation and disclosure in the consolidated financial statements.

The results of our audit procedures described above were reasonable and we did not find any exceptions.

Information other than the consolidated financial statements and the auditor's report

The administration is responsible for the other information. The other information will include the information that will be incorporated in the annual report, which will include the consolidated financial statements and our audit report. The annual report is expected to be available for our reading after the date of this audit report.
Our opinion of the consolidated financial statements will not cover the other information and we will not express any form of security about it.

In connection with our audit of the consolidated financial statements, our responsibility will be to read the other information mentioned, when available, and when we do so, to consider whether the other information contained therein is materially inconsistent with the financial statements or our knowledge obtained during The audit, or appears to contain a material error. If based on the work we have done, we conclude that there is a material error in the other information; we would have to report this fact. We have nothing to report on this matter.

Responsibilities of the management and those responsible for the Governance of the Company in relation to the consolidated financial statements

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with the Accounting Standards issued by the Commission and the internal control that management deems necessary to enable the preparation of consolidated financial statements free of material misstatement, Due to fraud or error.
In the preparation of the consolidated financial statements, management is responsible for evaluating the Company's ability to continue as a going concern, disclosing as appropriate, the issues related to the Operating Group and using the operating accounting principle , Unless management intends to liquidate the Holding Company or to stop its operations, or there is no other realistic alternative.

Those responsible for the Government of the Holding Company are responsible for supervising the financial information process of the Holding Company.

Responsibility of the Auditor for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement, due to fraud or error, and to issue an audit report containing our opinion. Reasonable security is a high level of security but does not guarantee that an audit performed in accordance with ISA will always detect a material error when it exists. Errors may be due to fraud or error and are considered material if individually or in aggregate form can reasonably be expected to influence the economic decisions that users make based on the consolidated financial statements.
As part of an audit performed in accordance with ISAs, we exercise our professional judgment and maintain professional skepticism throughout the audit. We also:

• We identify and evaluate the risks of material misstatement of the consolidated financial statements due to fraud or error, design and apply audit procedures to respond to those risks, and obtain audit evidence that is sufficient and appropriate to provide the basis for our opinion . The risk of not detecting a material misstatement due to fraud is higher than in the case of a material misstatement due to an error, since fraud may involve collusion, falsification, deliberate omissions, intentional misrepresentation, or circumvention of internal control .
• We obtain knowledge of the internal control relevant to the audit in order to design audit procedures that are appropriate to the circumstances and not in order to express an opinion on the effectiveness of the internal control of the Company.
• We evaluate the adequacy of the accounting policies applied and the reasonableness of the accounting estimates and the corresponding information disclosed by the Administration.
• We conclude on the adequacy of the use by the Administration of the accounting standard of operating company and, based on the audit evidence obtained, we conclude on whether or not there is a material uncertainty related to facts or conditions that may generate significant doubts about The ability of the Holding Company to continue as a going concern. If we conclude that material uncertainty exists, it is required that we draw attention in our audit report to the corresponding information disclosed in the financial statements or, if those disclosures are not adequate, express a modified opinion. Our findings are based on the audit evidence obtained so far from our audit report. However, future events or conditions may cause the Holding Company to cease to be a running company.
• We evaluate the overall presentation, structure and content of the consolidated financial statements, including disclosed information, and whether the consolidated financial statements represent the relevant transactions and events in a manner that achieves reasonable presentation.

We obtain sufficient and adequate evidence in relation to the financial information of the subsidiaries or business activities within the Institution to express an opinion on the consolidated financial statements. We are responsible for the management, supervision and execution of the audit of the Institution. We are the only ones responsible for our audit opinion.

We communicate to those responsible for the governance of the Company regarding, inter alia, the scope and timing of the planned audit, the significant findings of the audit, as well as any significant deficiencies in internal control that we identified in the course Of the audit.
We also provide those responsible for the Governor's Office with a statement that we have met the applicable ethics requirements regarding independence and communicated with them about all relationships and other issues that can reasonably be expected to affect our Independence and, where appropriate, the corresponding safeguards.

Among the issues that have been the subject of communications with those responsible for the Governor of the Company, we determine that they have been of the greatest significance in the audit of the consolidated financial statements of the current period and are therefore the key audit issues. We describe these issues in this audit report unless legal or regulatory provisions prohibit disclosure of the matter or, in extremely rare circumstances, we determine that an issue should not be reported in our report because it can reasonably be expected that the adverse consequences thereof would outweigh The benefits of the public interest of the same.

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

C.P.C. Daniel Castellanos Cárdenas
Registration in the General Administration
Of Federal Tax Audit No. 17195
February 21, 2018

BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016
(In millions of Mexican pesos)

ASSETS	2017	2016
CASH AND CASH EQUIVALENTS	**Ps. 76,063**	**Ps. 65,844**
MARGIN SECURITIES	**1,986**	**2,185**
INVESTMENT IN SECURITIES		
Trading Securities	122,065	129,477
Securities available for sale	152,910	153,128
Securities held to maturity	6,834	6,258
	281,809	**288,863**
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	**5**	**-**
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	25,511	40,881
For hedging purposes	205	742
	25,716	**41,623**
VALUATION ADJUSTMENTS FOR ASSETS HEDGING	**99**	**113**
PERFORMING LOAN PORTFOLIO		
Commercial loans		
Business loans	210,431	201,753
Financial institutions' loans	22,875	20,240
Government loans	132,816	133,540
Consumer loans	101,995	86,632
Credits of Housing		
Media and Residencial	131,563	110,825
Interest social	26	40
Earned Credits at INFONAVIT O FOVISSSTE	3,816	3,942
TOTAL PERFORMING LOAN PORTFOLIO	**603,522**	**556,972**
PAST-DUE LOAN PORTFOLIO		
Commercial loans		
Business loans	6,540	5,467
Financial institutions' loans	-	344
Consumer loans	4,329	3,200
Credits of Housing		
Media and Residencial		952
Interest social	1,179	1
Earned Credits at INFONAVIT O FOVISSSTE	1	96
TOTAL PAST-DUE LOAN PORTFOLIO	**12,192**	**10,060**
LOAN PORTFOLIO	**615,714**	**567,032**
(Minus) ALLOWANCE FOR LOAN LOSSES	(15,551)	(13,941)
LOAN PORTFOLIO, net	**600,163**	**553,091**
ACQUIRED COLLECTION RIGHTS	**1,925**	**1,400**
TOTAL LOAN PORTFOLIO, net	**602,088**	**554,491**
RECEIVABLES GENERATED BY SECURITIZATIONS	**141**	**155**
OTHER ACCOUNTS RECEIVABLE, net	**37,492**	**39,989**
FORECLOSED ASSETS, net	**752**	**1,222**
PROPERTY, FURNITURE AND EQUIPMENT, net	**13,474**	**11,927**
PERMANENT STOCK INVESTMENTS	**150**	**185**
LONG-TERM ASSETS AVAILABLE FOR SALE	**-**	**5,299**
DEFERRED TAXES AND PROFIT SHARING, net	**3,517**	**4,228**
OTHER ASSETS		
Deferred charges, advance payments and intangibles	13,051	11,214
Other short-term and long-term assets	80	3,097
TOTAL ASSETS	**Ps. 1,056,423**	**Ps. 1,030,435**

MEMORANDUM ACCOUNTS (Note 33)

These balance sheets were prepared according to accounting principles applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission according to Articles 99, 101 and 102 of the Law of Credit Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Institution as of the consolidated balance sheet dates above.

As of December 31, 2017, the stockholders' equity amounts to Ps. 13,730.

The accompanying Consolidated Balance Sheets have been approved by the Board of Directors in accordance with the responsibility assigned to them.

"The attached notes are an integral part of these consolidated balance sheets."

LIABILITIES AND STOCKHOLDERS' EQUITY	2017	2016
DEPOSITS		
Demand deposits	Ps. 394,995	Ps. 382,409
Time deposits		
General public	245,288	190,536
Money market	3,679	1,459
Senior debt issued	3,003	-
Global account of deposits without movements	1,657	1,352
	648,622	**575,756**
INTERBANK AND OTHER LOANS		
Demand loans	-	4,019
Short-term loans	8,441	8,063
Long-term loans	6,797	9,178
	15,238	**21,260**
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	**190,363**	**234,490**
COLLATERAL SOLD OR PLEDGED		
Repurchase or resale agreements (creditor balance)	**3**	**-**
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	24,608	40,403
For hedging purposes	12,401	9,372
	37,009	**49,775**
OTHER ACCOUNT PAYABLES		
Income tax	1,940	1,965
Employee profit sharing	405	396
Creditors from settlements of transactions	15,871	6,988
Creditors from settlements of transactions	11,083	10,326
Sundry creditors and other payables	16,897	14,444
	46,196	**34,119**
SUBORDINATED DEBENTURES	**32,445**	**21,917**
DEFERRED CREDITS AND ADVANCED COLLECTIONS	**485**	**331**
TOTAL LIABILITIES	**970,361**	**937,648**
STOCKHOLDERS' EQUITY		
PAID-IN CAPITAL		
Common Stock	18,105	18,105
Additional paid-in capital	648	72
	18,753	**18,177**
OTHER CAPITAL		
Capital reserves	13,013	11,509
Retained earnings from prior years	38,959	50,215
Result from valuation of securities available for sale	4	(1,645)
Result from valuation of instruments for cash flow hedging	(3,653)	(2,131)
Cumulative foreign currency translation adjustment	1,590	1,985
Benefit remedies for employees	(943)	(377)
Net income	18,339	15,044
	67,309	**74,600**
MINORITY INTEREST	**-**	**10**
TOTAL STOCKHOLDERS' EQUITY	**86,062**	**92,787**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$1,056,423**	**$1,030,435**

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BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In millions of Mexican pesos)

	2017	2016
Interest income	Ps. 95,710	Ps. 69,407
Interest expense	40,062	23,244
NET INTEREST INCOME	**55,648**	**46,163**
Allowance for loan losses	(14,983)	(13,070)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES	**40,665**	**33,093**
Commission and fee income	18,436	15,764
Commission and fee expense	(6,142)	(4,498)
Brokerage revenues	2,101	1,839
Other Operating Income (expenses)	2,365	2,078
Non Interest Expense	(31,750)	(29,155)
	(14,990)	**(13,972)**
OPERATING INCOME	**25,675**	**19,121**
Equity in earnings of unconsolidated subsidiaries and associated companies	62	1,043
INCOME BEFORE INCOME TAX	**25,737**	**20,164**
Current income tax	(6,781)	(5,479)
Deferred income taxes, net	(706)	116
	(7,487)	**(5,363)**
INCOME BEFORE NONCONTROLLING INTEREST	**18,250**	**14,801**
Minority interest	89	243
NET INCOME	**Ps. 18,339**	**Ps. 15,044**

These income statements were prepared according to accounting principles applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission according to Articles 99, 101 and 102 of the Law of Credit Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Institution as of the consolidated income statements dates above.

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

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

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BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(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**
Balances, January 1, 2016	**Ps.20,074**	**Ps.11,608**	**Ps.10,157**	**Ps.48,398**	**(Ps.1,310)**
TRANSACTIONS APPROVED BY STOCKHOLDERS:					
Transfer of prior year's result	-	-	-	13,518	-
Dividends declared at the General Stockholders' meetings on:					
August 12, December 15 2016	-	-	-	(5,967)	-
Creation of reserves as per General Stockholders' meeting on April 22, 2016	-	-	1,352	(1,352)	-
Excision of AFORE XXI Banorte	(1,969)	(12,052)	-	(68)	-
Special judgement of CNBV for sale of INB	-	-	-	(3,809)	-
Share-based payments payable in stock options	-	442	-	-	-
Total transactions approved by stockholders	**(1,969)**	**(11,610)**	**1,352**	**2,322**	**-**
COMPREHENSIVE INCOME:					
Net income	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	(335)
Effect of subsidiaries, affiliates and mutual funds	-	-	-	3	-
Cumulative foreign currency translation adjustment	-	-	-	-	-
Defined remedies for employees benefits	-	-	-	(37)	-
Modification of provisions on consumer loans rating	-	-	-	(471)	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**(505)**	**(335)**
Minority interest	-	-	-	-	-
Balances, December 31, 2016	**18,105**	**72**	**11,509**	**50,215**	**(1,645)**
TRANSACTIONS APPROVED BY STOCKHOLDERS:					
Transfer of prior year's result	-	-	-	15,044	-
Dividends declared at the General Stockholders' meetings on:					
February 17, April 28, September 20, December 6 2017	-	-	-	(23,380)	-
Creation of reserves as per General Stockholders' meeting on April 28, 2017	-	-	1,504	(1,504)	-
Special judgement of CNBV for sale of INB	-	-	-	(364)	-
Share-based payments payable in stock options	-	576	-	-	-
Total transactions approved by stockholders	**-**	**576**	**1,504**	**10,204**	**-**
COMPREHENSIVE INCOME:					
Net income	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	1,649
Effect of subsidiaries, affiliates and mutual funds	-	-	-	1	-
Cumulative foreign currency translation adjustment	-	-	-	-	-
Defined remedies for employees benefits	-	-	-	(36)	-
Modification of provisions on consumer loans rating	-	-	-	(711)	-
Interest on subordinated debentures	-	-	-	(306)	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**(1,052)**	**1,649**
Minority interest	-	-	-	-	-
Balances, December 31, 2017	**Ps.$18,105**	**Ps.$648**	**Ps.$13,013**	**Ps.$38,959**	**Ps.$4**

These statements of changes in stockholder's equity were prepared according to accounting principles applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission according to Articles 99, 101 and 102 of the Law of Credit Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Institution as of the dates above.

"These consolidated statements of changes in stockholder's 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 cash flow statements."

	OTHER CAPITAL						
	Result from valuation of instruments for cash flow hedging	**Cumulative foreign currency translation adjustment**	**Employee defined benefit Remedies**	**Net income**	**Total majority interest**	**Minority interest**	**Total stockholders' equity**
Balances, January 1, 2016	**(Ps.936)**	**Ps.990**	**Ps. -**	**Ps.13,518**	**Ps.102,573**	**Ps.10**	**Ps.102,583**
TRANSACTIONS APPROVED BY STOCKHOLDERS:							
Transfer of prior year's result	-	-	-	(13,518)	-	-	-
Dividends declared at the General Stockholders' meetings on:							
August 12, December 15 2016	-	-	-	-	(5,967)	-	(5,967)
Creation of reserves as per General Stockholders' meeting on April 22, 2016	-	-	-	-	-	-	-
Excision of AFORE XXI Banorte	-	-	-	-	(14,089)	-	(14,089)
Special judgement of CNBV for sale of INB	-	-	-	-	(3,809)	-	(3,809)
Share-based payments payable in stock options	-	-	-	-	442	-	442
Total transactions approved by stockholders	**-**	**-**	**-**	**(13,518)**	**(23,423)**	**-**	**(23,423)**
COMPREHENSIVE INCOME:							
Net income	-	-	-	15,044	15,044	-	15,044
Result from valuation of securities available for sale	-	-	-	-	(335)	-	(335)
Effect of subsidiaries, affiliates and mutual funds	-	-	11	-	14	-	14
Cumulative foreign currency translation adjustment	-	995	-	-	995	-	995
Defined remedies for employees benefits	-	-	(388)	-	(425)	-	(425)
Modification of provisions on consumer loans rating	-	-	-	-	(471)	-	(471)
Result from valuation of instruments for cash flow hedging	(1,195)	-	-	-	(1,195)	-	(1,195)
Total comprehensive income	**(1,195)**	**995**	**(377)**	**15,044**	**13,627**	**-**	**13,627**
Minority interest	-	-	-	-	-	-	-
Balances, December 31, 2016	**(Ps. 2,131)**	**Ps.1, 985**	**(Ps. 377)**	**Ps. 15,044**	**Ps. 92,777**	**Ps. 10**	**Ps.92,787**
TRANSACTIONS APPROVED BY STOCKHOLDERS:							
Transfer of prior year's result	-	-	-	(15,044)	-	-	-
Dividends declared at the General Stockholders' meetings on:							
February 17, April 28, September 20, December 6 2017	-	-	-	-	(23,380)	-	(23,380)
Creation of reserves as per General Stockholders' meeting on April 28, 2016	-	-	-	-	-	-	-
Special judgement of CNBV for sale of INB	-	-	-	-	(364)	-	(364)
Share-based payments payable in stock options	-	-	-	-	576	-	576
Total transactions approved by stockholders	**-**	**-**	**-**	**(15,044)**	**(23,168)**	**-**	**(23,168)**
COMPREHENSIVE INCOME:							
Net income	-	-	-	18,339	18,339	-	18,339
Result from valuation of securities available for sale	-	-	-	-	1,649	-	1,649
Effect of subsidiaries, affiliates and mutual funds	-	-	2	-	3	-	3
Cumulative foreign currency translation adjustment	-	(395)	-	-	(395)	-	(395)
Defined remedies for employees benefits	-	-	(568)	-	(604)	-	(604)
Modification of provisions on consumer loans rating	-	-	-	-	(711)	-	(771)
Interest on subordinated debentures	-	-	-	-	(306)	-	(306)
Result from valuation of instruments for cash flow hedging	(1,522)	-	-	-	(1,522)	-	(1,522)
Total comprehensive income	**(1,522)**	**(395)**	**(566)**	**18,339**	**16,453**	**-**	**16,453**
Minority interest	-	-	-	-	-	(10)	(10)
Balances, December 31, 2017	**(Ps. 3,653)**	**Ps. 1,590**	**(Ps. 943)**	**Ps. 18,339**	**Ps. 86,062**	**Ps. -**	**Ps. 86,062**

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BANCO MERCANTIL DEL NORTE, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BANORTE AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In millions of Mexican pesos)

	2017	2016
Net income	**Ps. 18,339**	**Ps. 15,044**
Items not requiring (generating) resources:		
Real estate, furniture and equipment depreciations	1,533	1,084
Provisions	(246)	3,434
Current and deferred income tax	7,487	5,363
Discontinued Operations	89	243
Equity in earnings of unconsolidated subsidiaries and associated companies	(62)	(1,043)
	27,140	**24,125**
OPERATING ACTIVITIES:		
Changes in margin accounts	200	(2,094)
Changes in investments in securities	8,703	(85,738)
Changes in debtor balances under repurchase and resale agreements	(5)	493
Changes in asset position of derivatives	15,385	(23,539)
Change in loan portfolio	(47,762)	(61,882)
Changes in acquired collection rights	(524)	(24)
Changes in receivables generated by securitizations	15	29
Change in foreclosed assets	470	540
Change in other operating assets	3,661	(18,589)
Change in deposits	72,867	34,256
Change in interbank and other loans	(6,022)	6,270
Change in creditor balances under repurchase and sale agreements	(44,127)	63,357
Collateral sold or pledged	3	(1)
Change in liability position of derivative financial instruments	(15,796)	20,463
Change in subordinated debentures	10,952	4,464
Change in other operating liabilities	12,478	6,816
Change in hedging instruments related to operations	2,044	2,511
Assets for discontinued operations	(184)	(1,224)
Income tax	(6,886)	(4,910)
Net cash generated or used from operations	**32,612**	**34,677**
INVESTING ACTIVITIES:		
Proceeds on disposal of property, furniture and equipment	219	617
Payments for acquisition of property, furniture and equipment	(3,308)	(2,853)
Subsidiaries and associated companies acquisitions charges	3,195	2
Payment for disposal of other permanent investments	-	(2)
Discontinued operations	-	(10)
Charges for cash Dividends	1,214	1,122
Net investing activity cash flows	**1,320**	**(1,124)**
FINANCING ACTIVITIES:		
Dividends paid	(23,380)	(5,967)
Interest on subordinated debentures paid	(306)	-
Net financing activity cash flows	**(23,686)**	**(5,967)**
Net increase in cash and cash equivalents	10,246	(41,768)
Effects from changes in the value of cash and cash equivalents	(27)	155
Cash and cash equivalents at the beginning of the year	65,844	107,457
Cash and cash equivalents at the end of the year	**Ps.76,063**	**Ps.65,844**

These cash flow statements were prepared according to accounting principles applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission according to Articles 99, 101 and 102 of the Law of Credit Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect cash income and outlays derived from the operations conducted by the Institution as of the dates above. The accompanying consolidated cash flow statements have been approved by the Board of Directors in accordance with the responsibility assigned to them. The attached Notes are an integral part of these consolidated cash flow statements. “The accompanying consolidated cash flow statements have been approved by the Board of Directors in accordance with the responsibility assigned to them”.
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1 – ACTIVITY AND REGULATORY ENVIRONMENT

Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (the Institution), is a full-banking institution whose main activities are regulated by the Credit Institutions Law (LIC), the Mexican Central Bank (Banco de México) and the Mexican National Banking and Securities Commission (the "Commission"). Its activities consist of receiving deposits, accepting and granting loans and credits, attracting public funds, making investments in securities, carrying out repurchase agreements, performing transactions with derivative financial instruments (futures, swaps, options and forward contracts), together with other full service banking operations, in accordance with the LIC. Its Subsidiaries' activities are supervised by the Commission.

The subsidiaries' main activity involves financial operations such as managing retirement funds (Until October 17, 2016, the date on which the spin-off of the Holding Company became effective), issuing credit cards, and until march, 2017, providing full service banking services in the United States of America.

The main regulating aspect compel the Financial Group to maintain a minimum capitalization index 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 Institution complies satisfactorily will all of the above as of December 31, 2016.

The Institution is a subsidiary worth 98.22% of Grupo Financiero Banorte, S.A.B. de C.V. (the Financial Group).

The powers of the Commission in its capacity as banking institutions' regulator include reviewing the Institution's financial information and requesting modifications to such information.

The Institution performs its activities throughout Mexico and until march 2017, the United States of America.

The Institution's consolidated financial statements have been approved by the Board of Directors at their January 25, 2018 meeting in accordance with the responsibility assigned to them.

2 – SIGNIFICANT EVENTS DURING THE YEAR

a) Sale of INB

On March 31, 2017, the Institution finalized through INB Financial Corporation (subsidiary of the Institution) the sale of its ownership in the representative shares of Inter National Bank, in favor of a group of investors in the United States of America.

On that date, the item of long-term assets available for sale that had been registered in December 2016 was discharged and the cash received from the sale was given in the amount of 170 million USD. Prior to the sale, a cash dividend was paid in the amount of 60 million USD.

The aforementioned derives from the corporate restructuring process that Financial Group is going through; further information may be checked in Institution's financial statements corresponding to 2016.

b) Prepayment of subordinated obligations Q Banorte 08

On January 3, 2017, the Institution prepaid Subordinated Non-Preferred and Non-Convertible Obligations Q Banorte 08 amounting to Ps 3 billion, issued on March 11, 2008 and due on February 27, 2018.

c) Issuance of capital notes Tier 1 for USD 900 (Subordinated debentures)

On July 6, 2017, the Institution successfully issued Subordinated NonPreferred Non-Cumulative Tier 1 Capital Notes for USD 900 million in the international markets (equivalent to $16,522), under the following features:

Tier 1 Capital Notes were issued in two series:

- BANORT 6 PERP (BANOD19 999999) for USD 350 million, callable at the fifth year, carrying a coupon rate of 6.875%.
- BANORT 7 PERP (BANOE91 999999) for USD 550 million, callable at the tenth year, carrying a coupon rate of 7.625.

Both series were rated by Moody's and S&P Ba2 and BB, respectively. The Capital Notes are Basel III-compliant.

Such issuance was registered in the liabilities and the interest generated by the Notes are payable against Retained earnings from prior years, given the established feature in the obligations to pay in a discretionary manner yields at the option of the issuer, it is considered a component of capital.

Proceeds from the issuance will be used for general corporate purposes and to strengthen the bank's regulatory capital.

d) Prepayment of subordinated obligations Q Banorte 12

On June 30, 2017, the Institution prepaid subordinated preferred & nonconvertible obligations Q Banorte 12 amounting to Ps 3,200, issued on June 8, 2012 and due on May 27, 2022.

e) Following-up on loan exposure to the housing development sector

Derived from the restructuring processes and agreements reached with Homex, S.A:B. de C.V., in 2017 the Institution received in exchange for the unsecured credits, shares for an amount equivalent to the unsecured credit exposure, net of reserves, which reduced the past due loans of this company in $138.

The shares received as payment in kind were initially recorded as "Foreclosed assets" based on the requirements established in the accounting criteria B-7 "Foreclosed assets".

Subsequently, in accordance with its intention and business plan, the Institution reclassified shares to Investments in Securities (in the "Securities available for sale" category, see Note 6b). The Institution records these assets at fair value.

3 – BASIS OF PRESENTATION

Monetary unit of the consolidated financial statements

The consolidated financial statements and notes as of December 31, 2017 and 2016 and for the years then ended include balances and transactions in Mexican pesos of purchasing power of such dates.

Consolidation of financial statements

The accompanying consolidated financial statements include those of the Institution and its subsidiaries mentioned below.

All significant consolidated intercompany balances and transactions have been eliminated.

As of December 31, 2017 and 2016, the Institution's consolidated subsidiaries and its equity ownership is as follows:

	2017	2016
Banorte USA Corporation y Subsidiarias	100.00%	100.00%

Administradora de Servicios Profesionales Especializados, S.A. de C.V.	99.99%	99.99%
Bonds Finance Company Limited*	100.00%	-%
Casa Servicios Administrativos, S.A. de C.V.	99.60%	99.60%
Fideicomiso BONY 469	100.00%	100.00%
Derivados Banorte, S.A. de C.V.	-%	51.00%

* Trust created on January 11, 2017 in accordance with the Cayman Islands Companies Act, its main activity is to act as a special purpose entity for the issuance of promissory notes in the Cayman Islands.

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

Conversion of Financial Statements of Banorte USA, Corporation and Subsidiaries (indirect foreign subsidiary)

In order to consolidate the financial statements of Banorte USA, they are first adjusted in 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: a) year-end rate for assets and liabilities (19.66 for 2017), b) historical rate for non-monetary assets and liabilities as well as stockholders' equity, and c) the weighted average rate of the period for income, costs and expenses (18.92 for 2017). The conversion effects are presented in the Institution's stockholders' equity.

Dispose of INB and application of Special Accounting Criteria

During 2016, the Holding Company decided to dispose of the Inter National Bank (INB), as part of the corporate restructuring program given the constraints to develop its business strategy caused mainly by the change in the regulatory environment in the United States of America (USA).

<u>Application of Special Accounting Criteria</u>

In view of the fact that the Holding Company is carrying out a process of corporate restructuring, coupled with the complicated conditions of regulation in the US and with the objective of ensuring its adequate solvency and stability, the CNBV, based on Article 175 of the "General provisions applicable to credit institutions" issued a special accounting standard through Official Letter P071 / 2016. This criterion authorizes the Parent to recognize the income derived from the sale of INB shares in "Income from prior years" and not from the result of the year in accordance with the corresponding requirements set forth in the NIF.

As part of the sale process and as requirements established in Bulletin C-15 " Deterioration of long-term assets and their disposal " have been met, the Holding Company has classified its investment in INB as a long term asset available for sale, which was recorded at the end of the year at its estimated sale value. The intention to dispose of this entity meets the definition to be classified as a discontinued operation, therefore assets and liabilities as of December 31, 2017 presented net in the Consolidated Balance Sheet in accordance with the accounting criteria issued by the Commission whereas the profits of such entity have been presented as discontinued operations for the years ended December 31, 2017 and 2016.

As of December 2017 y 2016, the comparison between the net book value of the investment and the estimated sale value generated a difference of (Ps. 364) and (Ps. 3,809), respectively, which was recorded by decreasing the value of the investment in the assets against a reduction in "Income from prior years".

If the authorized Special Accounting Criteria were not applied, the amounts that would have been recognized and presented in the Balance Sheet as of December 31, 2017 and 2016 in the items affected would be:

	2017		
	Figures Without Special Accounting	Figures with Special Accounting Criteria	Variation

Criteria			
Retained earnings from prior years	Ps. 39,323	Ps. 38,959	(Ps.364)
Net income	17,975	18,339	364
Total stockholders' equity	**86,062**	**86,062**	**-**
Total liabilities and stockholders' equity	**Ps. 1,056,423**	**Ps. 1,056,423**	**Ps.-**

2016			
	Figures Without Special Accounting Criteria	**Figures with Special Accounting Criteria**	**Variation**
Retained earnings from prior years	Ps.54,024	Ps.50,215	(Ps.3,809)
Net income	11,235	15,044	3,809
Total stockholders' equity	**92,787**	**92,787**	**-**
Total liabilities and stockholders' equity	**Ps.1,030,435**	**Ps.1,030,435**	**Ps.-**

Assets, liabilities and discontinued results

As of December 31, 2016, the discontinued assets are comprised as follows:

ASSETS AND LIABILITIES	**2016**
Loan Portfolio	$21,479
Investment in securities	6,178
Cash and cash equivalents	3,519
Other assets	2,462
Property, furniture and equipment	862
Deposits	(26,644)
Interbank and other loans	(1,394)
Other account payables	(739)
Subordinated debentures	(424)
Total Long Term Assets Available for Sale:	**$5,299**

Results	**2017**	**2016**
Interest income	$283	$1,077
Interest expense	(22)	(81)
Net interest income	**261**	**996**
Allowance for loan losses	-	33
Adjusted financial margin	**261**	**1,029**
Non-interest income	59	259
Non-interest expenses	(195)	(887)
Operating income	**125**	**401**
Income tax	(36)	(158)
Net income	**$89**	**$243**

Comprehensive Income

This is the change in stockholders' equity during the year, for items other than distributions and activity in contributed common stock, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity without affecting the consolidated Income Statements, in accordance with the accounting practices established by the Commission. In 2017 and 2016, 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; reimbursement for benefits to employees, the effect of subsidiaries, affiliates and mutual funds; the cumulative conversion effect, modification in the normativity of the qualification of the consumption portfolio, Interest on subordinated debentures and the result from valuation of cash flow hedging instruments.

4 – SIGNIFICANT ACCOUNT POLICIES

The significant accounting policies of the Institution are in conformity with practices prescribed by the Commission which are included in the "General Provisions applicable to Credit Institutions" (the Provisions), in their circulars, and in specific and general trades issued for such purpose, which require Management to make certain estimates and use certain assumptions to determine the valuation of certain items included in the consolidated financial statements and make the required disclosures therein. Even though they may differ in their final effect, management considers the estimates and assumptions to have been adequate under the current circumstances.

Pursuant to accounting Circular A-1, “Basic Framework of the Accounting Criteria Applicable to Banking Institutions", prescribed by the Commission, the Institutions' accounting will adhere to Mexican Financial Reporting Standards (NIF), defined by the Mexican Board of Financial Reporting Standards (CINIF), except when the Commission deems it necessary to apply a specific accounting standard or criterion, considering the fact that banking institutions perform specialized operations.

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 registering 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 registered, recording 20% during the year 2017, 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 December 31 2017
Corporate Bonds	$183	$37	$74

II. In the case of the accumulated balance of gains or losses of the plan to be recognized (broker approach), it is progressively registered, recording 20% during the year 2017, 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 December 31 2016
Corporate Bonds	$2,729	$546	$1,092

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, 2017, had the aforementioned option not been applied in the affected items are

Concepto	Importe
Other assets and short and long term	($1,666)
Total of assets	**1,054,676**
Retained earnings from prior years	38,849
Reimbursement for benefits to employees	(2,580)
Total stockholders' equity	**84,315**
Total liabilities and stockholders' equity	**$1,054,676**

(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.

Improvements to NIF's 2017 - The following improvements were issued effective as of January 1, 2017, which generates accounting changes.

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

NIF B-7, Business combinations - It is indicated that the recognition of change to this NIF effective as of January 2016 should be made prospectively and not retrospectively as previously indicated. Said change establishes that it is not the scope of NIF B-7 the acquisitions of entities under common control, regardless of how the amount of the consideration has been determined.

NIF B-13, Events after the reporting period – a reclassification of liability is allowed if at the date of authorization for the issuance of the financial statements an agreement is reached to maintain the payments a long term with the conditions of payment and in the one that has fallen into default, allowing its early application for the years beginning on or after January 1, 2016.

NIF C-11, Stockholders' Equity - Stipulates that the expenses of registering on a stock exchange the shares of an entity that the date of said registration were already owned by investors and so the issuer had already received the funds, have to be recognized in the net profit or loss at the time of its accrued, there was no capital transaction. It further clarifies that any expense incurred in the collection of repurchased shares must be recognized as a decrease in issued and placed capital.

NIF D-3, Employee benefits - It is modified to establish, as a basic principle, that the discount rate to the determination of the present value of the long-term labor liabilities should be a free market rate of, or with very low credit risk, representing the value of money over time; in an indistinct way, whether the government bond market rate or the market rate of high-quality corporate bonds in absolute terms in a deep market, provided that the last fulfillment with the requirements set out in Appendix B-Application guides, B1-Guide for the identification of high quality corporate bond issues in absolute terms in an efficient market. Early application allowed

Improvements to NIF 2017 - The following improvements were issued and don't generate accounting changes:

NIF C-3, Receivables

Bulletin C-15, Impairment of long-lived assets and their disposition

Recognition of the effects of inflation in financial information

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

The cumulative Mexican inflation over the three years prior to 2017 and 2016 was 9.97% and 10.39%, respectively. Therefore, the Mexican economy is considered as non-inflationary. However, assets, liabilities and stockholders' equity as of December 31, 2017 and 2016 include the restatement effects recorded up through December 31, 2007.

The Mexican inflation rates for the years ended December 31, 2017 and 2016 were 6.68% and 3.38%, respectively.

Cash and cash equivalents

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

Trading Securities

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

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

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

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

Securities available for sale

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

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

Securities held to maturity

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

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

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.

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

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

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

Regarding authorized reclassifications from the 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 Institution periodically verifies whether its available for sale securities and those 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 Institution has about the securities (breach of contract covenants, financial, economic or legal problems).
b) Information that the Institution has about the issuer (issuer's probability of bankruptcy, financial reorganization and financial difficulties).
c) Information that the market has about the securities (rating assigned by Commission-approved agencies).
d) Information that the market has about the issuer (rating assigned by Commission-approved agencies).

The evaluation model that the Institution uses to determine impairment loss incorporates the aforementioned events according to their importance and rates them as per a severity average used to estimate the return on investment. Similarly, it incorporates the existence of guaranties, which contributes to lower impairment losses.

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

Customer repurchase agreements (repos)

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

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

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

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

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

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

Derivatives financial instruments

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

<u>Transactions to hedge the Institution'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 Institution enters into such transactions as a market participant for reasons other than to hedge its exposed position.

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

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

The recognition or cancellation of assets and/or liabilities resulting from transactions involving 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. Futures contracts are recorded initially by the Institution in the consolidated balance sheets as an asset and a liability at fair value, which represents the price agreed in the contract in order to acknowledge the right and obligation of receiving and/or delivering the underlying, as well as the right and obligation of receiving and/or delivering the cash equivalent to the underlying, object of the contract.

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

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

Option contracts

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

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

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

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

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

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

The Institution records the option premium as an asset or liability at the transaction date. The fluctuations resulting from market valuation of the option's premium are recorded by affecting the consolidated statement of income in "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 policy regarding hedging contracts is to protect the Institution's consolidated balance sheets and to anticipate interest and exchange rate fluctuations, thereby protecting the Shareholders' Equity.

For hedging derivatives, the Institution applies in all cases the cash flow hedging method and the accumulated compensation method to measure effectiveness. Both methods are approved by current accounting standards. If the hedging is found to be ineffective, the case is reported in the year's results.

The Institution documents the hedging transactions as of the date on which the derivative financial instruments are designated for hedging. A file is created for each transaction with the documentary evidence as required in paragraph 72 of standard B-5 “Derivatives and Hedging Transactions” (B5) issued by the Commission, which establishes the conditions for hedging accounting usage.

Based on the above, the Institution acknowledges and documents its cash flow hedging transaction as per the following directives:

a. The effective portion of the hedging instrument’s gains or losses are recorded in the “Comprehensive Income” account in stockholders’ equity under the valuation result for cash flow hedging instruments using an asset or liability account called “Derivative financial instruments as offsetting account, as applicable within the current assets or liabilities. The portion determined as ineffective is measured by performing retrospective tests. When the result is over-hedging, it is immediately recorded in the period’s results under Trading Results.

b. The effective hedging component recorded in stockholders’ equity associated with hedging is adjusted to match the lowest amount (in absolute terms) from among the following items:

    i. The hedging instrument’s cumulative gain or loss since its inception.
    ii. The accumulated change in fair value (current value) of the expected future cash flows of the hedged item since its inception.

Valuation techniques

As the derivative products operated by the Institution are deemed Plain Vanilla, the standard valuation models contained in the Institution's derivatives operation and risk management systems are used.

All the valuation models used by the Institution render the fair value of the transactions as a result and are periodically calibrated and audited by independent third parties.

Valuation of the positions is 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 and Scholes method, 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 start 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.

<u>Operation strategies</u>

Trading

The Institution 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 Institution's Treasury Committee, which analyzes the current risks and then makes any necessary decisions.

The trading strategy is carried out according to market levels and expectations, maximizing the circumstances to obtain a benefit by trading, margin and volatility. Each trading strategy is submitted to the Treasury Committee on a weekly basis for its consideration. The 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 exchange rate forwards and currency swaps, as well as interest rates by means of interest rate swaps. This is done with the purpose of locking the rates paid on the debt issued by the Institution, thereby ensuring the debt servicing, as well as to make investments that generate greater value for the customers. The main strategy is to ensure that the Institution's future income and expenses are covered, maximizing its profitability.

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

Contingencies

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

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 Institution prior to January 2011 are from service and leasing contracts established in US dollars.

Loan Portfolio

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

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

- Loans with bullet payment of principal and interest at maturity: 30 calendar days after being overdue.

- Loans involving a single principal payment at maturity, but with periodic interest payments, total principal and interest payments 30 and 90 calendar days after being overdue, respectively.

- Loans for which the payment of principal and interest is agreed based on partial periodic payments, 90 calendar days after the first payment is due.

- In the case of revolving loans, whenever payment is outstanding for two billing periods or when they are 60 or more days overdue.

- Overdrawn customer checking accounts are considered as part of the past-due portfolio when such situations arise.

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

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

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

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

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

The restructured credits or 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 forgiveness or term extensions.

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

- Commercial loans – Must be classified in past-due loans, with an E risk rating, 100% reserved, unsecured by any fund.

- Consumer loans – 180 days or more overdue.

- Mortgage loans – 270 days or more overdue.

Allowance for loan losses

Modification in consumer not revolving and mortgage loans rating provisions

On 6 January 2017 the Commission published a resolution amending the provisions in which corresponds to the Methodologies for the rating of the portfolios of consumption not revolving and mortgage, which remain a focus of expected loss and incorporate most recent information on the performance of the industry in its new factors. The main change in both methodologies is that in addition to contemplate the credit experience of the accredited with the institution that grants the credit, also contemplate the credit behavior of those accredited with other institutions according to the information of the societies of credit information. New methodologies are effective as of June 1, 2017.

The financial effect recognized by the Institution at the end of June 2017 derived from the modified methodologies, less the allowance that would be taken by the balance of those portfolios with prior methodologies is Ps. 1.054. The accounting of this financial effect was an increase in the allowance for loan losses for Ps. 1.054 (liabilities), an increase of deferred tax liabilities for Ps. 316 (asset) and a decrease to retained earnings from prior years for Ps. 725 (equity)

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.

In the case of consumer mortgage and commercial loans, the Institution applies the Provisions for rating the loan portfolio as issued by the Commission and published in the Official Gazette of the Federation on June 24, 2013.

On June 24, 2013, the Commission issued changes to commercial loan rating Provisions. Such changes state that in order to rate a loan, the likelihood of default, gravity of the loss and exposure to noncompliance should be taken into account, as indicated later in this section.

Such provisions also establish general methodologies for 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 that estimate of such loss evaluates the probability of breach of contract, the severity of the loss and the exposure to non-compliance. The result of multiplying these three factors is the estimated expected loss that is the same as the amount of the hedges that need to be created in order to face the loan risk.

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

Probability of breach of contract

- Non-revolving consumer loan – it takes into account the current delay, the payments made on the last due balances, how many times the original value is paid, the type of loan, the remaining terms, among other things.
- Revolving consumer loan – it 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 – it 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.- They 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

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

Exposure to Default

- 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 be done by analyzing the risk of projects in the construction stage and operation evaluating the work's over-cost and the project's cash flows.

Acquired collection rights

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

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

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

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

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

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

Securitization transactions

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

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

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

Other accounts receivable and payable

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

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

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

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

Foreclosed assets, net

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

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

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

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

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

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

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

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

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

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

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

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

More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the awarded value of the property based on the accounting criteria. Furthermore, when problems are identified regarding the realization of the value of the foreclosed property, the Institution records additional reserves based on management's best estimates. On December 31, 2015, there are no reserves in addition to those created by the percentage applied based on the accounting criteria that could indicate signs of impairment or realization problems with the values of the foreclosed properties.

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

Property, furniture and equipment

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

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

Permanent stock investments

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

Profit taxes

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

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

Intangible assets

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

Goodwill

The Institution records goodwill when the total fair value of the acquisition cost and the 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 Bulletin C-15, "Impairment in the value of long-lived assets and their disposal". No indicators of impairment of goodwill have been identified as of December 31, 2017 and 2016.

Deposits

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

Interbank and other loans

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

Provisions

Provisions are recognized when the Institution has a current obligation that results from a past event and are likely to result in the use of economic resources and can be reasonably estimated.

Employee Retirement Obligations

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

Defined benefit plan

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

The balance at the beginning of each period of actuarial gains and losses derived from pension plans exceeding 10% of the greater amount between the defined benefits obligation and plan assets are amortized in future periods against current results, in the case of pension plan, medical service and seniority premiums to retirement.

In the case of seniority premiums related to termination and remuneration at the end of the employment relation, earnings or losses are recognized immediately in the period they are generated, as specified by the MFRS D-3 "Employee benefits".

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

Defined contribution plan

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

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

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

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

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

Foreign Currency Conversion

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

Interest from Outstanding Subordinated Debentures

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

Transfer of Financial Assets

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

Share-based Payments

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

The Institution records its stock option plans according to the guidelines of MFRS D-8, “Share-based payments”. The compensation expense is recorded at fair value as of the date the stock options are granted. As per MRFS D-8 and as the Institution grants stock of the Institution, the Institution reports the expense as a capital contribution by the Institution.

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

Memorandum Accounts

Memorandum accounts are used to record assets or commitments that are not part of the Institution’s general 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 grated to client, not disposed.

- Assets in trust or mandate (unaudited):

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

- Assets in custody or under management (unaudited):

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

- Collateral received:

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

- Collateral received and sold or given as a pledge:

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

5 – CASH AND CASH EQUIVALENTS

This line item was composed as follows:

	2017	2016
Cash	Ps. 23,351	Ps. 20,155
Banks	52,644	45,584
Other deposits and available funds	68	105
	Ps. 76,063	**Ps. 65,844**

"Banks" is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de México of Ps. 19.6699 and Ps. 20.6194 as of December 31, 2017 and 2016, respectively and is made up as follows:

	Mexican pesos		USD		Total	
	2017	2016	2017	2016	2017	2016
Call money	Ps. 6,137	Ps. -	Ps. -	Ps. 5,155	Ps. 6,137	Ps. 5,155
Deposits with foreign credit institutions	-	-	11,779	14,476	11,779	14,476
Domestic banks	19	19	-	-	23	19
Banco de México	25,853	25,853	975	81	34,705	25,934
	Ps. 39,890	**Ps. 25,872**	**Ps. 12,754**	**Ps. 19,712**	**Ps. 52,644**	**Ps. 45,584**

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, 2015 and 2014, the Institution had made monetary regulation deposits of Ps. 25,687 and Ps. 25,683, respectively.

As of December 31, 2017 and 2016, the total sum of restricted cash and cash equivalents is Ps. 43,198 and Ps. 34,466, 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, 2017 and 2016, the balance with Banco de México are Ps. 9,018 and Ps. 251, related to the deposit auctions.

As of December 31, 2017 and 2016, "Other Deposits and Available Funds" includes:

	2017	2016
Minted metals in gold and silver	Ps. 26	Ps. 52
Cashable checks received, pending payment at a 3-day term	19	40
Remittances	-	13
	Ps. 45	**Ps. 105**

The exchange rates used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 624.35 and Ps. 370.94, per unit, respectively, in 2016; and Ps. 581.13 and Ps. 376.10, per unit, respectively, in 2015.

6 - INVESTMENT IN SECURITIES

a. Trading Securities

Trading securities are as follows:

	2017				2016
	Acquisition cost	**Accrued interest**	**Valuation increase (decrease)**	**Book value**	**Book value**
Government securities	**Ps. 88,556**	**Ps. 589**	**Ps. 85**	**Ps. 89,230**	**Ps. 106,977**
Not restricted	**(466)**	**-**	**-**	**(466)**	**(493)**
D Bonds	-	-	-	-	(447)
M Bonds	(468)	-	-	(468)	(4)
CEBUR	1	-	-	1	1
CETES	-	-	-	-	(5)
Eurobonds	11	-	-	11	12
UDIBONOS	(10)	-	-	(10)	(50)
Restricted	**89,022**	**589**	**85**	**89,696**	**107,470**
D Bonds	11,482	29	3	11,514	13,145
M Bonds	824	3	(4)	823	72
BPA	73,124	550	92	73,766	92,037
CEBUR	2,493	7	(6)	2,494	2,141
CETES	1,079	-	(1)	1,078	15
UDIBONOS	20	-	1	21	59
Bank securities	**32,197**	**94**	**9**	**32,300**	**21,862**
Not restricted	**32,197**	**94**	**9**	**32,300**	**21,862**
CEBUR – development bank	1,878	3	-	1,881	1,543
CEBUR – bank	9,531	35	9	9,575	10,844
CEDES	13,955	54	(1)	14,008	7,017
Other bank securities	569	2	-	571	571
Promissory Notes	6,264	-	1	6,265	1,887
Private securities	**418**	**-**	**117**	**535**	**638**
Not restricted	**263**	**-**	**117**	**380**	**526**
Shares	128	-	84	212	173
CEBUR – corporate	158	-	34	192	197
CEBUR – fiduciary	(26)	-	(1)	(27)	-
Eurobonds	3	-	-	3	156
Restricted	**155**	**-**	**-**	**155**	**112**
CEBUR – corporate	129	-	(1)	128	112
CEBUR – fiduciary	26	-	1	27	-
Other securities	-	-	-	-	537
	Ps. 121,171	**Ps. 683**	**Ps. 211**	**Ps. 122,065**	**Ps. 129,477**

During 2017 and 2016, the Institution recognized under “Trading Results” a net loss of Ps. 98 and a net profit of Ps. 142, respectively, for the fair value valuation of these instruments.

As of December 31, 2017 and 2016, there are Ps. 122,151 and Ps. 129,444, respectively, in restricted trading securities associated mainly with repurchase operations.

b. Securities Available for Sale

Securities available for sale were as follows:

	2017				2016
	Acquisition cost	**Accrued interest**	**Valuation increase (decrease)**	**Book value**	**Valor en libros**
Government securities	**Ps. 118,791**	**Ps. 2,017**	**Ps. 446**	**Ps. 121,254**	**Ps. 130,308**
Not restricted	**52,366**	**682**	**117**	**53,164**	**26,081**
D Bonds	100	-	-	100	100
M Bonds	374	1	(38)	337	339
BREMs	7,778	6	-	7,785	7,781
CEBUR – Government	6	-	-	6	18
CEBUR – Municipality	37	2	5	43	92
CETES	1,820	-	-	1,820	8
Eurobonds	42,251	672	150	43,073	17,743
Restricted	**66,425**	**1,336**	**330**	**68,090**	**104,227**
D Bonds	11,377	48	5	11,430	-
BPA	49,872	1,211	(60)	51,023	95,114
CEBUR – Government	2,355	7	(4)	2,358	4,521
CETES	96	-	(0)	96	101
Eurobonds	2,725	69	389	3,183	-
Bank securities	**6,160**	**7**	**(31)**	**6,136**	**-**
Not restricted	**6,160**	**7**	**(31)**	**6,136**	**-**
CEDES	5,736	7	-	5,743	4,125
Structured notes	424	-	(31)	393	366
Private securities	**26,391**	**429**	**(1,300)**	**25,520**	**22,820**
Not restricted	**24,686**	**385**	**(1,335)**	**23,736**	**21,180**
Shares	1,656	-	(1,286)	370	267
Investment funds	3,570	-	102	3,672	3,435
CEBUR – borhis	23	-	(4)	19	24
CEBUR – corporate	5,099	38	(514)	4,623	4,511
Eurobonds	14,338	347	367	15,052	12,943
Restricted	**1,705**	**44**	**35**	**1,784**	**1,640**
Eurobonds	1,705	44	35	1,784	1,640
	Ps. 151,342	**Ps. 2,454**	**(Ps. 886)**	**Ps. 152,910**	**Ps.153,128**

As of December 31, 2017 and 2016 there are Ps. 69,874 and Ps. 105,867, respectively, in restricted securities available for sale, mainly associated with securities repurchasing transactions.

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

Derived from the processes of restructuring and agreements reached with HOMEX, during 2017 the Institution received in exchange for uncollateralized credits, 138,198,154 shares (see Note 2e).

During 2016, as a result of the restructuring processes and agreements reached with GEO and Homex in which the Tenedora participated, it received as payment in payment shares of said company for an amount equivalent to the outstanding unsecured credit exposure and net of reserves, which decreased The balance of past due loans at $ 1,476.

The shares and optional securities to subscribe shares received as payment in payment were initially recorded as "Assets awarded" based on the requirements established in the accounting criteria B-7 "Assigned Property".

Subsequently, in accordance with its intention and business plan, the Company reclassified shares and optional securities to subscribe shares to Securities Investments (in the "Available-for-sale securities" category, see Note 6b) and Derivatives (See Note 8), respectively. The Holding Company values these assets at fair value.

Shares received in exchange were initially recorded as a property awarded and subsequently reclassified to investments in securities within the category of securities available for sale and will be valued on the market in accordance with applicable accounting rules. At December 31, 2017 and 2016, the impairment on market value of these shares was (Ps. 631) and (Ps. 1,249), respectively, recorded in equity in the Income Statement for Valuation of available-for-sale securities.

c. Securities Held to Maturity

Securities held to maturity are as follows:

Medium and long-term debt instruments:

	2017			2016
	Acquisition cost	**Accrued interest**	**Book value**	**Book value**
Government securities	**Ps. 4,217**	**Ps. 16**	**Ps. 4,233**	**Ps. 3,494**
Not restricted	**1,670**	**2**	**1,672**	**951**
CETES specials	523	-	523	951
UDIBONOS	1,147	2	1,149	0
Restricted	**2,547**	**14**	**2,561**	**2,544**
CEBUR Municipality	2,547	14	2,561	2,544
Private securities	**2,592**	**9**	**2,601**	**2,763**
Restricted	**2,592**	**9**	**2,601**	**2,763**
CEBUR – borhis	1	-	1	22
CEBUR – corporate	2,591	9	2,600	2,741
	Ps. 6,809	**Ps. 25**	**Ps. 6,834**	**Ps. 6,258**

As of December 31, 2017 and 2016, there are Ps. 5,161 and Ps. 5,307, respectively, in restricted trading securities associated mainly with repurchasing operations.

As of December 31, 2016, 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**
CETES specials	Ps. 155	Ps. 368	Ps. -	Ps. 523
UDIBONOS	1,150	-	-	1,150
CEBUR – Municipality	-	-	2,560	2,560
CEBUR – Corporate	-	-	2,601	2,601
	Ps. 1,305	**Ps. 368**	**Ps. 5,161**	**Ps. 6,834**

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 collaterals granted in derivative transactions is made up as follows:

		2017	
		Fair value in millions	
Type of collateral:	**Instrument category**	**Pesos**	**USD**
Cash	-	Ps. 9	16,002
		Ps. 9	**Ps. 16,002**

		2016	
		Fair value in millions	
Type of collateral:	**Instrument category**	**Pesos**	**USD**
Cash	-	Ps. 9	Ps.16,002
		Ps.9	**Ps.16,002**

As of December 31, 2017 and 2016, the Institution had no instruments received as collateral.

During 2017 and 2016 the interest income from negotiable instruments is as follows:

Concept	2016	2015
Trading Securities	Ps. 11,193	Ps. 6,725
Securities available for sale	6,752	4,401
Securities held to maturity	472	344
	Ps. 18,417	**Ps. 11,470**

e. Impaired Negotiable Instruments

The objective proof 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.

As December 31, 2017 and 2016, the amount recorded for the impairment of securities held to maturity and available-for-sale securities amounts to Ps. 820 and Ps. 267, respectively.

During 2017 and 2016, not interest incomes were accounted related to securities impairment.

7 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

The debtor and creditor balances in repurchase transactions consist of:

Acting as seller of securities

Instrument	2017	2016
CETES	Ps. 1,078	Ps. 10
Eurobonds	1,852	-
Bonds IPAB	16,466	7,141
Quarterly IPAB bonds	65,040	132,816
Semi-annual IPAB bonds	42,357	47,206
Development bonds	22,517	13,150
Government bonds	820	69
UDIBONOS	11	8
Government securities	**150,141**	**200,400**
CEBUR – bank	9,575	10,845
CEDES	11,006	7,017
Promissory notes	6,264	1,887
Financial Institution Negotiable Instruments	571	570
Bank securities	**27,416**	**20,319**
CEBUR – Municipality	2,715	2,563
CEBUR – Corporate	2,134	2,854
CEBUR – Government	4,924	6,784
CEBUR – Borhis	1	26
CEBUR – Development bank	1,881	1,543
Eurobonds	1,151	-
Private securities	**12,806**	**13,770**
	Ps. 190,363	**Ps. 234,490**

With the Institution acting as the vendor, accrued premiums were charged to the results of operations as of December 31, 2017 and 2016 for Ps. 17,039 and Ps. 10,435, respectively, and recorded under “Interest Expenses”.

During 2017, the period of repurchase transactions carried out by the Institution in its capacity as vendor ranged from 1 to 364 days.

Acting as securities purchaser

	2017				2016			
Instrument	**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**
Development Bonds	Ps. 2,001	Ps. 1,998	Ps. 3	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -
Bonds IPAB	1,502	1,502	-	-	-	-	-	-
Quarterly IPAB bonds	48,218	48,216	2	-	13,004	13,004	-	-
Semi-annual IPAB bonds	5,002	5,002	-	-	1,080	1,080	-	-
M bonds	2,001	2,001	-	-	-	-	-	-
Bonds	-	-	-	-	101	101	-	-
CEBUR in UDIS	500	500	-	-	1,701	1,701	-	-
Government securities	**59,224**	**59,219**	**5**	**-**	**15,886**	**15,886**	**-**	**-**
CEDES	-	-	-	-	-	-	-	-
Bank bonds	-	-	-	-	-	-	-	-
Securitized bank certificates	389	389	-	-	916	916	-	-
Bank securities	**389**	**389**	**-**	**-**	**916**	**916**	**-**	**-**
Short-term CEBUR	2,628	2,631	-	3	3,322	3,322	-	-
Private securities	**2,628**	**2,631**	**-**	**3**	**3,322**	**3,322**	**-**	**-**
	Ps. 62,241	**Ps. 62,239**	**Ps. 5**	**Ps. 3**	**Ps. 20,124**	**Ps. 20,124**	**Ps. -**	**Ps. -**

With the Institution acting as the purchaser, accrued interest were charged to the results of operations as of December 31, 2017 and 2016 for Ps. 2,283 and Ps. 1,417, respectively, and reported under “Interest Income”.

During 2017, repurchase transactions carried out by the Institution in its capacity as purchaser ranged in term from 1 to 364 days

By December 31, 2017, the amount of goods corresponding to the guarantees given and received in repurchasing transactions that involved the transfer of property totaled Ps. 62,239 and Ps. 133,904, respectively, and by December 31, 2016, the totals were Ps. 20,124 in guarantees given and Ps. 82,192 in guarantees received.

8 - DERIVATIVES FINANCIAL INSTRUMENTS

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

The Institution has evaluated the effectiveness of derivatives' transactions for hedging purposes and has concluded that they are highly effective

The Institution's derivatives positions held for trading purposes are as follows

Asset position	**2017**	**2016**
Forwards		
Foreign currency forwards	Ps. 120	Ps. 16
Options		
Interest rate options	849	1,059
Stock options	5	2
Currency options	111	4
Swaps		
Interest rate swaps	20,921	34,570
Exchange rate swaps	3,505	5,237
Total trading	**25,511**	**40,881**
Options		
Rate Options	25	46
Swaps		
Interest rate swaps	180	696
Total hedging	**742**	**742**
Total position	**Ps. 25,716**	**Ps. 41,623**

Liability position	**2017**	**2016**
Forwards		
Foreign currency forwards	Ps. 55	Ps. 28
Options		
Interest rate options	784	1,112
Currency options	177	1
Swaps		
Interest rate swaps	18,322	32,937
Exchange rate swaps	5,270	6,325
Total trading	**24,608**	**40,403**
Swaps		
Interest rate swaps	492	168
Exchange rate swaps	11,909	9,204
Total hedging	**12,401**	**9,372**
Total position	**Ps. 37,009**	**Ps. 49,775**

The following are notional bonds in different currencies, depending on the type of product, by December 31, 2017:

Trading Instruments

Instrument	MXN	USD	EUR
Foreign currency forwards	Ps. 8,389	Ps. 431	Ps. -
Interest rate options	132,865	705	-
Taking options	3	-	-
Foreign currency options	410	-	-
Foreign currency swaps (receiving leg)	46,006	1,629	-
Foreign currency swaps (paying leg)	35,890	2,226	-
Interest rate swaps (receiving leg)	1,235,531	19,888	-
Interest rate swaps (paying leg)	1,235,531	19,888	-

Hedging Instruments

Instrument	MXN	USD	EUR	GBP
Interest rate options	Ps. 7,900	$-	$-	$-
Foreign currency swaps (receiving leg)	25,325	-	-	-
Foreign currency swaps (paying leg)	-	820	462	128
Interest rate swaps (receiving leg)	48,227	-	-	-
Interest rate swaps (paying leg)	48,227	-	-	-

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
	Libor	Libor	Euribor
			UDI

Risk management policies and internal control procedures to manage the risks inherent in contracts related to derivative transactions are described in note 32.

Transactions carried out for hedging purposes have maturities from 2017 to 2032 and are intended to mitigate the financial risk derived from long-term loans offered by the Institution at fixed nominal rates, as well as the exchange rate risk generated by market instruments in the Institution's portfolio

The book value of collateral used to ensure compliance with obligations derived from currency swap contracts as of December 31, 2017 is USD 898,031 thousand, and Ps. 5,600 thousand, while as of December 31, 2016 it was USD 776,059 thousand and 8,700. IRS Swaps transactions are made through recognized markets, and as of December 31, 2017 they represent 38% of the nominal amount of all the derivatives' operations contracts; the remaining 62% correspond to option, swap and Fx forwards transactions in Over the Counter (OTC) markets.

As of December 31, 2017 and 2016, the collateral given was comprised mainly of cash, PEMEX bonds, and short-term government bonds restricted under the categories of Trading Securities and Available for sale securities. The restriction maturity date for this collateral is from 2017 to 2027. Their fair value is shown in Note 6 d).

As of December 31, 2017 and 2016 the Institution had no received collateral.

During 2017 and 2016, the net earnings from the valuation and realization of derivatives financial instruments were Ps. 1,223 and Ps. 371, respectively. ,

The net amount of estimated gains or losses originated by transactions or events recorded in Comprehensive income to date in the financial statements and that are expected to be reclassified to earnings within the next 12 months total Ps. 60.

As of December 31, 2017 and 2016, the main positions hedged by the Institution 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, 2017, there are 160 hedge files related to hedging transactions. Their effectiveness ranges between 100%, well within the range established by the accounting standards in effect (80% to 125%). Furthermore, there is no overhedging on any of the derivatives, so as of December 31, 2017, there are no ineffective portions that are recorded at the market value that the Institution has to record in earnings.

The following are the Institution's hedged cash flows as of December 31, 2017, expected to occur and affect earnings:

Concept	Up to 3 months	More than 3 months and up to 1 year	More and 1 and up to 5 years	More than 5 years
Forecast funding	Ps. 379	Ps. 899	Ps. 2,389	Ps. 570
Assets denominated in Euros	500	1,155	2,957	1,141
Assets denominated in GBP	10	9	144	472
	Ps. 907	**Ps. 2,082**	**Ps. 5,716**	**Ps. 2,493**

The fair value of the instruments designated as cash flows hedging, recognized in overall earnings in stockholders equity on December 31, 2017 and 2016 totaled (Ps. 5,514) and (Ps. 2,131), respectively. Furthermore, Ps. 184 and Ps. 63, respectively, were reclassified from stockholders' equity to results.

The gains recognized in derivatives financial instruments' results designated for trading were Ps. 783 and Ps. 382, on December 31, 2017 and 2016, respectively.

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

The following table shows the cash flows hedging valuation balance:

Balance	Valuation of cash flows hedging instruments	Net change in period	Reclassified to income
Balance, December 31, 2013	(Ps. 1,541)	Ps. 1,244	Ps. 75
Balance, December 31, 2014	(Ps. 1,284)	Ps. 257	(Ps. 18)
Balance, December 31, 2015	(Ps. 1,398)	(Ps. 114)	Ps. 16
Balance, December 31, 2016	(Ps. 2,131)	(Ps. 773)	Ps. 63
Balance, December 31, 2017	(Ps. 5,214)	(Ps. 3,083)	Ps. 184

9 - LOAN PORTFOLIO

The loan portfolio by loan type is as follows:

	Performing Loan Portfolio		Past-due loan portfolio		Total	
	2017	2016	2017	2016	2017	2016
Commercial loans						
Denominated in domestic currency						
Commercial	Ps. 163,174	Ps. 154,500	Ps. 4,824	Ps. 5,076	Ps. 167,998	Ps. 159,576
Rediscounted portfolio	8,212	7,561	107	264	8,319	7,825
Denominated in USD						
Commercial	35,196	35,307	1,609	128	36,805	35,435
Rediscounted portfolio	3,849	4,384	-	-	3,849	4,384
Loans to financial institutions	22,875	20,240	-	344	22,875	20,584
Consumer loans						
Credit card	33,906	28,445	2,188	1,623	36,094	30,068
Other consumer loans	68,089	58,187	2,141	1,576	70,230	59,763
Mortgage loans						
Denominated in domestic currency	135,250	114,619	1,302	1,034	136,552	115,653
Denominated in USD				-		
Denominated in UDIS	155	189	21	15	176	204
Government loans	132,816	133,540	-	-	132,816	133,540
Total loan portfolio	**Ps. 603,522**	**Ps. 556,972**	**Ps. 12,192**	**Ps. 10,060**	**Ps. 615,714**	**Ps. 567,032**

Restructured loans

Below are the restructured loans, which changed the terms and rates, among others:

	2017		2016	
	Performing	Past-due	Performing	Past-due
Commercial loans				
Business loans	Ps. 13,115	Ps. 1,131	Ps. 5,018	Ps. 1,465
Consumer loans	33	65	8	8
Mortgage loans	32	279	20	63
	Ps. 13,180	**Ps. 1,475**	**Ps. 5,046**	**Ps. 1,536**

The past-due loans showed the following periods of delinquency:

	From 1 to 180 days	From 181 to 365 days	From 366 days to 2 years	More than 2 years	Total
Commercial loans	Ps. 2,463	Ps. 1,038	Ps. 701	Ps. 2,338	Ps. 6,540
Consumer loans	4,088	234	2	5	4,329
Mortgage loans	958	365	-	-	1,323
	Ps. 7,509	**Ps. 1,637**	**Ps. 703**	**Ps. 2,343**	**Ps. 12,192**

The past-due loans showed the following periods of delinquency:

	From 1 to 180 days	From 181 to 365 days	From 366 days to 2 years	More than 2 years	Total
Commercial loans	Ps. 452	Ps.-	Ps. -	Ps. 5,360	Ps. 5,812
Consumer loans	3,079	115	1	4	3,199
Mortgage loans	731	318	-	-	1,049
	Ps. 4,262	**Ps. 433**	**Ps. 1**	**Ps. 5,364**	**Ps. 10,060**

Past-due loan movements for the years ended on December 31, 2017 and 2016 are shown below:

	2017	2016
Balance at the beginning of the year	Ps. 10,060	Ps. 11,634
Liquidations	(2,621)	(2,165)
Write-offs*	(11,853)	(10,776)
Renewals	(442)	(2,538)
Loan portfolio purchases	-	1,776
Discounts	(626)	(1,205)
Foreclosures	(148)	(260)
Loan Portfolio Sales	-	(1,492)
Transfers to performing loans	(5,769)	(5,975)
Transfers from performing loans	23,559	21,034
Fluctuation from foreign exchange rate	32	27
Year-end balance	**Ps. 12,192**	**$10,060**

* Corresponds to 100% hedged loans.

As of December 31, 2017, the balance of deferred loan origination fees was Ps. 2,564, and the amount recorded in results was Ps. 1,169. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 2,653, and the amount recorded in results was Ps. 687. As of December 31, 2016, the balance of deferred loan origination fees was Ps. 2,455, and the amount recorded in results was Ps. 1,199. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 2,251, and the amount recorded in results was Ps. 485. The average term over which the deferred fee balance and the costs and expenses will be recorded is equivalent to the average term of the portfolio balance.

The collected fees and costs are presented net in the line item of Deferred Loans 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 periods ended on December 31, 2017 and 2016, the balance of fully reserved past-due loans that were written off was Ps. 12,153 and Ps. 10,776, respectively.

On December 31, 2017 and 2016, revenues from recoveries of previously written-off loan portfolios were Ps. 1,737 and Ps. 1,531, respectively.

The loans granted per economic sectors are shown below:

	2016		2015	
	Amount	**Concentration percentage**	**Amount**	**Concentration percentage**
Private (companies and individuals)	Ps. 217,000	35.24%	Ps. 207,220	36.55%
Financial institutions	22,875	3.72%	20,584	3.63%
Credit card and consumer	106,324	17.27%	89,832	15.84%
Mortgage	136,698	22.21%	115,856	20.43%
Government loans	132,817	21.57%	133,540	23.55%
	Ps. 615,714	**100.0%**	**Ps. 567,032**	**100.0%**

Policies and Procedures for Granting Loans

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

I. Business Areas (includes corporate, commercial, business, governmental and consumer banking), primarily through the branch network.
II. Operations Areas
III. General Comprehensive Risk Management
IV. Recovery Management

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

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

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

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

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

	2016	**2016**
Distressed commercial loans	**Ps. 6,355**	**Ps. 7,028**
Performing	1,481	1,375
Past-due	4,874	5,653
Commercial loans	**387,902**	**365,754**
Performing	386,236	365,595
Past-due	1,666	159
Total rated commercial loans	**394,257**	372,782
Total portfolio	**Ps. 637,182**	**Ps. 578,439**
Distressed Commercial Loans/Total Portfolio	**1.00%**	**1.21%**

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

10 - LOANS RESTRUCTURED IN UDIS

As of December 31, 2017 and 2016 the Institution has no mortgage loans restructured in UDIS.

Early termination of mortgage loan borrower support programs

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

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

As of December 31, 2017 the remaining balance of SPECIAL CETES not repurchased by the Federal Government is Ps. 523 with maturities between 2017 and 2027.

11 - ALLOWANCE FOR LOAN LOSSES

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

	2017						
	Loan portfolio	Required allowances for losses					
Risk category		Companies	Government	Financial institutions' loans	Consumer portfolio	Mortgage portfolio	Total
Risk A1	Ps. 496,602	Ps. 867	Ps. 479	Ps. 92	Ps. 833	Ps. 205	Ps. 2,476
Risk A2	50,260	229	161	6	498	37	931
Risk B1	32,473	88	24	11	866	23	1,012
Risk B2	13,977	89	-	-	378	35	502
Risk B3	12,918	133	20	2	464	21	640
Risk C1	8,197	87	-	7	462	76	632
Risk C2	6,065	60	-	3	654	130	847
Risk D	10,480	1,903	-	-	1,787	351	4,041
Risk E	6,338	828	-	-	3,395	56	4,279
Unclassified	(129)	-	-	-	-	-	-
	Ps. 637,181	**Ps. 4,284**	**Ps. 684**	**Ps. 121**	**Ps. 9,337**	**Ps. 934**	**Ps. 15,360**
Less: Recorded allowance							**15,551**
Reserve supplement*							**Ps. 191**

	2016						
	Loan portfolio	Required allowances for losses					
Risk category		Companies	Government	Financial institutions' loans	Consumer portfolio	Mortgage portfolio	Total
Risk A1	Ps. 440,096	Ps. 820	Ps. 518	Ps. 87	Ps. 599	Ps. 163	Ps. 2,188
Risk A2	49,381	233	46	9	532	50	870
Risk B1	24,130	128	33	3	522	23	709
Risk B2	24,088	60	57	1	781	35	934
Risk B3	13,375	140	58	2	419	10	629
Risk C1	6,877	87	16	2	416	46	567
Risk C2	5,331	52	-	-	672	75	799
Risk D	10,540	2,045	-	155	1,521	283	4,004
Risk E	4,652	856	-	2	2,132	62	3,052
Unclassified	(31)	-	-	-	-	-	-
	Ps. 578,439	**Ps. 4,421**	**Ps. 728**	**Ps. 261**	**Ps. 7,594**	**Ps. 747**	**Ps. 13,752**
Less: Recorded allowance							**13,941**
Reserve supplement*							**Ps. 189**

*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.

As of December 2017 and 2016, the amount of the rating base for loan portfolios includes Ps. 21,438 and Ps. 11,357, respectively, for Granted Guarantors and Loan Acquisitions, which were recorded in memorandum accounts. Ps. 30 and Ps. 52 were also added for loans to consolidated related parties.

The estimated allowance for loan losses is determined based on portfolio balances at those dates.

As of December 31, 2017 and 2016, the allowance for loan losses represents 128% and 139%, 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, 2017 and 2016.

Exposure to Default, Probability of Non-Compliance and Severity of the Loss are shown below for each type of loan as of December 31, 2017.

Type of portfolio	Exposure to Default	Weighted Probability of Non-compliance	Weighted Severity of Loss
Commercial*	318,250	5.9%	23.6%
Mortgage	136,728	3.3%	20.7%
Non-revolving consumer	70,233	9.4%	69.4%
Revolving Consumer loan	53,044	11.8%	76.3%

* Loans intended for investment projects having their own source of payment are not included.

Movements in Allowance for Loan Losses

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

	2017	2016
Balance at the beginning of the year	Ps. 13,941	Ps. 13,334
Increase charged to results	14,628	12,727
Discounts and write-offs	(13,691)	(12,669)
Rebates granted to housing debtors	(9)	(8)
Recognized against results of previous years	1,015	672
Reclassification INB	-	(197)
Venta de Cartera	(321)	-
Others	(12)	82
Year-end balance	**Ps. 15,551**	**Ps. 13,941**

As of December 31, 2017, the net amount of preventive loan loss reserves charged to the consolidated Income Statement totals Ps. 14,983, and is presented net of (Ps. 343) paid to Other income or expenses, and due to the variation of the USD (Ps. 12) exchange rate; such amounts are affected against results is comprised of Ps. 14,628 credited directly to the estimate. As of December 31, 2016, the net amount of preventive loan loss reserves charged to the consolidated Income Statement totals Ps. 13,070, and is presented net of (Ps. 424) paid to Other income or expenses, and due to the variation of the USD $81 exchange rate; such amounts are affected against results is comprised of Ps. 12,727 credited directly to the estimate.

12 - ACQUIRED COLLECTION RIGHTS

The acquired collection rights are comprised as follows:

Valuation Method	2017	2016
Cash Basis Method	Ps. 1,378	Ps. 936
Cost Recovery Method	526	425
Interest method	21	39
	Ps. 1,925	**Ps. 1,400**

As of December 31, 2017, derived from applying the valuation methods (described in Note 4), the Institution recognized income from credit asset portfolios of Ps. 435, together with the respective amortization of Ps. 304, the effects of which were recognized under the “Other income” heading in the consolidated Income Statement. For the year ended December 31, 2016, the Institution recognized income of Ps. 392, together with the respective amortization of Ps. 251.

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

Assets other than cash that the Institution has received as part of portfolio collection or recovery have been mainly in real estate property.

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

13 - OTHER ACCOUNTS RECEIVABLE, NET

This item is made up as follows:

	2016	**2015**
Loans to officers and employees	Ps. 2,595	Ps. 2,573
Debtors from liquidation settlements	12,710	17,754
Debtors from cash collateral	17,663	16,011
Real estate property portfolios	1,264	217
Sundry debtors in Mexican pesos	3,241	3,702
Sundry debtors in foreign currency	353	78
Others	122	8
	37,948	40,343
Allowance for doubtful accounts	(456)	(354)
	Ps. 37,492	**Ps. 39,989**

The loans to officers and employees mature in 3 to 30 years, and accrue an interest rate which goes from TIIE plus 0.6% to TIIE plus 1%.

14 -FORECLOSED ASSETS, NET

This item is made up as follows:

	2017	**2016**
Moveable property	Ps. 81	Ps. 86
Real estate property	2,437	2,610
Goods pledged for sale	8	10
	2,526	**2,706**
Allowance for losses on foreclosed assets	(47)	(30)
Allowance for losses on foreclosed real estate assets	(1,723)	(1,449)
Allowance for losses on assets pledged for sale	(4)	(5)
	(1,774)	**(1,484)**
	Ps. 752	**Ps. 1,222**

As of December 31, 2017, aging of the reserves for foreclosed assets is made up as follows:

Concept / Months	**18 to 24**	**More than 24**	**Total**
Moveable property	Ps. 25	Ps. 22	Ps. 47

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. 11	Ps. 14	Ps. 8	Ps. 4	Ps. 101	Ps. 1,585	Ps. 1,723
Goods pledged for sale	-	-	-	-	-	4	4
	Ps. 11	**Ps. 14**	**Ps. 8**	**Ps. 4**	**Ps. 101**	**Ps. 1,589**	**Ps. 1,727**

15 - PROPERTY, FURNITURE AND FIXTURES, NET -

This item is made up as follows:

	2017	2016
Furniture and equipment	Ps. 10,241	Ps. 8,732
Property intended for offices	8,977	8,150
Installation costs	5,746	5,287
	24,964	**22,169**
Less - Accumulated depreciation and amortization	(11,490)	(10,242)
	Ps. 13,474	**Ps. 11,927**

The depreciation recorded in the results of 2017 and 2016 was Ps. 1,533 and Ps. 1,084, respectively.

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

	Useful Life
Furniture and equipment	4 to 10 years
Real estate	4 to 99 years
Installation costs	10 years

16 - PERMANENT STOCK INVESTMENTS -

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

	Share %	2017	2016
Controladora PROSA, S. A. de C. V.	19.73%	Ps. 64	Ps. 101
Fondo Chiapas, S.A. de C.V.	11.11%	17	15
Others	Various	69	69
		Ps. 150	**Ps. 185**

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

17 - DEFERRED TAXES, NET

The tax reported by the Institution is calculated based on the current taxable result of the year and enacted tax regulations. However, due to temporary differences between how income and expenses are recognized for accounting and tax purposes, as well as the differences between the accounting and tax balance sheet accounts, the Institution has recognized a recoverable net deferred tax asset of Ps. 3,517 and Ps. 4,228, respectively, as of December 31, 2017 and 2016 as detailed below:

	2017		2016	
	Temporary Differences	Deferred Effect ISR	Temporary Differences	Deferred Effect ISR
Temporary Differences - Assets				
Allowance for loan losses	Ps. 1	Ps. -	Ps. 1	Ps. -
Surplus preventive allowances for credit risks over the net tax limit	15,551	4,665	13,941	4,182
Excess of tax over book value of foreclosed and fixed assets	2,645	792	2,647	791
PTU	380	114	380	114
Fees collected in advance	2,843	853	2,571	771
Accounting provisions	3,060	918	3,043	913
Financial instruments valuation	2,280	684	4,306	1,292
Other assets	-	-	2	1

Total deferred assets	**Ps. 26,760**	**Ps. 8,026**	**Ps. 26,891**	**Ps. 8,064**
Temporary Differences_- Liabilities				
Advance contributions to pension fund	Ps. 2,968	Ps. 890	Ps. 3,254	Ps. 976
Portfolios acquired	486	146	606	182
Capitalizable projects' expenses	11,559	3,468	8,882	2,665
Intangible assets	62	18	74	20
Effect from other items	(35)	(13)	(19)	(7)
Total deferred liabilities	**15,040**	**4,509**	**12,797**	**3,836**
Net accumulated effect				
Deferred tax, net		**Ps. 3,517**		**Ps. 4,228**

As explained in Note 26, for 2017, 2016 and subsequent years, the applicable ISR rate is 30%.

Banorte USA's deferred tax assets and liabilities are determined using the liability method. According to this method, the net asset or liability of deferred taxes is determined based on the tax effects of temporary differences between the book and tax base of assets and liabilities. Derived from consolidating Banorte USA, as of December 31, 2017 and 2016 a net amount of Ps. 1 and 16, respectively, was added to deferred taxes determined at a rate of 21% and 35% as per the tax law of the USA.

18 - OTHER ASSETS

This item is made up as follows:

	2017	2016
Net asset forecast from labor obligations and savings fund	Ps. 80	Ps. 2,851
Payments to amortize	13,914	11,763
Accumulated payment amortization	(2,248)	(1,709)
Goodwill	1,385	1,406
	Ps. 13,131	**Ps. 14,311**

As of December 31, 2017 and 2016, goodwill is as follows:

	2017	2016
Banorte-Ixe Tarjetas, S.A. de C.V. SOFOM, ER*	1,005	1,005
Uniteller Financial Services	380	401
	Ps. 1,385	**Ps. 1,406**

Includes Ps. 727 of goodwill generated by the acquisition of Banorte-Ixe Tarjetas, S.A. de C.V. SOFOM, ER and Ps. 278 this business entity recorded at the time of the acquisition.

As mentioned in Note 4, goodwill is not amortized since 2007 and since then is subject to annual impairment tests. No impairment to goodwill value was detected as of December 31, 2017 and 2016.

19 - DEPOSITS

Liquidity Coefficient

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

In accordance with such regime, during 2017 and 2016 the Institution generated a liquidity requirement of USD 981,294 thousand and USD 383,170 thousand, respectively, and held investments in liquid assets of USD 1,525,564 thousand and USD 1,106,523 thousand, representing a surplus of USD 544,270 thousand and USD 723,353 thousand, respectively.

Deposits

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

	2017	2016
Demand deposits		
Non-interest Bearing Checking accounts:		
Cash deposits	Ps. 215,800	Ps. 210,850
Checking accounts in US dollars for individual residents on the Mexican border	3,093	2,621
Demand deposits accounts	18,677	16,572
Interest Bearing Checking accounts:		
Other bank checking deposit	82,625	80,433
Savings accounts	-	-
Checking accounts in US dollars for individual residents on the Mexican border	1,909	2,110
Demand deposits accounts	72,891	69,823
	394,995	**382,409**
Time deposits		
General public:		
Fixed-term deposits	21,656	18,938
Retail time deposits	221,746	169,687
Promissory note with interest payable at maturity PRLV primary market for individuals	794	1,248
Foreign residents deposits	12	14
Provision for interest	1,080	649
	245,288	**190,536**
Money market:		
Over the counter promissory notes	3,678	1,458
Provision for interest	1	1
	3,679	**1,459**
Senior debt issued	**3,003**	**-**
Global account with no movements	**1,657**	**1,352**
	Ps. 648,622	**Ps. 575,756**

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

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

Immediately Due and Payable Deposits:

	2017				2016			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Mexican pesos and UDIS	0.52%	0.66%	0.80%	0.76%	0.49%	0.46%	0.47%	0.47%
Foreign Currency	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%

Time Deposits:

	2017				2016			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
General public								
Mexican pesos and UDIS	4.85%	5.50%	5.86%	5.57%	2.75%	3.12%	3.43%	3.98%
Foreign Currency	0.18%	0.18%	0.19%	0.20%	0.37%	0.23%	0.18%	0.22%
Money market	4.31%	6.64%	7.40%	7.27%	3.52%	3.10%	2.76%	3.72%

As of December 31, 2017 and 2016, the terms set for these deposits are as follows:

	2017			
	1 to 179 days	6 to 12 months	More than 1 year	Total
General public:				
Fixed-term deposits	Ps. 19,293	Ps. 1,863	Ps. 500	Ps. 21,656
Retail time deposits	211,259	10,053	434	221,746
Promissory note with interest payable at maturity				
PRLV primary market for individuals	749	27	18	794
Foreign residents deposits	12	-	-	12
Provision for interest	862	204	14	1,080
	232,175	**12,147**	**966**	**245,288**
Money market:				
Promissory notes	-	-	3,678	3,678
Provision for interest	-	-	1	1
	-	**-**	3,679	3,679
	Ps. 232,175	**Ps. 12,147**	**Ps. 4,645**	**Ps. 248,967**

	2016			
	1 to 179 days	6 to 12 months	More than 1 year	Total
General public:				
Fixed-term deposits	Ps. 16,882	Ps. 1,384	Ps. 672	Ps. 18,938
Retail time deposits	163,040	6,388	259	169,687
Promissory note with interest payable at maturity				
PRLV primary market for individuals	1,143	63	43	1,248
Foreign residents deposits	14	-	-	14
Provision for interest	562	82	4	649
	181,641	**7,917**	**978**	**190,536**
Money market:				
Promissory notes	-	-	1,458	1,458
Provision for interest	-	-	1	1
	-	**-**	1,459	1,459
	Ps. 181,641	**Ps. 7,917**	**Ps. 2,437**	**Ps. 191,995**

20 - INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2017 and 2016 are as follows:

	Mexican pesos		Denominated in USD		Total	
	2017	2016	2017	2016	2017	2016
Immediately due:						
Domestic banks (Call money)	Ps. -	Ps. 4,019	Ps. -	Ps. -	Ps. -	Ps. 1
Short-term:						
Commercial banking	-	-	104	15	104	15
Development banking	251	315	39	520	290	835
Public trusts	7,487	6,336	536	857	8,023	7,193
Provision for interest	17	14	7	6	24	20
	7,755	**6,665**	**686**	**1,398**	**8,441**	**8,063**
Long-term:						
Commercial banking	-	-	-	2,567	-	2,567
Development banking	-	-	2,804	2,751	2,804	2,751
Public trusts	3,530	3,537	463	323	3,993	3,860
	3,530	**3,537**	**3,267**	**5,641**	**6,797**	**9,178**
	Ps. 11,285	**Ps. 14,221**	**Ps. 3,953**	**Ps. 7,039**	**Ps. 15,238**	**Ps. 21,260**

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

The average interest rates are shown below:

	2017				2016			
Foreign exchange	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Call money								
Mexican pesos and UDIS	5.82%	6.80%	6.79%	6.89%	3.27%	3.15%	4.15%	5.07%
Other bank loans								
Mexican pesos and UDIS	11.31%	10.66%	9.17%	10.50%	4.28%	4.33%	4.85%	5.14%
Foreign Currency	2.35%	2.53%	2.96%	3.37%	2.14%	2.06%	2.16%	2.39%

21 - SUNDRY CREDITORS AND OTHER PAYABLES

This item is made up as follows:

	2017	2016
Cashier and certified checks and other negotiable instruments	Ps. 2,803	Ps. 2,729
Provisions for indemnities	514	407
Provisions for other obligations	6,720	6,985
Others	6,860	4,323
	Ps. 16,897	**Ps. 14,444**

22 - EMPLOYEE RETIREMENT OBLIGATIONS

The Institution recognizes the liabilities for pension plans and seniority premiums using the “Projected Unit Credit” method, which considers the benefits accrued at the date of the consolidated balance sheets and the benefits generated during the year.

The amount of current and projected benefits as of December 31, 2017 and 2016, related to the defined benefit pension plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

	2017			
	Pension plan	**Seniority premiums**	**Medical services**	**Total**
Projected benefit obligation (PBO)	(Ps. 1,279)	(Ps. 248)	(Ps. 3,571)	(Ps. 5,098)
Fund market value	813	235	2,518	3,566
Funded status	(466)	(13)	(1,053)	(1,532)
Unrecognized prior service cost	-	-	110	110
Unrecognized actuarial losses	461	11	944	1,416
Net projected asset	**(Ps. 5)**	**(Ps. 2)**	**Ps. 1,967**	**(Ps. 6)**

	2016			
	Pension plan	**Seniority premiums**	**Medical services**	**Total**
Projected benefit obligation (PBO)	(Ps. 1,227)	(Ps. 239)	(Ps. 3,399)	(Ps. 4,865)
Fund market value	1,228	339	3,852	5,419
Funded status	1	100	453	554
Unrecognized prior service cost	-	-	146	146
Unrecognized actuarial losses	667	17	1,368	2,052
Net projected asset	**Ps. 668**	**Ps. 117**	**Ps. 1,967**	**Ps. 2,752**

Moreover, as of December 31, 2017, a separate fund amounting to Ps. 3,566, (Ps. 5,419 in 2016) has been set aside to meet the above-mentioned obligations, in accordance with NIF D-3 and is recorded under “Other assets”. For the years ended December 31, 2017 and 2016, the net periodic pension cost is as follows:

	2017	2016
Service cost	Ps. 102	Ps. 123
Interest cost	428	406
Expected return on plan assets	(486)	(472)
Amortizations of unrecognized items:		
Profits (actuarial losses)	136	158
Cost of the advance reduction/liquidation of obligations	4	1
Net periodic pension cost	**Ps. 184**	**Ps. 215**

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2017 and 2016, are shown below:

Concept	2017 Nominal	2016 Nominal
Discount rate	9.25%	9.00%
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%	8.75%

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

Concept	2017	2016
Defined and projected benefit obligations	(Ps. 261)	(Ps. 248)
Net projected liability	**(Ps. 261)**	**(Ps. 248)**

For the years ended December 31, 2017 and 2016, the net periodic pension cost is as follows:

Concept	2017	2016
Service cost	Ps. 11	Ps. 34
Cost / (income) for immediate recognition of P/(G)	7	14
Net periodic pension cost	**Ps. 18**	**Ps. 48**

Pursuant to the law, the Institution makes payments equivalent to 2% of its workers' salary to the contribution plan defined for the retirement saving fund established by law. The expense for this concept was Ps. 128 in 2017 and Ps. 124 in 2016.

The balance of the employee retirement obligations presented in this Note refers to the Institution’s defined benefit pension plan for those employees who remain enrolled.

The labor obligations derived from the defined contribution pension plan do not require an actuarial valuation as established in MFRS D-3, because the cost of this plan is equivalent to the Institution’s contributions made to the plan’s participants. This pension plan is invested in a fund as of December 31, 2017 and 2016, equivalent to Ps. 2,846 and Ps. 2,506, respectively, which is recorded under “Other assets” and is equivalent to the recorded plan liability.

23 - SUBORDINATED DEBENTURES

As of December 31, 2017 and 2016, the subordinated debentures in circulation are as follows:

	2017	2016
Non-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.	Ps. 9,831	Ps. 10,310
Preferred subordinated nonconvertible debentures, QBANORTE 12 maturing in May 2022, paying interest at the 28-day TIIE rate plus 1.5%, payable in 130 periods of 28 days each.	-	3,200
Non preferred subordinated nonconvertible debentures (Q BANORTE 08 debentures), maturing in February 2018, paying interest at the 28-day TIIE rate plus 0.60%.	-	3,000
Non-preferred subordinated obligations, non-preferent, perpetual, non-cumulative 5 years callable BANOD19 999999 denominated in USD, with an interest rate of 6.875%.**	6,882	-
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 10 years callable BANOE91 999999 denominadas in USD, with an interest rate of 7.625%.**	10,815	-
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, interest at a 4.95% annual rate.	2,653	2,487
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.	2,360	2,472
Subordinated debentures, maturing in June 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.75%.*	-	212
Preferred subordinated debentures maturing in April 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.72%.*	-	212
Accrued interest	229	24
Gastos de emisión y colocación.	(325)	-
	Ps. 32,445	**Ps. 21,917**

These obligations were liquidated prematurely as part of the sale of INB.
** The above mentioned emission was registered 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 was Ps. 18 and Ps. 10 in 2017 and 2016, respectively.

24 – TRANSACTIONS AND BALANCES WITH SUBSIDIARIES AND ASSOCIATED COMPANIES

The balances and transactions with subsidiaries and associated companies as of December 31, 2016 and 2015 are made up as follows:

	Revenues		Accounts receivable	
Institution	**2017**	**2016**	**2017**	**2016**
Arrendadora y Factor Banorte, S.A. de C.V.	Ps. 469	Ps. 207	Ps. 6,451	Ps. 5,272
Almacenadora Banorte, S.A. de C.V.	19	19	327	390
Seguros Banorte, S.A. de C.V.	815	694	105	62
Pensiones Banorte, S.A. de C.V.	1	1	-	-
Casa de Bolsa Banorte-Ixe, S.A. de C.V.	2,167	1,368	15	-
Ixe Fondos, S.A. de C.V.	460	369	50	35
Sólida Administradora de Portafolios, S.A. de C.V.	852	567	10,810	10,132
Total	**Ps. 4,783**	**Ps. 3,225**	**Ps. 17,758**	**Ps. 15,891**

Institution	Expenses 2017	Expenses 2016	Accounts payable 2017	Accounts payable 2016
Grupo Financiero Banorte, S.A.B. de C.V.	Ps. 240	Ps. 54	Ps. 10,996	Ps. 3,524
Arrendadora y Factor Banorte, S.A. de C.V.	20	15	255	94
Almacenadora Banorte, S.A. de C.V.	1	1	-	2
Seguros Banorte, S.A. de C.V.	720	648	310	320
Pensiones Banorte, S.A. de C.V.	-	-	1	1
Casa de Bolsa Banorte-Ixe, S.A. de C.V.	692	356	949	609
Operadora de Fondos Banorte-Ixe, S.A. de C.V.	19	15	324	265
Ixe Servicios, S.A. de C.V.	2	1	34	32
Sólida Administradora de Portafolios, S.A. de C.V.	3	4	98	19
Banorte Ahorro y Previsión, S.A. de C.V.	1	-	402	-
Total	**Ps. 1,698**	**Ps. 1,094**	**Ps. 13,369**	**Ps. 4,866**

The premiums paid and collected in repurchase operations with Banorte-Ixe Brokerage House and Grupo Financiero Banorteare among the most significant transactions, as well as the account receivable from Banorte Leasing and Factor and Sólida Administradora de Portafolios corresponding to loans granted.

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

For the years ended December 31, 2017 and 2016, the amount of the loans granted to related parties was as follows:

Institution granting the loan	2017	% over the limit	2016	% over the limit
Banco Mercantil del Norte, S.A.	Ps. 19,410	19.8%	Ps. 9,792	11.8%

The transactions granted by Banorte to related parties are under the 100% limit set forth by the LIC.

Loan Portfolio Sales

During June, 2017 the Institution realized the sale of consumer loans to Sólida. The contractual value of the acquired portfolio amounted to Ps. 3,134 (Ps. 3,000 net of allowance).

During September, 2017 the Institution realized the sale of consumer loans to Sólida. The contractual value of the acquired portfolio amounted to Ps. 4,166 (Ps. 4,000 net of allowance).

<u>Sale of loan portfolio packages between related parties (nominal values)</u>

In February 2003 Banorte sold Ps. 1,925 of its own portfolio (with interest) to its subsidiary Sólida at a price of Ps. 378. Of this transaction, Ps. 1,861 relates to past-due amounts and Ps. 64 to performing loans. The transaction was recorded based on figures as of August 2002, for which reason the final amount affecting the February 2003 balance sheet was Ps. 1,856, considering the collections made since August 2002. In conjunction with the sold loan portfolio, Ps. 1,577 of the associated allowance for loan losses was transferred as well.

In official letter 601-II-323110 dated November 5, 2003, the Commission established the accounting criteria to be applied to this transaction and issued a series of rulings whereby the Institution must provide detailed information on the activities of this transaction throughout its duration, in the understanding that this transaction was a one-time event and not a recurring portfolio transfer procedure.

Pursuant to the foregoing, below is a summary of the activity of the loan portfolio sold to Sólida since August 2002 and for the years of 2017 and 2016:

	Mexican pesos			Foreign Currency			Total		
Type of portfolio	**Aug 02**	**Dec 16**	**Dec 17**	**Aug 02**	**Dec 16**	**Dec 17**	**Aug 02**	**Dec 16**	**Dec 17**
Performing Loan Portfolio									
Commercial	Ps. 5	Ps. -	Ps. -	Ps. 5	Ps. -	Ps. -	Ps. 10	Ps. -	Ps. -
Mortgage	54	22	19	-	-	-	54	22	19
Total	**59**	**22**	**19**	**5**	**-**	**-**	**64**	**22**	**19**
Past-due loan portfolio									
Commercial	405	192	184	293	13	1	698	205	185
Consumer	81	71	71	-	-	-	81	71	71
Mortgage	1,112	203	205	-	-	-	1,112	203	205
Total	**1,598**	**466**	**460**	**293**	**13**	**1**	**1,891**	**479**	**461**
Total portfolio	**1,657**	**488**	**479**	**298**	**13**	**1**	**1,955**	**501**	**480**
Allowance for loan losses(1)									
Commercial	326	192	184	246	13	1	572	205	185
Consumer	77	71	71	-	-	-	77	71	71
Mortgage	669	214	205	-	-	-	669	214	205
Total allowance for loan loss	**1,072**	**477**	**460**	**246**	**13**	**1**	**1,318**	**490**	**461**
Net portfolio	**Ps. 585**	**Ps. 11**	**Ps. 19**	**Ps. 52**	**Ps. -**	**Ps. -**	**Ps. 637**	**Ps. 11**	**Ps. 19**

(1) Recorded reserves according to the Institution's rating methodology.

As of December 31, 2017 and 2016, the composition of the Institution's loan portfolio excluding its subsidiaries, including the loan portfolio sold to Sólida, is as follows:

	Mexican pesos		Foreign Currency		Total	
Type of portfolio	**Dec 16**	**Dec 15**	**Dec 16**	**Dec 15**	**Dec 16**	**Dec 15**
Commercial loans	Ps. 321,767	Ps. 313,319	Ps. 44,384	Ps. 42,279	Ps. 366,151	Ps. 355,598
Consumer loans	101,996	86,632	-	-	101,996	86,632
Mortgage loans	135,424	114,828	-	-	135,424	114,828
Performing Loan Portfolio	**559,187**	**514,779**	**42,279**	**42,279**	**603,571**	**557,059**
Commercial loans	5,115	5,862	141	141	6,725	6,003
Consumer loans	4,400	3,271	-	-	4,400	3,271
Mortgage loans	1,528	1,252	-	-	1,528	1,252
Past-due loan portfolio	**11,043**	**10,385**	**141**	**141**	**12,653**	**10,526**
Total portfolio	**570,230**	**525,164**	**42,220**	**42,220**	**612,224**	**567,584**
Allowance for loan losses	15,685	14,116	323	323	16,012	14,439
Net portfolio	**Ps. 554,545**	**Ps. 511,048**	**Ps. 45,667**	**Ps. 42,097**	**Ps. 600,012**	**Ps. 553,145**
Allowance for loan losses					**126.55%**	**137.18%**
% of past-due portfolio					**2.05%**	**1.85%**

25 – INFORMATION BY SEGMENT

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

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

	2017		
	Interest	Fees	Total
	MXP	MXP	MXP
Cash and cash equivalents	Ps. 2,354	Ps. -	Ps. 2,354
Margin securities	110	-	110
Investment in securities	18,417	-	18,417
Securities repurchasing and loans	2,283	-	2,283
Hedging transactions	5,073	-	5,073
Commercial loans	31,524	439	31,963
Mortgage loans	12,284	514	12,798
Consumer loans	22,488	216	22,704
Others	8	-	8
	Ps. 94,541	**Ps. 1,169**	**Ps. 95,710**

	2016		
	Interest	Fees	Total
	MXP	MXP	MXP
Cash and cash equivalents	Ps. 1,625	Ps. -	Ps. 1,625
Margin securities	119	-	119
Investment in securities	11,470	-	11,470
Securities repurchasing and loans	1,417	-	1,417
Hedging transactions	2,324	-	2,324
Commercial loans	21,690	465	22,155
Mortgage loans	10,501	471	10,972
Consumer loans	18,900	263	19,163
Others	162	-	162
	Ps. 62,808	**Ps. 1,199**	**Ps. 69,407**

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

	2017			2016		
	MXP	F.E.	Total	MXP	F.E.	Total
Immediately Due and Payable Deposits:						
Checking accounts	Ps.1,903	Ps.-	Ps.1,903	Ps. 1,044	Ps. -	Ps. 1,044
Savings accounts	302	-	302	374	-	374
	2,205	-	2,205	1,418	-	1,418
Time Deposits:						
General public	12,073	26	12,099	6,259	36	6,295
Money market	501	-	501	73	-	73
	12,574	26	12,600	6,332	36	6,368
Total	**Ps.14,779**	**Ps. 26**	**Ps.14,805**	**Ps. 7,750**	**Ps. 36**	**Ps. 7,786**

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

	2017			2016		
	MXP	**F.E.**	**Total**	**MXP**	**F.E.**	**Total**
Call money	Ps. 114	Ps. -	Ps. 114	Ps. 35	Ps. -	Ps. 35
Banco de México	5	-	5	6	-	6
Commercial banks	405	23	428	-	34	34
Development banking	767	-	767	512	-	512
Provision for interest	11	-	11	19	-	19
Total	**Ps. 1,302**	**Ps. 23**	**Ps. 1,325**	**Ps. 570**	**Ps. 34**	**Ps. 606**

d. The trading results are as follows:

	2017	**2016**
Trading results:		
Spot foreign currency	(Ps. 130)	Ps. 54
Derivatives financial instruments	737	386
Investments in securities	(722)	(125)
Valuation	**(115)**	**315**
Purchase-sales result, net		
Spot foreign currency	Ps. 1,729	Ps. 1,511
Derivatives financial instruments	137	(14)
Investments in securities	350	27
Total trading results	**2,216**	**1,524**
Total trading results	**Ps. 2,101**	**Ps. 1,839**

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

	2017				
	Geographical location				
Economic sector	**North**	**Center**	**West**	**South**	**Total**
Agriculture	Ps. 3,996	Ps. 1,232	Ps. 1,383	Ps. 1,516	Ps. 8,127
Mining	38	2,760	-	1	2,799
Manufacturing	14,389	12,774	2,246	1,849	31,258
Construction	9,625	20,543	758	2,049	32,975
Public utilities	387	6,192	5	7	6,591
Commerce	21,752	24,182	6,068	11,552	63,554
Transportation	3,144	15,657	364	964	20,129
Financial services	18,463	3,596	285	651	22,995
Communal, social services	14,756	23,957	2,755	3,564	45,032
Public administration and services	40,516	66,687	11,340	14,273	132,816
Credit card	-	-	-	-	33,908
Consumer	-	-	-	-	68,091
Mortgage	-	-	-	-	135,247
Performing loan portfolio	**Ps. 127,066**	**Ps. 177,580**	**Ps. 25,204**	**Ps. 36,426**	**Ps. 603,522**

	2016				
	Geographical location				
Economic sector	North	Center	West	South	Total
Agriculture	Ps. 3,590	Ps. 1,106	Ps. 1,431	Ps. 1,419	Ps. 7,546
Mining	50	94	2	4	150
Manufacturing	15,788	14,206	2,028	3,328	35,350
Construction	9,637	27,058	1,045	1,951	39,691
Public utilities	370	1,668	5	5	2,048
Commerce	20,921	18,647	5,570	7,928	53,066
Transportation	4,451	10,513	323	895	16,182
Financial services	28,614	18,227	2,513	3,126	52,480
Communal, social services	3,251	10,170	514	1,545	15,478
Public administration and services	41,325	66,710	11,425	14,080	133,540
INB	41,325	66,710	11,425	14,080	133,540
Credit card	-	-	-	-	28,445
Consumer	-	-	-	-	58,187
Mortgage	-	-	-	-	114,807
Performing loan portfolio	**Ps. 127,997**	**Ps. 168,399**	**Ps. 24,856**	**Ps. 34,281**	**Ps. 556,972**

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

	2017				
	Geographical location				
Economic sector	North	Center	West	South	Total
Agriculture	Ps. 61	Ps. 37	Ps. 6	Ps. 16	Ps. 120
Mining	-	-	-	-	-
Manufacturing	58	200	40	1,617	1,915
Construction	86	2,263	9	70	2,428
Public utilities	-	15	-	-	15
Commerce	276	739	138	301	1,454
Transportation	30	45	8	16	99
Financial services	-	-	2	-	2
Communal, social services	120	234	24	129	507
Credit card	-	-	-	-	2,188
Consumer	-	-	-	-	2,141
Mortgage	-	-	-	-	1,323
Past-due loan portfolio	**Ps. 631**	**Ps. 3,533**	**Ps. 227**	**Ps. 2,149**	**Ps. 12,192**

	2016				
	Geographical location				
Economic sector	North	Center	West	South	Total
Agriculture	Ps. 86	Ps. 49	Ps. 31	Ps. 17	Ps. 183
Mining	62	251	114	66	493
Manufacturing	119	3,024	6	73	3,222
Construction	-	-	-	-	-
Public utilities	348	512	120	317	1,297
Commerce	31	25	5	26	87
Transportation	26	18	2	15	61
Financial services	91	244	19	115	469
Communal, social services	-	-	-	-	1,623
INB	-	-	-	-	1,576
Credit card	-	-	-	-	1,049
Consumer	62	251	114	66	493
Mortgage	119	3,024	6	73	3,222
Past-due loan portfolio	**Ps. 763**	**Ps. 4,123**	**Ps. 297**	**Ps. 629**	**Ps. 10,060**

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

	2017		
	Commercial	**Corporate**	**Total**
Commercial	Ps. 275,756	Ps. 90,366	Ps. 366,122
Consumer loans	101,995	-	101,995
Housing mortgage loans	135,405	-	135,405
Total performing loan portfolio	**513,156**	**90,366**	**603,522**
Commercial	3,061	3,479	6,540
Consumer loans	4,329	-	4,329
Housing mortgage loans	1,323	-	1,323
Total past-due loan portfolio	**8,713**	**3,479**	**12,192**
Total loan portfolio	**521,870**	**93,845**	**615,714**
Allowance for loan losses	(15,551)	-	(15,551)
Loan portfolio, net	**506,319**	**93,845**	**600,163**
Acquired collection rights	1,925	-	1,925
Total loan portfolio, net	**Ps. 508,243**	**Ps. 93,845**	**Ps. 602,088**

	2016		
	Commercial	**Corporate**	**Total**
Commercial	Ps. 263,280	Ps. 92,254	Ps. 355,533
Consumer loans	86,632	-	86,632
Housing mortgage loans	114,807	-	114,807
Total performing loan portfolio	**464,717**	**92,254**	**556,972**
Commercial	3,223	2,588	5,811
Consumer loans	3,200	-	3,200
Housing mortgage loans	1,049	-	1,049
Total past-due loan portfolio	**7,472**	**2,588**	**10,060**
Total loan portfolio	**472,189**	**94,842**	**567,032**
Allowance for loan losses	(13,941)	-	(13,941)
Loan portfolio, net	**458,248**	**94,842**	**553,091**
Acquired collection rights	1,400	-	1,400
Total loan portfolio, net	**Ps. 459,648**	**Ps. 94,842**	**Ps. 554,491**

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

	2017							
	Geographical location							
Product	**Monterrey**	**Mexico City**	**West**	**Northwest**	**South-east**	**Treasury and other**	**Foreign**	**Total**
Non-interest bearing checking accounts	Ps. 46,881	Ps. 76,343	Ps. 23,016	Ps. 23,001	Ps. 27,536	Ps. 644	Ps. -	Ps. 197,421
Interest-bearing checking accounts	18,644	55,158	7,672	9,322	22,712	558	-	Ps. 114,066
Current account Ps. and pre-established	8,026	13,918	3,668	3,730	5,472	4	-	Ps. 34,818
Non-interest bearing demand deposits, USD	7,176	14,735	1,648	8,827	2,472	593	-	Ps. 35,451
Interest bearing demand deposits, USD	6,785	3,722	1,056	3,346	780	1	-	Ps. 15,690
Retail time deposits	37,255	78,331	17,176	15,142	24,698	1,083	-	Ps. 173,685
Time deposits, USD	3,819	10,963	1,605	2,146	755	27	3,003	Ps. 22,318
Customers Money market	17,651	19,539	4,297	1,465	2,475	6,074	-	Ps. 51,501
Financial intermediaries	-	-	-	-	-	3,672	-	Ps. 3,672
Total Deposits	**Ps. 146,237**	**Ps. 272,710**	**Ps. 60,138**	**Ps. 66,978**	**Ps. 86,900**	**Ps. 12,655**	**Ps. 3,003**	**Ps. 648,622**

	2016						
	Geographical location						
Product	Monterrey	Mexico City	West	Northwest	South-east	Treasury and other	Total
Non-interest bearing checking accounts	Ps. 46,533	Ps. 75,880	Ps. 23,494	Ps. 21,901	Ps. 27,042	Ps. 499	Ps. 195,349
Interest-bearing checking accounts	17,083	49,825	10,102	9,007	23,096	495	Ps. 109,608
Current account Ps. and pre-established	6,421	11,987	3,152	2,902	4,313	2	Ps. 28,777
Non-interest bearing demand deposits, USD	7,165	15,415	1,396	7,017	1,871	626	Ps. 33,490
Interest bearing demand deposits, USD	6,345	5,740	966	3,931	803	-	Ps. 17,785
Retail time deposits	31,467	68,789	14,734	12,367	20,704	650	Ps. 148,711
Time deposits, USD	7,675	4,788	1,741	2,519	1,036	27	Ps. 17,786
Customers Money market	11,362	6,956	2,007	1,368	1,054	44	Ps. 22,791
Financial intermediaries	-	-	-	-	-	1,459	Ps. 1,459
Total Deposits	**Ps. 134,051**	**Ps. 239,380**	**Ps. 57,592**	**Ps. 61,012**	**Ps. 79,919**	**Ps. 3,802**	**Ps. 575,756**

26 - PROFIT TAXES

The Institution is subject to Income Tax (ISR).

ISR

ISR According to the ISR Law, the rate for 2017 and 2016 and subsequent years is 30%

Conciliation of the accounting and fiscal results

The principal items affecting the determination of the current tax expense of the Institution were the annual adjustment for inflation, deduction of loan write-offs, and the valuation of financial instruments.

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

	2017	2016
Legal rate	30%	30%
Tax inflation	(4%)	(3%)
Non-tax accounting write-offs	2%	3%
Other entries	1%	(1%)
Effective rate	**29%**	**27%**

27 - STOCKHOLDERS' EQUITY

The Institution's shareholders' common stock is comprised as follows:

	Number of shares with a nominal value of Ps. 0.10	
Paid-in Capital	**2017**	**2016**
"O" Series	137,303,109,559	137,303,109,559

	Historical Amounts	
Paid-in Capital	**2017**	**2016**
"O" Series	Ps. 13,730	Ps. 13,730
Restatement in Mexican pesos through December 2007	4,375	4,375
	Ps. 18,105	**Ps. 18,105**

Restrictions on Profits

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

The Institution's net profit is subject to Art. 99 A of the LIC that requires that net income of each year be transferred to the legal reserve until the reserve equals 10% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Institution, except in the form of a stock dividend. As of December 31, 2017 and 2016, the legal reserve is Ps. 12,848 and Ps. 11,509 respectively, as of December 31, 2017 and 2016 represents 71% and 63% of paid-in capital.

Share-based Payments

During 2017 and 2016, the Institution recorded Ps. 576 and Ps. 408, respectively in administration expenses as compensarion for share-based payments against the paid-in capital.

As of December 31, 2017 and 2016, the Institution has 19,290,000 and 15,919,639 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. 86.04 and Ps. 81.48.

During 2017 and 2016, 15,848,409 and 5,015,798 shares were operated, respectively.

Capitalization Ratio

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, 2017 sent to Banco de México to review is shown below.

- The capitalization ratio of Banorte as of December 31, 2017 was 17.23% of total risk (market, credit and operational), and 21.18% of credit risk, which in both cases exceed the current regulatory requirements.

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Table I.1

Format of disclosure of the integration of capital without considering transitory requirements in the application of regulatory adjustments

Reference	Common equity level 1 (CET1): securities and allowance	Amount
1	Ordinary shares that qualify for common capital of level 1 plus its corresponding premium	18,753
2	Retained earnings from prior years	38,959
3	Other elements of comprehensive income (and other allowances)	26,760
6	**Common equity level 1 before regulatory adjustments**	**84,472**
	Common equity level 1: regulatory adjustment	
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)	7,320
11	Result from valuation of instruments for cash flow hedging	(3,653)
13	Receivables generated by securitizations	141
15	Defined benefit pension plan	(943)
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%)	**671**
26	Before regulatory national adjustments	1,591
A	of which: Other elements of comprehensive income (and other allowance)	1,591
28	**Total regulatory adjustments to common equity level 1**	**9,252**
29	**Common equity level 1 (CET1)**	**75,220**
	Additional equity level 1: securities	
30	Instruments issued directly that qualify as additional equity of level 1, plus premium	17,697
33	Instruments issued directly subject to gradual elimination of additional equity level 1	2,406
36	**Additional equity level 1 before regulatory adjustments**	20,103
	Additional equity: regulatory adjustments	
44	**Additional equity level 1 (AT1)**	20,103
45	**Equity level 1 (T1 = CET1 + AT1)**	95,323
	Equity level 2: instruments and allowances	
46	Instruments issued directly that qualify as equity of level 2, plus premium	9,968
47	Instruments issued directly subject to gradual elimination of additional equity level 2	2,653
50	Allowances	665
51	**Equity level 2 before regulatory adjustments**	13,286
	Equity level 2: regulatory adjustments	
58	**Equity level 2 (T2)**	13,286
59	**Total equity (TC = T1 + T2)**	108,609
60	**Weighted assets for total risk**	630,264
	Equity ratios and suplements	
61	Common equity level 1 (as a percentage of weighted assets for total risk)	11.93%
62	Equity level 1 (as a percentage of weighted assets for total risk)	15.12%
63	Total equity (as a percentage of weighted assets for total risk)	17.23%
64	Institutional specific supplement (at least must consist of: the requirement of Level 1 common equity plus the capital conservation mattress plus the countercyclical mattress plus the G-SIB mattress; expressed as a percentage of weighted assets for total risk)	7%
65	of which: equity conservation supplement	2.54%
67	of which: Supplement of global banks systemically important (G-SIB)	0.36%
68	Common equity level 1 available to cover supplements (as a percentage of weighted assets for total risk)	2.73%

Amounts below the thresholds for deduction (before risk weighting)		
75	Deferred tax asset due to temporary differences (net of deferred tax liability)	3,512
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)	665
77	Limit on the inclusion of provisions in Level 2 capital under standardized methodology	6,118
Equity instruments subject to gradual elimination (applicable only between 1 January 2018 and 1 January 2022)		
82	Current limit of AT1 instruments subject to gradual elimination	2,406
84	Current limit of AT2 instruments subject to gradual elimination	2,653

Table II.1
Balance Sheet figures

Reference of balance sheet items	Balance Sheet figures	Amount presented in the balance sheet
	Assets	**1,055,733**
BG1	Cash and cash equivalents	75,480
BG2	Margin securities	1,986
BG3	Investments in securities	281,810
BG4	Debtor balances under repurchase en resale agreements	5
BG6	Derivatives financial instruments	25,716
BG7	Valuation adjustments for asset hedging	99
BG8	Loan portfolio, net	602,117
BG9	Receivables generated by securitization	141
BG10	Other accounts receivables	36,117
BG11	Foreclosed assets	752
BG12	Property, furniture and equipment	13,379
BG13	Permanent stock investment	1,953
BG15	Deferred taxes	3,512
BG16	Other assets	12,668
	Liabilities	**969,671**
BG17	Deposits	645,804
BG18	Interbank and other loans	15,134
BG19	Creditor balances under repurchase and resale agreements	193,365
BG22	Derivatives financial instruments	37,009
BG25	Other accounts payable	45,425
BG26	Subordinated debentures	32,445
BG28	Deferred credits and advance collections	485
	Stockholders' equity	**86,062**
BG29	Paid-in capital	18,753
BG30	Other capital	67,309
	Memorandum accounts	**1,151,520**
BG32	Contingent assets and liabilities	100
BG33	Credit commitments	213,098
BG34	Assets in trust or under mandate	290,749
BG36	Managed assets in custody	363,730
BG37	Collateral received	133,904
BG38	Collateral received and sold or given as a pledge	62,240
BG39	Investment banking transactions on account of third parties, (net)	87,333
BG40	Interest accrued but not charged of past due loans	365

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.
	Assset			
1	Goodwill	8	1,005	BG16: 1,005(Goodwill)
2	Other Intangibles	9	7,320	BG16: 7,320 (Other Intangibles)
4	Receivables generated by securitization	13	141	BG9: 141 (Receivables generated by securitization)
11	Indirect investments in the capital of financial institutions where the institution owns more than 10% of the share capital issued	19	1,953	BG13: 1,953 (Permanent stock investment)
13	Reserves recognised as complementary capital	50	665	
	Liability			
24	Deferred tax (liability) associated to goodwill	8	1,005	BG16: 1,005 (Goodwill)
25	Deferred tax (liability) associated to other intangible	9	7,320	BG16: 7,320 (Other Intangibles)
30	Subordinated debentures subject to transitory computing as basic Capital 2	33	20,103	BG26: 20,103 (Subordinated debentures)
32	Subordinated debentures subject to transitory computing as complementary Capital	47	12,622	BG26: 12,622 (Subordinated debentures)
	Stockholders' equity			
34	Contributed Capital that complies with annex 1-Q	1	18,753	BG29; 18,753 (Contributed capital)
35	Retained earnings from prior years	2	38,959	BG30; 38,959 (Earned capital)
36	Result from valuation of instruments for cash flow hedging of items accounted at fair value	3	(3,653)	BG30; -3,653 (Earned capital)
37	Other elements of capital earned other than previous	3	32,003	BG30; 32,003 (Earned capital)
40	Result from valuation of instruments for cash flow hedging of items not accounted at fair value	3, 11	(3,653)	BG30; -3,653 (Earned capital)
41	Result from conversions	3, 26 - A	1,591	BG30; 1,591 (Earned capital)

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	41,007	3,281
Transactions in local currency with securities in local currency with surcharge and a rate reviewable	5,121	410
Transactions in local currency with real rate or denominated in UDI's	5,574	446
Positions in UDI's or with yield referred to INPC	27	2
Operations in foreign currency with nominal rate	12,908	1,033
Positions in foreign currency or with yield indexed to a exchange rate	3,760	301
Positions in capital instruments or with yield indexed at the cost of a capital instruments group	2,147	172

Table III.2
Assets subject to credit risk

Concept	Risk Weighted Assets	Capital requirement
Group I B (weighted at 20%)	2	-
Group III (weighted at 20%)	10,570	846
Group III (weighted at 50%)	5,808	465
Group III (weighted at 100%)	3,227	258
Group IV (weighted at 20%)	369	30
Group V (weighted at 20%)	7,921	634
Group V (weighted at 50%)	100	8
Group V (weighted at 115%)	20,406	1,632
Group V (weighted at 150%)	7,321	586
Group VI (weighted at 50%)	3,176	254
Group VI (weighted at 75%)	31,832	2,547
Group VI (weighted at 100%)	14,293	1,143
Group VII_A (weighted at 20%)	147,684	11,815
Group VII_A (weighted at 50%)	3,665	293
Group VII_A (weighted at 100%)	5,795	464
Group VII_A (weighted at 115%)	150,583	12,047
Group VII_A (weighted at 150%)	1,282	103
Group VII B (weighted at 20%)	982	79
Group VIII (weighted at 115%)	816	65
Group VIII (weighted at 150%)	11,459	917
Group IX (weighted at 10%)	4,852	388
Group IX (weighted at 50%)	3,301	264
Group IX (weighted at 100%)	32,948	2,636
Securitizations with a Risk Degree of 1 (weighted at 20%)	1,194	96
Securitizations with a Risk Degree of 2 (weighted at 50%)	1,423	114
Securitizations with a Risk Degree of 3 (weighted at 100%)	552	44

Assets subject to operational risk:

	Risk Weighted Assets	Capital requirement
Total	**Ps. 46,406**	**Ps. 3,172**

Average requirement for market and credit risk in the past 36 months	Average of the annual positive net income of last 36 months
41,156	56,225

Table IV.1
Characteristics of the securities that are part of the net Capital

Reference	Characteristics	Q BANORTE 08U
1	**Issuer**	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	**identifier ISIN, CUSIP o Bloomberg**	MX0QBA070037
3	**Legal framework**	LMV, LIC, CIRCULAR 2019/95, LGTOC
Regulatory treatment		
4	**Level of capital with transience**	Complementary Capital
6	**Level of security**	Credit institution without consolidating

		subsidiaries
7	**Type of instrument**	Subordinated debenture
8	**Amount recognized in regulatory capital**	494’543,600 (Four hundred and ninety-four million five hundred and forty three thousand six hundred) UDIs, respective to $1,962,998,835.09 (One thousand nine hundred and sixty-two million nine hundred and ninety-eight thousand eight hundred and thirty-five pesos 09/100 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
25	**Convertibility grade**	Non-convertible in shares
27	**Security convertibility type**	Non-convertibles
30	**Value decrease clause (*Write-Down*)**	No
35	**Position of subordination in the event of liquidation**	Preferential subordinated debentures
36	**Default characteristics**	No

Reference	Characteristic	D2 IXEGB40 141020
1	**Issuer**	Ixe Banco, S.A., Institución de Banca Múltiple, Ixe Grupo Financiero
2	**Identifier ISIN, CUSIP o Bloomberg**	USP59974AB40
3	**Legal framework**	New York Laws
Regulatory treatment		
4	**Level of capital with transience**	Basic Capital 2

6	**Level of security**	Credit institution without consolidating subsidiaries
7	**Type of instrument**	Subordinated debenture
8	**Amount recognized in regulatory capital**	U.S.$120,000,000 (One hundred and twenty million dollars 00/100USD)
9	**Nominal value**	U.S. $1,000.00 (Mil dólares 00/100 USD)
9ª	**Currency**	USD Dólar
10	**Accounting classification**	Liability at amortized cost
11	**Date of issuance**	14/10/2010
12	**Security term**	Maturity
13	**Date of maturity**	14/10/2020
14	**Clause of advance payment**	Yes
15	**First date of advance payment**	At any moment before maturity 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 moment before maturity date
Yields / dividends		
7	**Type of yields/Dividends**	Fix
18	**Interest rate/Dividends**	IRUSD0Libor
19	**Clause of cancellation of dividends**	Yes
20	**Discretion in payment**	Discretionary
21	**Clause of increase of interest**	No
22	**Yields/Dividends**	Non-cumulative
23	**Security convertibility**	Non-convertibles
25	**Convertibility grade**	Non-convertible in shares
27	**Security convertibility type**	Non-convertibles
30	**Value decrease clause (*Write0Down*)**	No
35	**Position of subordination in the event of liquidation**	Non-preferential subordinated debentures
36	**Default characteristics**	Yes
37	**Default characteristics description**	Breach of 30 days in the interest payment, non-payment of principal on the due date or bankruptcy.

Table V.1
Weights involved in calculating the countercyclical Capital supplement of the institutions.

Countercyclical Capital supplement of the institution	
0.00 millions	
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%
United States	0.00%
France	0.00%
Holland	0.00%
Hong Kong	1.25%
Indica	0.00%
Indonesia	0.00%
Italy	0.00%
Japan	0.00%
Korea	0.00%
Luxembourg	0.00%
Mexico	0.00%
United Kingdom	0.50%
Russia	0.00%
Singapour	0.00%
South Africa	0.00%
Sweden	2.00%
Switzerland	0.00%
Turkey	0.00%
Other jurisdictions different to previous	0.00%

ANNEX 1-O BIS

TABLE I.1
DISCLOSURE OF INFORMATION REGARDING LEVERAGE RATIO

STANDARDIZED DISCLOSURE FORMAT FOR LEVERAGE RATIO		
REFERENCE	**ITEM**	**AMMOUNT**
	Exposure inside the balance	
1	Items within the balance sheet (excluding derivative financial instruments and securities lending operations-SFT for its acronym in English-but including collateral received and recorded in the balance sheet)	1,030,012
2	(amounts of assets deducted to determine level 1 capital of Basel III)	(10,843)
3	Exhibitions within the balance sheet (Net) (excluding financial derivatives and SFT, sum of lines 1 and 2)	1,019,169
	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)	10,150
5	amounts of additional factors for potential future exposure, associated with all operations with derivative financial instruments	8,224
7	(Deductions to the account receivables for change margin in cash contributed in operations with derivative financial instruments)	(10,842)
11	Total exposures to derivative financial instruments (sum of lines 4 to 10)	7,532
	Exhibitions by financing operations with values	
12	Assets SFT gross (without recognition of compensation), after adjustments for accounting transactions for sales	62,241
13	(Accounts payable and for charging of compensated SFT)	(5)
14	Exposure of counterpart risk by SFT	1,375
15	Exposure by SFT acting on behalf of third parties	-
	Total exposures for financing operations with securities (sum of lines 12 to	63,610

16	15)	
Other exposures out of balance sheet		
17	Exposure out of balance (gross notional amount)	213,098
18	(Conversion adjustments to credit equivalents)	(170,234)
19	Off-balance sheet items (sum of the lines 17 and 18)	42,864
Capital and total exposure		
20	Equity level 1	95,323
21	Total exposures (Sum of lines 3, 11, 16 and 19)	1,133,176
Leverage ratio		
22	Leverage ratio of Basilea III	**8.41%**

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

REFERENCE	EXPLANATION
1	Total assets of the institution without consolidate subsidiaries or entities of specific purpose (less the assets presented in the above mentioned balance for: 1) operations with derivative financial instruments, 2) repurchase agreements and 3) securities.
2	Amount of deductions from the core capital laid down in subparagraphs (b) to (r) of the fraction I of article 2 bis 6 of the present provisions. The amount must be registered with a negative sign.
3	Sum of lines 1 y 2
4	Current Cost of replacement (RC) of transactions with derivative financial instruments, in accordance with those laid down in annex 1-L of these provisions, minus the partial cash settlements (cash variation margin) received, provided that The following conditions are fulfilled:
	a) In the case of counterparts other than the clearing houses referred to in the second subparagraph of article 2 Bis 12 (a), the cash received shall be available to the institution.
	b) The valuation at market of the operation is carried out daily and the received cash is exchanged with the same frequency.
	c) The cash received as well as the operation with the derivative instrument, are denominated in the same currency.
	d) The amount exchanged from the cash variation margin is at least the amount necessary to cover the market value considering the threshold and the minimum amount transferred agreed in the corresponding framework contract.
	e) The amount exchanged from the cash variation margin is at least the amount necessary to cover the market value considering the threshold and the minimum amount transferred agreed in the corresponding framework contract.
	In any case, the maximum amount of cash variation margins received that may be considered will correspond to the positive value of the current replacement cost of each counterpart.
5	Additional Factor in accordance with annex 1-L of these provisions, of operations with derivative financial instruments. In addition, in the case of credit-derived financial instruments which provide credit protection, the conversion value must be included at the credit risk in accordance with article 2 Bis 22 of these provisions.
	In no case may they be used the real guarantees financial that the institution has received to reduce the amount of the additional factor reported in this line.
6	Not applicable. The accounting framework does not allow the cancel of assets given as collateral.
7	Total of margins of change in cash delivered in operations with derivative financial instruments that fulfill with the conditions indicated in the line 4 to reduce the in cash received change margins. The total must register with negative sign.
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 the 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 the 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 registered 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 bis 37 when there is such an agreement. The foregoing is without considering adjustments by eligible collateral that apply 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 register is the positive difference between the value of the title or cash that the customer has delivered and the value of the guarantee that the borrower has provided.
	Additionally, if the 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 a 15
17	Amounts of credit commitments recognized in memorandum accounts according to accounting criteria.
18	Amounts of the reductions in the value of the credit commitments recognized in memorandum accounts by applying conversion factors to credit risk set out in the first title bis of the present provisions, considering that the conversion factor to credit risk is a minimum of 10 % (for those cases in which the conversion factor is 0 %).
	The amount must be registered with a negative sign.
19	Sum of lines 17 y 18
20	Basic Capital calculated in accordance with article 2 Bis 6 of provisions.
21	Sum of lines 3, 11, 16 y 19
22	Reason of Leverage. Quotient of the line 20 between the line 21.

TABLE II.1
COMPARATIVE OF TOTAL ASSETS AND ASSETS ADJUSTED

REFERENCE	DESCRIPTION	AMOUNT
1	totales assets	1,055,733
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	(10,843)

4	Adjustment for derivative financial instruments	(18,184)
5	Adjustment for repurchase agreements and securities lending operations [1]	63,605
6	Adjustment for items recognized in memorandum accounts	42,864
8	Leverage coefficient exposure	1,133,176

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

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

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

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

REFERENCE	CONCEPT	AMOUNT
1	Total assets	1,055,733
2	Operations in derivative financial instruments	(25,716)
3	Operations in repurchase agreements and lending of securities	(5)
5	Exposure inside balance	1,030,012

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

REFERENCE	DESCRIPTION
1	Total assets of without consolidate subsidiaries or entities of specific purpose.
2	The amount corresponding to the operations in financial derivative instruments presented in the asset from the last financial statements.
	The amount must be registered with a negative sign.
3	The amount corresponding to the operations of repurchase agreements and loan of values presented in the assets of the final financial statements.
	The amount must be registered with a negative sign.

5	Sum of lines 1 to 4, which must coincide with Line 1 of table I.1

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

CONCEPT/TRIMESTRE	SEPTEMBER ‘17	DECEMBRE ‘17	VARIATION (%)
Basic capital	98,044	95,323	(2.776%)
Adjusted assets	1,114,376	1,133,176	1.687%
Razón de Apalancamiento	8.80%	8.41%	(4.389%)

Institution of Local Systemic Importance

During 2017, Banorte was designated an Institution of Local Systemic Importance, so it must maintain a capital preservation supplement of 0.90 pp, to be constituted progressively in a maximum term of four years and beginning in December 2016. With the above, Banorte's minimum Capitalization Index amounts to 10.95% at the end of 2017, corresponding to the regulatory minimum of 10.5% plus the capital supplement constituted

Management

Pursuant to the regulations in effect and the requirements of the CNBV, Banorte 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.

28 - FOREIGN CURRENCY POSITION

As of December 31, 2016 and 2015, the Institution holds certain assets and liabilities in foreign currency, mainly US dollars, converted to the exchange rate issued by Banco de México at Ps. 20.6194 and Ps. 17.2487 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	2017	**2016**
Assets	7,580,668	6,997,632
Liabilities	7,716,454	6,916,344
Net asset position in US dollars	**(135,786)**	**81,288**
Net asset position in Mexican pesos	**(Ps. 2,670)**	**Ps. 1,676**

29 – POSITION IN UDIS

As of December 31, 2016 and 2015, the Institution holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps. 5.562883 and Ps. 5.381175, per UDI, respectively, as shown below:

	Thousands of UDIS

	2017	2016
Assets	889,528	230,900
Liabilities	457,368	455,638
Net asset (liability) position in UDIS	**432,160**	**(224,738)**
Net asset (liability) position in Mexican pesos	**Ps. 2,565**	**(Ps. 1,250)**

30 - EARNINGS PER SHARE

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

Earnings per share are shown below:

	2016			2015
	Net Income	**Weighted share average**	**Earnings per share**	**Earnings per share**
UPA continuous operations	Ps. 18,250	137,303,109,559	Ps. 0.1329	Ps. 0.1078
UPA discontinued operations	89	137,303,109,559	0.0006	Ps. 0.0018
Net income per share	Ps. 18,339	137,303,109,559	Ps. 0.1335	Ps. 0.1096

31 - RISK MANAGEMENT (unaudited)

Authorized Bodies

To ensure adequate risk management of the Institution, as of 1997, the Institution's Board of Directors created the Risk Policy Committee (CPR), whose purpose is to manage the risks to which the Institution is exposed, and ensure that the performance of operations adheres to the established risk management objectives, guidelines, policies and procedures.

Furthermore, the CPR provides oversight on the global risk exposure limits approved by the Board of Directors, and also approves the specific risk limits for exposure to different types of risk.

The CPR is comprised of regular members of the Board of Directors, the CEO of the Institution, the Managing Directors of the Institution's entities, the Managing Director of Comprehensive Risk Management and the Managing Director of Audits, who have the right to speak but not to vote.

To adequately carry out its duties, the CPR performs the following functions, among others:

1. Propose for the approval of the Board of Directors:

   - The objectives, guidelines and policies for comprehensive risk management
   - The global limits for risk exposure
   - The mechanisms for implementing corrective measures
   - The special cases or circumstances in which the global and specific limits may be exceeded

2. Approve and review at least once a year:

   - The specific limits for discretionary risks, as well as tolerance levels for nondiscretionary risks
   - The methodology and procedures to identify, measure, oversee, limit, control, report and disclose the different kinds of risks to which the Institution is exposed
   - The models, parameters and scenarios used to perform the valuation, measurement and control of risks proposed by the Comprehensive Risk Management Unit

3. Approve:
   - The methodologies for identification, valuation, measurement and control of risks of the new operations, products and services which the Institution intends to introduce into the market
   - The corrective measures proposed by the Comprehensive Risk Management Unit
   - The manuals for comprehensive risk management
   - The technical evaluation of Comprehensive Risk Management aspects.

4. Assign and remove the person responsible for the Comprehensive Risk Management Unit, who is ratified by the Board of Directors.

5. Inform the Board, at least every quarter, of the exposure to risk and its possible negative effects, as well as follow up on limits and tolerance levels.

6. Inform the Board of the corrective measures implemented.

32 - COMPREHENSIVE RISK MANAGEMENT UNIT (UAIR) (unaudited)

The Institution's Risk Management's function is to determine and execute the Institution's strategic planning. Furthermore the Institution's Risk management and policies comply with the regulations and the best market practices.

1. RISK MANAGEMENT'S OBJECTIVES, SCOPE AND FUNCTION

The main objectives of the Institution's Risk Management are to:

- Provide the different business areas with clear rules that help minimize risks and ensure that they are within the parameters established and approved by the Board of Directors and the Risk Policy Committee.
- Establish mechanisms that provide for follow-up on preventive risk-taking within the Institution and are backed up by sound systems and processes.
- Verify adherence to the Desired Risk Profile.
- Protect the Institution's capital against unexpected losses from market movements, credit losses and operating risks.
- Implement valuation methods for the different types of risks.
- Establish procedures for portfolio optimization and loan portfolio management.

Furthermore, the Institution has sound methodologies in place to manage quantifiable risks such as Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Concentration Risk, and Counterparty Risk.

Credit Risk: volatility of revenues due to the creation of provisions for impairment of credits and potential credit losses due to nonpayment by a borrower or counterparty.

Market Risk: volatility of revenues due to changes in the market, which affect the valuation of the positions from transactions involving assets, liabilities or generating contingent liabilities, such as: interest rates, rate spreads, exchange rates, price indexes, etc.

Liquidity Risk: potential loss derived from the impossibility of renewing or contracting debt under normal conditions for the Institution, due to the anticipated or forced sale of assets at unusual discounts to meet its obligations.

Operational Risk: Loss resulting from lack of adaptation or failure in processes, personnel, internal systems or external events. This definition includes Technological Risk and Legal Risk. Technological Risk groups includes 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, while Legal Risk involves the potential loss from penalties for noncompliance with legal and administrative regulations or the issuance of adverse final court rulings in relation to the operations performed by the Institution.

Concentration Risk: potential loss attributed to the high and disproportionate exposure to specific risk factors within a single category or among different risk categories.

On the other hand, regarding Non-Quantifiable Risk, the Institution's objectives are set forth in the Risk Management Manual for:

Reputational Risk: potential loss in the development of the Institution's activity caused by a deteriorate perception of the various internal and external stakeholders' perception regarding its solvency and viability.

1.1. Risk Management Structure and Corporate Governance

Regarding the structure and organization for Comprehensive Risk Management, it is the responsibility of the Board of Directors to approve the general policies and strategies, such as:

- The Desired Risk Profile for the Institution
- The framework for Comprehensive Risk Management and the Contingency Financing Plan
- The Risk Exposure Limits, Risk Tolerance Levels, and the corrective action mechanisms.

The Board of Directors has designated the CPR as the responsible body to manage the risks to which the Institution is exposed as well as to verify that transactions are in keeping with the objectives, policies and procedures for Risk Management.

Furthermore, the CPR provides oversight on the global risk exposure limits approved by the Board of Directors, and also approves the specific risk limits for exposure to different types of risk.

The CPR is comprised of regular and replacement members of the Board of Directors, the CEO of the Institution, the Managing Directors of the Institution's entities, the Managing Director of Comprehensive Risk Management and the Managing Director of Audits, who have the right to speak but not to vote.

Moreover the Assets and Liabilities Committee (ALCO -Spanish acronym) and the Capital and Liquidity Group analyze, monitor, and make decisions regarding the risk rates in the balance sheet, the net interest margin, liquidity and net capital of the Institution.

The Comprehensive Risk Management Unit (UAIR - Spanish acronym) is in charge of the Office of Risk Management (DGAR). Its functions are to identify, measure, oversee, limit, control, report and disclose the different kinds of risk exposures of the Institution.

The DGAR reports to the CPR pursuant to the regulations regarding the DGAR's independence from the business units.

1.2. Scope and Nature of the Institution's Risk Management

Risk Management extends to all the Institution's subsidiaries. Depending on each one's line of business, Credit, Concentration, Market, Liquidity and Operational Risks are measured, managed and controlled.

To accomplish this, the DGAR relies on several information and risk measuring systems which comply with the regulatory standards and are aligned with the best international practices in Risk Management. The information contained in the risk systems as well as the reports they generate are continuously backed up as per the institutional data security procedures. Furthermore the risk systems contain operations subject to Credit, Market, Liquidity and Operational Risk. Such systems are processed and subject to different valid models and methodologies, periodically generating reports for each one of said risks.

The Institution has policies and processes in place, which are contained in the Risk Management models, methodologies and procedures, for hedging and mitigation strategies and compensation for each type of risk in and out of balance. This policies and processes include: the features, pension funds afore, legal aspects, instrumentation and hedging degree that should be considered for hedging when compensating for or mitigating the risk. Such policies and processes also contemplate the execution of guaranties as a risk compensation mechanism each time there is a case of un-remedied default by the debtors. As part of the strategies and processes to monitor the continual efficiency of the hedgings or mitigations of the different risks, there limits for each type of Risk (Credit, Market, Liquidity and Operational) which are monitored constantly. There are also procedures in place so that the surpluses and their causes are documented, and the relevant corrective actions are taken to return to acceptable risk levels.

2. CREDIT RISK

It refers to the risk that clients, issuers or counterparties default on their payments. Therefore the proper administration of such risk is essential to maintain the portfolio's credit quality.

The Institution credit risk management objectives are as follows:

- Fulfill the Desired Risk Profile defined by the Institution's Board of Directors.
- Improve the quality, diversification and composition of the loan portfolio to optimize the risk-return ratio.
- Provide senior management with reliable and timely information to support decision-making in credit matters.
- Provide the business departments with clear and sufficient tools to support credit placement and follow up.
- Support the creation of economic value for shareholders by means of efficient credit risk management.
- Define and constantly update the regulatory framework for credit risk management.
- Comply with the credit risk management reporting requirements established by the relevant authorities.
- Perform risk management in accordance with best practices; implementing models, methodologies, procedures and systems based on the latest international advances.
- Measure the Institution's vulnerability to extreme conditions, and consider such results for decision-making.

The Institution Credit Risk Management's policies apply to:

- Granting and managing consumer loans according to the best practices in the market through parametric models that make it possible to identify the risk, minimize the losses and increase quality loan placement.
- Granting and managing loans to companies and other entities in keeping with the best market practices by means of a loan strategy that includes Target Markets and Risk Acceptance Criteria, identifying and managing the risk through Loan Rating and Early Warning methodologies.
- Follow up and quality control of the loans by means of a Loan Rating System that indicates the treatment and general actions derived from specific situations as well as the areas or officers responsible for such actions.
- .Oversight and control of Credit Risk by Global and Specific Limits, loan rating policies and Credit Risk models for the portfolio by which to identify the expected and unexpected loss in a given trust level.
- Reporting and disclosure of the Credit Risk to the risk-taking areas, the CPR, Board of Directors, Financial Authorities and the investors.
- Definition of the powers in Credit Risk taking for the Institution.

In order to meet the objectives and comply with the policies, a series of strategies and procedures have been defined and which cover the origination, analysis, approval, management, follow-up, recovery and collection.

2.1. Credit Risk Scope and Methodologies

2.1.1. Individual credit risk

The Institution divides Credit Risk into two large groups: Minor and Major.

Individual credit risk for the consumer (Minor) portfolio is identified, measured and controlled by means of a parametric system (scoring) which includes models for each of the pymes and consumer products (mortgage, automotive, payroll credit, personal and credit card).

Individual risk for the corporate (Major) portfolio is identified, measured and controlled by means of the Target Markets, the Risk Acceptance Criteria, Early Warnings and the Banorte Internal Risk Rating (CIR Banorte).

The Target Markets, Risk Acceptance Criteria and Early Warnings are tools which, together with the Internal Risk Rating CIR, form part of the credit strategy of the Institution and support the estimate of the credit risk level.

The target markets are categories of economic activities for each region in which the Institution is interested in placing loans. Its definition is backed up by economic studies and loan behavior analysis as well as by expert opinions.

The Risk Acceptance Criteria are parameters which describe the risks identified by industries, facilitating an estimate of the risk involved for the Institution in granting a loan to a customer depending on the economic activity which it performs. The types of risks evaluated in the Risk Acceptance Criteria are the financial risk, operational risk, market risk, company lifecycle risk, legal and regulatory risk, credit history and quality of management.

Early Warnings are a set of criteria based on information and indicators of the borrowers and their environment that have been set forth for timely prevention and identification of likely impairment in the loan portfolio, in order to take credit risk mitigating preventive actions in a timely manner.

CIR Banorte is a debtor rating methodology that evaluates quantitative and qualitative criteria to determine their credit quality. It is applied to commercial loans equal to or over an amount equivalent in Mexican pesos to four million investment units (UDIs) on the rating date.

2.1.2. Portfolio Credit Risk

The Institution has designed a portfolio credit risk methodology which, while also including international practices with regard to identification, measurement, control and follow up, has been adapted to function within the context of the Mexican financial system.

The credit risk methodology identifies the exposure of all the loan portfolios of the Institution, overseeing risk concentration levels based on risk classifications, geographical regions, economic activities, currencies and type of product, for the purpose of identifying the portfolio profile and taking actions to diversify it and maximize profit with the lowest possible risk.

The calculation of loan exposure involves the generation of the cash flow from each of the loans, both in terms of principal and interest, for their subsequent discount. As exposure is sensitive to market changes, a sensitivity estimate can be made for different economic scenarios.

Apart from considering loan exposure, the methodology takes into account the probability of default, the recovery level associated with each customer and the sorting of the borrowers based on the Merton model. The probability of default is the probability that a borrower will not comply with its debt obligations to the Institution in the terms and conditions originally agreed. The probability of default is based on the transition matrixes which the Institution calculates according to the migration of borrowers to different risk classification levels. The recovery rate is the percentage of the total exposure that is expected to be recovered if the borrower defaults on its obligations. The classification of the borrowers based on the Merton model is intended to tie the future behavior of the borrower to credit and market factors on which, using statistical techniques, it has been determined, that the borrower’s “credit health” depends.

The primary results obtained are the expected loss and unexpected loss over a one-year time horizon. The expected loss is the median of the distribution of losses of the loan portfolio, which enables a measurement of the average loss expected in the following year due to noncompliance or variations in the credit status of the borrowers. The unexpected loss is an indicator of the loss expected under extreme circumstances, and is measured as the difference between the maximum loss based on the distribution of losses, at a specific confidence level, which in the case of the Institution is 99.5%, and the expected loss.

The results obtained are used as a tool for better decision-making in granting loans and portfolio diversification, in accordance with the Institution’s strategy. The individual risk identification tools and the portfolio credit risk methodology are reviewed and updated periodically to incorporate new techniques that can support or strengthen them.

2.1.3. Credit Risk of Financial Instruments

Financial Instrument Credit Risk Management is done through a series of fundamental cornerstones among which there is robust framework of Origination, Analysis, Approval and Management policies.

The origination policies define the type of financial instruments to operate and how to evaluate the credit quality of different types of issuers and counterparts. Credit quality is assigned by means of a rating obtained by an internal methodology, external rating evaluations or a combination of both. Additionally, there are maximum operating parameters depending on the type of issuer or counterparty, rating and operation type.

The analysis policies include the type of information and variables considered to analyze operations with financial instruments when they're presented for their authorization by the corresponding committee, including information about the issuer or counterparty, financial instrument, destination of the transaction within the Institution and market information.

The Credit Committee is the body that authorizes operation lines with financial instruments for customers and counterparties according to the authorization policies. The authorization request is submitted by the business area and the areas involved in the operation with all the relevant information to be analyzed and, if applicable, authorized by the Committee. Nevertheless, the UAIR has the power to approve counterparty lines (financial intermediaries, mainly) that meet certain criteria, using a parametric methodology approved by the CPR.

The policy to manage lines in order to operate financial instruments contemplates the procedures for registration, instrumentation, regulation compliance, revision, consumer monitoring, line management and responsibility of the areas and bodies involved in operating financial instruments.

Concentration of credit risk with financial instruments is managed continuously on an individual level, monitoring maximum operational parameters per counter-party or issuer depending on the rating and type of transaction. For portfolios there are economic and internal group risk diversification policies in place. Additionally, concentration is monitored by type of counter-party or issuer, size of the financial institutions and where they operate in order to get the right diversification and avoid unwanted concentrations.

Credit risk is measured by means of the rating associated with the issuer, issue or counterpart, which has an assigned degree of risk measured based on two elements:

1) The probability of default by the issuer, issue or counterparty; expressed as a percentage between 0% and 100%. The higher the rating (or the lower the differential of the instrument's rate vs. that of an equivalent government bond), the lower the probability of delinquency, and vice versa.

2) The severity of the loss with respect to the operation's total in the event of default, expressed as a percentage between 0% and 100%. The better the guarantees or credit structure, the lower the severity of the loss, and vice versa. In order to mitigate credit risk and reduce the severity of the loss in case of default, the Institution has signed ISDA contracts and netting agreements with its counterparties, which contemplate implementing credit lines and using collateral to mitigate losses as a result of defaults.

2.2. Exposure to Credit Risk

As of December 2017, the total amount of gross exposures subject to the Standard Method for calculating the Capital Index is as follows:

Gross Exposures subject to Standard Method	Institution
Commercial	Ps. 162,071
Revenues or Annual sales < 14 MM UDIS	60,942
Revenues or Annual sales >= 14 MM UDIS	101,128
States or Municipalities	83,176
Decentralized Government Agencies and State-controlled companies	49,640
Projects with their own source of payment	54,929
Financial institutions	22,875
Mortgage	136,728
Consumer	106,324
Credit card	36,093
Non-revolving	70,231

Total portfolio subject to Standard Method	Ps. 615,744

For transactions subject to credit risk, the Institution only uses external ratings issued by S&P, Moody's, Fitch, HR Ratings and Verum. Ratings are not assigned based on comparable assets.

2.2.1. Exposure with Financial Instruments

As of December 31, 2017, the credit risk exposure of the investments in securities was Ps. 280,139, of which 99.2% has a rating greater than or equal to A+(mex) on the local scale. This places them in investment grade; the three main issuers other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 9% of the basic capital as of September 2017. Additionally, the investment exposure with the same issuer other than the Federal Government that represents a concentration greater than or equal to 5% of the Net Capital as of September 2017 has a rating of A(mex) and is comprised of (*term in weighted average, amount in million pesos and interest rate*): stock certificates and Pemex bonds at 6 years and 1 months for Ps. 15, 382 at a rate of 3.9%; and stock certificates of Banco Interacciones at 2 months for Ps. 5,670 at a rate of 7.6%.

Regarding transactions with Derivative financial instruments, the 3 main counterparties other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 1% of the Basic Capital as of September 2017.

The counterparty's risk exposure for transactions with derivative financial instruments for Banorte, and the compensation effect (netting) and exposure mitigation based on adding guaranties for performed transactions is shown below:

	4Q17	**Average 4Q17**
Forwards	17	125
Opciones	24	7
Swap Interest Rate (IRS)	3,895	3,755
Cross Currency Swap (CCIRS)	(13,617)	(11,527)
Total	(9,682)	(7,639)
Positive Fair Value *(Positive Market Value)*	10,584	8,775
Netting effect*	20,265	16,415
Guaranties Given (-) / Received (+)		
Cash	(6,580)	(6,155)
Securities	-	-
Total	(6,580)	(6,155)

*The difference between the portfolio's positive market value (not considering position netting) and the market value. Futures are not included as they have no counterparty risk.

The following table presents the current exposure levels and future potential exposure at the year's end.

	Potential Risk		**Current Risk**	
Financial Counterparties	4Q17	Average 4Q17	4Q17	Average 4Q17
FWD	116	310	7	125
OPCIONES	1,117	935	711	560
SWAP RATE	15,621	13,202	5,921	4,602
CCS	865	932	(13,589)	(11,494)
Total	**4,142**	**4,283**	**(6,950)**	**(6,206)**
Clients (Non Financial)	4Q17	Average 4Q17	4 Q 17	Average 4Q17

FWD	45	38	10	-
OPCIONES	25	29	(687)	(553)
SWAP RATE	813	1,170	(2,026)	(847)
CCS	26	24	(28)	(33)
Total	**895**	**1,245**	**(2,731)**	**(1,433)**

Based on the conditions set forth in the derivative financial instrument transaction contracts, the exposure tolerance levels are considered in terms of the rating that the entities involved in the transaction have. The following table lists the amount of guaranties to give in the event of impairment due to a drop in the Institution's rating:

Net Cash Outlays ***(at year's end)***	**4Q17**	**Average 4Q17**
Outlays with 1-step downgrade	Ps. -	Ps. -
Outlays with 2-step downgrade	-	-
Outlays with 3-step downgrade	-	-

The market value according to rating ranges for the counterparties of the performed derivative financial instruments is shown below:

Range	**4Q17**	**Average 4Q17**
AAA/AA-	-	-
A+/A-	(5,401)	(5,025)
BBB+/BBB-	(1,540)	(1,144)
BB+/BB-	(1,348)	(793)
B+/B-	-	(32)
CCC/C	(4)	(4)
SC	(1,389)	(640)
Total	**(9,682)**	**(7,639)**

2.3. Loan Guarantee

Guaranties represent the second source of loan recovery when its hedging by means of the petitioner's predominant activity is compromised. Guaranties may be real or personal.

The main types of real guaranties are:

- Civil Mortgage
- Industrial Mortgage
- Ordinary Pledge
- Pledge without Ownership Transfer
- Pledge /Pledge Bond
- Pledge Bond
- Haircut (Repurchase agreement with haircut)
- Securities Pledge
- Management and Payment Trust
- Development Funds

In the case of physical assets given as a guarantee, the Institution has policies and processes in place for follow-ups and regular inspection visits to verify the existence, legitimacy, value and quality of the guaranties that were accepted as an alternate loan backup. On the other hand, when the guaranties are securities, there are policies and processes to follow up their market valuation and demand additional guaranties if necessary.

The following table lists the loan portfolio covered at the close of 2016 by type of guarantee:

Type of Guarantee	2017
	Institution
Total portfolio	**Ps. 615,744**
Guarantee	
Real Financial Guaranties	17,580
Real Non-Financial Guaranties	333,134
Pari Passu	21,683
First Losses	33,321
Personal Guaranties	14,991
Total Portfolio Covered	**Ps. 420,709**

2.4. Expected Losses

As of December 31, 2017, the total loan portfolio of Banco Mercantil del Norte is Ps. 615,744. The expected loss represents 2.2% and the unexpected loss represents 4.4% of the total operating portfolio. The average expected loss was 2.3% for the period between October and December 2017.

2.5. Risk Diversification

In December 2005, the CNBV issued the “General Rules for Risk Diversification in Performing Asset and Liability Transactions Applicable to Credit Institutions. These regulations require that the Banks perform an analysis of the borrowers and/or loans they hold to determine the amount of their “Common Risk”. Also, the Institution must have the necessary information and documentation to support that a person or group of persons represents a common risk in accordance with the assumptions established under such rules.

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding **Banco Mercantil del Norte** is provided below:

Basic capital as of September 30, 2017	**Ps. 98,044**
I. Financing whose individual amount represents more than 10% of basic capital:	
Credit transactions	
Number	-
Overall amount	-
% in relation to basic capital	-%
Overnight operations	
Number	-
Overall amount	-
% in relation to basic capital	-%
II. Maximum amount of financing with the three largest debtors and common risk groups	**Ps. 41,187**

3. MARKET RISK

Market Risk management is done by means of a series of fundamental pillars, such as the use of models and methodologies like Value at Risk (VaR), Backtesting, Sensitivity Analysis and Stress Testing, all of which are used to measure the risk of the products and instrument portfolios that trade in financial markets.

Furthermore, risk management is backed up by a framework of policies and manuals that sets forth the Market Risk limit implementation and follow up, risk metrics reporting, and follow-up of the established limits.

The key risk indicators are made known in monthly reports to the CPR and daily reports to the Institution’s top executives involved in Market Risk position taking.

3.1. Market risk Methodologies

The management of market risk is managed through a series of fundamental pillars, among which the use of models and methodologies such as the value at risk (VaR), the Retrospective Analysis (BackTesting), the analysis of sensitivity and tests under Extreme conditions (stress Testing), all are used to measure the risk of the products and portfolios of instruments that are quoted in the financial markets.

In addition, risk management is supported by a framework of policies and manuals, in which it sets the implementation and monitoring of risk limits Market, the revelation of the metrics of risk in question and its follow-up with regard to the limits.

Key risk indicators are reported by monthly reports to the CPR and by a daily report to the principal executives at the institution related to the taking of market risk positions.

3.2. Exposure to Market Risk

The Institution's financial instrument portfolio Market Risk exposure is measured using the industry's standard methodology known as Value at Risk (VaR).

The VaR model is based on the horizon of one day and a non-parametric historical simulation with a confidence level of 99% and 500 historical observations of risk factors. Moreover it considers all the financial instrument positions (money market, treasury, capitals, changes, and derivative financial instruments with trading purposes and hedging) recorded as trading and available for sale both on and off of the balance sheet.

The average VaR for 4Q17 is Ps. 37.1 (Ps. 20.2 loss than the 3Q16 average VaR).

The result shown below indicates that the potential loss will be over Ps. 37.1 on one of every one hundred days.

	Average 4Q17
VaR Banorte*	37.1
Banorte net capital**	108,345
VaR / net capital Banorte	**0.03%**

Also, the average of the VaR per risk factor for the Institution's portfolio of securities behaved as follows during the fourth quarter of 2017:

Risk factor	4Q17	Average 4Q17
Rates	28.4	32.8
FX	13.5	9.0
Variable income	8.8	8.0
Diversification effect	(17.3)	(12.7)
Banorte's Total VaR	**33.5**	**37.1**

The VaR at the end of 4Q17 corresponds to $37 million pesos. The contribution to the VaR for each risk factor is:

Risk factor	4Q17	Average 4Q17
Domestic rates	25.7	24.1
Foreign rates	3.7	-
FX	4.0	11.0
Variable revenue	0.1	2.1
Total VaR	**33.5**	**37.1**

The VaR by risk factor is determined by simulating 500 historical setting and performing a grouping of instruments by its main risk factor. It is important to emphasize that took into account all the positions are classified as negotiation, excluding the position of preserved at maturity and available for sale.

The concentration per market risk factor without the diversification effect is:

Risk factor	4Q17
Rates	56%
FX	27%
Variable income	17%

3.2. Sensitivity Analysis and Tests Under Extreme Conditions (Stress Testing)

As the VaR shows potential losses under normal market conditions, Banorte supplements the risk analysis by applying tests under extreme conditions, also known as Stress Testing. This submitted on a monthly basis to the CPR. Its main purpose is to gauge the impact on the Institution's positions given major risk factor shifts.

3.3. Backtesting

In order to verify the VaR effectiveness and accuracy, a backtesting analysis is submitted monthly to the CPR. This analysis makes it possible to compare the losses and profits observed with respect to the estimated Value at Risk and, if necessary, the relevant adjustments are made.

4. LIQUIDITY RISK

The objectives of Balance and Liquidity Risk in the Holding Company are:
• Comply with the Desired Risk Profile defined by the Group's Board of Directors.
• Provide an adequate follow-up to the Risk of Balance and Liquidity.
• Quantify the exposure to Balance and Liquidity Risk through the use of different methodologies.
• Measure the Company's vulnerability to extreme market conditions and that these results are considered for decision-making.
• To keep the Senior Management adequately informed in a timely manner of exposure to Balance and Liquidity Risk and any deviations from the limits and the risk profile.
• Monitor the institution's coverage policy and review it at least annually.
• Maintain a sufficient level of Liquid Assets eligible to guarantee the liquidity of the Institution even under stress conditions.
The Liquidity Risk policies in the Holding Company are:

• Establishment of Global and Specific Balance and Liquidity Risk Management Limits.
• Measurement and monitoring of Balance and Liquidity Risk.
• Information and disclosure of Liquidity Risk to the risk-taking areas, the CPR, the Board of Directors, the Financial Authorities and the Investor Public.

4.1. Methodologies and Exposure to Liquidity Risk

Balance and Liquidity Risk is managed through a series of fundamental pillars, among which we can highlight the use of key indicators, such as the Coverage of Liquidity Coverage (CCL), re-price and liquidity gaps, as well as Stress testing. This is based on a framework of policies and manuals, including a contingency financing plan and a contingency plan for the preservation of solvency and liquidity. It is similarly complemented by the monitoring of limits and levels of Desired Risk Profile on the Balance and Liquidity Risk metrics in question. The disclosure of the referred metrics and indicators and compliance with the limits and the Desired Risk Profile mentioned in this paragraph is done through monthly reports to the CPR, weekly to the capital and liquidity management group and Quarterly to the Board of Directors.

4.2 Financing Profile and Strategy

The bank's funding make-up and evolution during the quarter is shown below:

Source of Funding	3Q17	4Q17	Var vs. 1Q16
Demand deposits accounts			

Mexican pesos	Ps. 327,769	Ps. 345,650	5.5%
Foreign Currency	50,698	51,142	0.9%
Demand deposits accounts	**Ps. 378,467**	**Ps. 396,792**	**4.8%**
Retail Time Deposits			
Mexican pesos	Ps. 173,757	Ps. 174,297	0.3%
Foreign Currency	19,181	19,320	0.7%
Retail Deposits	**Ps. 571,406**	**Ps. 590,410**	**3.3%**
Money market			
Mexican pesos (1)	Ps. 51,685	Ps. 55,394	**(7.2%)**
Banking Sector Total Deposits	**Ps. 623,091**	**Ps. 645,804**	**3.6%**

1. Money Market and Time Deposits

4.3 Liquidity Coverage Ratio

The CCL enables quantifying the Liquidity Risk by means of a ratio between Liquid Assets and Net Cash Outlays in the next 30 days under the assumptions of a regulatory stress scenario.

The CCL is an indicator that should be interpreted as the Institution's liquidity sufficiency to cover its short-term obligations under an extreme scenario using only its highest quality liquid assets.

The following table shows the average development of the CCL components in 4Q17.

	CCL Components	**Bank and Sofomes**	
		Non-weighted Amount (Average)	**Weighted Amount (Average)**
COMPUTABLE LIQUID ASSETS			
1	Total Computable Liquid Assets	Not applicable	Ps. 105,614
OUTLAYS			
2	Non-guaranteed minor financing	Ps. 356,803	Ps. 23,622
3	Stable financing	241,169	12,058
4	Less stable financing	115,634	11,563
5	Non-guaranteed major financing	208,509	73,595
6	Operational deposits	145,289	31,863
7	Non-Operational deposits	58,681	37,193
8	Unsecured debt	4,539	4,539
9	Guaranteed major financing	253,245	17, 523
10	Additional requirements:	237,396	15,833
11	Outlays related to derivative financial instruments and other guarantee requirements	47,222	5,237
12	Outlays related to debt instrument financing losses	-	-
13	Lines of credit and liquidity	190,174	10,596
14	Other contractual financing obligations	-	-
15	Other contingent financing obligations	-	-
16	**TOTAL OUTLAYS**	**No aplica**	**$130,573**
CASH INFLOW			
17	Cash inflow from guaranteed transactions	Ps. 20,306	Ps. 543
18	Cash inflow from non-guaranteed transactions	52,633	40,890
19	Other cash inflows	2,962	2,962
20	**TOTAL CASH INFLOW**	No aplica	Ps. 44,395
		Adjusted amount	
21	**TOTAL COMPUTABLE LIQUID ASSETS**	**Not applicable**	**Ps.105,614**
22	**TOTAL NET OUTLAYS**	**Not applicable**	**Ps. 86,177**

23 LIQUIDITY COVERAGE RATIO	Not applicable	123.42%

During 4Q17 the average CCL for the Bank and Sofomes was 123.42%, with a CCL at the close of 4Q17 equal to 108.23%, placing it above the Desired Risk Profile and the regulatory minimum set forth in the established regulations in effect. The aforementioned results indicate that Banorte is in a position to meet the entirety of its short-term obligations in a crisis scenario.[1]

4.4 CCL Component Development

The evolution of the components of the coverage ratio of liquidity between the closure of the 3Q17 and the closure of the 4Q17 is presented in the following table.

CCL Component	3Q17	4Q17	Var vs. 3Q17
Liquid assets	95,498	121,972	27.7%
Cash Inflow*	39,337	30,476	(22.5%)
Outlays*	123,511	143,171	15.9%

*See main causes of the CCL results.

The liquid assets computed for the Bank and Sofomes CCL during 3Q17 and 4QT are distributed as follows:

Type of Asset	3Q17	4Q17	Var vs. 3Q17
Total	**Ps. 95,498**	**Ps. 121,972**	**27.7%**
Level I	86,989	112,445	29.3%
Level II	8,509	9,527	12.0%
Level II A	7,091	7,762	9.5%
Level II B	1,418	1,765	24.5%

Net assets grew by 17.8% between 3Q17 and 4Q17, mainly driven by an increase in liquid assets level I and level II B during 2017

4.5 See Main Causes of the CCL Results

Changes in the Liquidity Coverage Ratio between 3Q17 and 4Q17 are mainly due to the issuance by Banorte in October of subordinated debentures for USD $ 500MM, which had a positive implication on the liquidity of the institution.

4.6 Liquidity Risk in Foreign Exchange

To quantify and follow up on the liquidity risk for its dollar portfolio, the Institution uses the criteria established by Banco de México to determine the Liquidity Ratio.

The liquidity ration in foreign currency should be interpreted as the Institution’s capacity to cover its liquidity mismatches with liquid assets, both in foreign currency.

4.7 Exposure to Derivative Financial Instrument and Possible Margin Calls

The Institution applies the regulatory criterion to determine outlays for derivative financial instruments. During 2016 the net outlays for derivative financial instruments were as follows:

Outlays for Derivative Financial	3Q17	4Q17	Var vs. 3Q17

[1] The Liquidity Coverage Ratio is preliminary and subject to validation by Banco de México.

Instruments			
Net outlay at market value y for potential exposure	4,137	4,351	116.7%
Outlays due to a 3-step drop in the credit rating	-	-	(100.0%)

The above measurement indicates that by 4Q17 the potential outlays for derivative financial instruments may represent a liquidity requirement of up to Ps. 4, 351.

4.8 Liquidity Gaps

As part of the Bank's liquidity analysis, liquidity gaps in the Institution's 30-day asset and liability obligations are analyzed. This scheme is monitored Bank-wise with the following results for 4Q17.

Concept	3Q17	4Q17	Var vs. 3Q17
One month accumulated gap	(58,934)	(75,073)	27.4%
Liquid assets	60,297	78,540	30.3%

The mismatch between the inflow and outlays (gaps) for the next 30 days are covered with liquid assets. It should be noted that during the quarter, the Risk Policy Committee approved a new methodology for calculating the liquidity gap, which involves a model for determining the survival of demand and time deposits. The new methodology is the main reason for the difference against the calculations presented in the previous quarter. In addition, the new methodology allows us to make a more granular breakdown of the liquidity gaps, remaining as follows for 4Q17:

Concept (Millions of pesos)	1 day	7 days	1 month	3 months	6 months	12 months
Brecha Natural	(1,911)	(17,363)	(3,278)	7,530	(9,369)	2,810
Brecha Acumulada	(1,911)	(19,274)	(22,552)	(15,022)	(24,392)	(21,582)

4.9 Liquidity Stress Testing

As part of Liquidity Risk management, the Institution performs tests under extreme internal liquidity scenarios to evaluate its liquidity sufficiency under adverse conditions of the environment and inherent bank conditions. A total of 9 scenarios based on 3 risk sources (systemic, idiosyncratic and combined) each with 3 levels of severity (moderate, medium and severe) are considered for this purpose.

4.10 Contingency Financing Plan

Banorte implemented a contingency financing plan in order to have comprehensive practices in liquidity management and guarantee its operation in adverse liquidity situations. The plan incorporates elements to identify possible liquidity issues and to define available alternate funding sources.

4.11 Interest Rate Risk

The balance sheets structural or interest rate risk is managed using tools such as: domestic, foreign and actual interest shift sensitivity analysis obtaining their impact on the Net Interest Margin. The sensitivity analysis includes assumptions regarding the call deposits based on a stability model.

The Institution has policies and coverage limits for the fixed rate portfolio as part of the interest risk mitigation actions. The above is reported to the CPR on a monthly basis.

The effect on the Net Interest Margin of a 100-base point shift in rates is shown in the following table,
which considers Available for Sale, which at the close of 4Q16 corresponded to 153,128 million pesos, and on average during 4Q16 corresponded to 130.480 million pesos.

	3Q17	4Q17	Var vs. 3Q17
Margin Sensitivity	Ps. 870	Ps. 901	3.6%

5. OPERATIONAL RISK

The Institution established a formal operational risk department denominated "Operational Risk Management Department" that reports to the General Risk Management Office.

The Institution defines operational risk as the potential loss due to failures or deficiencies in internal controls because of errors in operations processing and storing or in data transfer, and adverse administrative and judicial rulings, frauds or theft (this definition includes Technology and Legal risk).

Operations Risk Management has three objectives: a) to enable and support the organization to reach its institutional objectives through operational risk prevention and management; b) to ensure that the existing operational risks and the required controls are duly identified, evaluated and aligned with the organization's risk strategy; and c) to ensure that operational risks are duly quantified in order to assign the proper capital for operational risk.

5.1. Policies, Objectives and Guidelines

The Institution has documented the operational risk policies, objectives, guidelines, methodologies and responsible areas.

The Operational Risk Department works closely with the Controllership Department to promote effective Internal Control that defines the proper procedures and controls the mitigation of Operational Risk. The Internal Audit Department follows up on compliance.

The Controllership Department, as part of the Internal Control System, performs the following risk mitigating activities: a) internal control validation; b) institutional regulations' management and control; c) monitoring of operating process' internal control by means of control indicator reports submitted by the process controllers in the various areas; d) money-laundering prevention process management; e) regulatory provisions controls and follow-up; and f) analysis and assessment of operating processes and projects with the participation of the directors in each process in order to ensure proper internal control.

5.2. Quantitative and Qualitative Measuring Tools

5.2.1. Operating Losses Database

To record operating loss events, a system is in place 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 actions intended to defraud, illegally seize ownership or evade the regulations, law or policies of the Institution (excluding diversity/discrimination events) involving at least one internal party.

External Fraud: Losses derived from actions taken by third parties intended to defraud, illegally seize ownership or evade the law.

Labor Relations and Job Safety: Losses derived from actions inconsistent with laws or employment, health or safety agreements, or which result in the payment of claims for damages to personnel or diversity/discrimination claims.

Customers, Products and Business Practices: Losses derived from negligence or unintentional breaches which prevent compliance with professional obligations with customers (including trust and adaptation requirements or due to the nature or design of a product).

Natural Disasters and Other Events: Losses due to damage or harm to physical assets due to natural disasters or other events.

Business Incidences and System Failures: Losses derived from incidences in the business and system failures.

Process Execution, Delivery and Management: Losses derived from errors in transaction processing or in process management, as well as relations with counterparties and suppliers.

This historical database provides the statistics of the operating events experienced by the Institution in order to be able to determine the respective trends, frequency, impact and distribution. Furthermore, the database will serve to calculate capital requirements for advanced models in the future.

5.2.2. Legal and Tax Contingencies Database

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

As part of the Institution's Legal Risk management initiative, legal and tax contingencies are estimated by the attorneys that process the issues determining the risk degree of each issue based on an internal methodology. This makes it possible to create the necessary book reserve within a specific term (based on the duration of the suit) to face such estimated contingencies.

5.3. Risk Management Model

The Institution and its subsidiaries have defined objectives, which are achieved through different plans, programs and projects. Compliance with such objectives may be adversely affected due to operating risks, for which reason a methodology must be in place to manage them within the organization. Consequently, operational risk management is now an institutional policy defined and supported by senior management.

To perform operational risk management, each of the operating risks involved in the processes must be identified in order to analyze them. In this regard, the risks identified by the Regulations Control are recorded in a risk matrix and processed to eliminate or mitigate them (trying to reduce their severity or frequency) and to define the tolerance levels, as applicable.

5.4. Calculating Capital Requirement

Pursuant to the Operational Risk Capitalization Rules, the Institution has adopted a Basic Model, which is calculated and reported periodically to the authorities; Assets subject to operational risk are disclosed in the note corresponding to the rules for capitalization requirements.

5.5. Information and Reporting

The information generated by the databases and the Management Model is processed regularly in order to report the main operating events detected, trends, identified risks (risk matrix) and the mitigating strategies to the Risk Policy Committee and the Board of Directors. The status of the principal initiatives for operational risk mitigation implemented by the different areas of the organization is also reported.

5.6 Revelación de Riesgos Operacionales

With regard to the disclosure of the operational risks to which it is exposed the institution, it is reported that the operational losses accumulated in the past 12 months represent 1.5% of the net interest margin (accumulated. In the past 12 months).

5.7. Technology Risk

It is defined as the potential loss due to damage, interruption, alteration or failures in the use of or dependence on hardware, software, IT systems, applications, networks and any other data distribution channel for rendering services to customers. Technology risk forms an inherent part of operational risk, for which reason its management is performed throughout the entire organization

To address operational risk associated with data integrity, the Integrity Committee was created. Its objectives include aligning data security and control efforts to a preventive approach, defining new strategies, policies, processes or procedures and solving data security issues that affect or may affect the Institution's assets.

The Institution performs the Technology Risk Management functions set forth by the Commission under the guidelines established by the institutional Regulations and the Integrity Committee.

To address the operating risk caused by high impact external events, the Institution has a Business Continuity Plan (BCP) and Business Recovery Plan (BRP) based on a same-time data replication system at an alternate computer site. This guarantees the back-up and recovery of critical applications in the event of an operating contingency.

5.8. Legal Risk

Legal risk is defined as the potential loss due to noncompliance with applicable legal and administrative provisions, adverse administrative and judicial rulings, and imposed penalties regarding the transactions performed by the Institution.

The legal risk must be measured as an inherent part of Operational Risk in order to understand and estimate its impact. Therefore, those legal issues which result in actual operating losses in the SMARL system are recorded in the SCERO in accordance with a predetermined classification.

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.

Note: Additional information regarding Risk Management in compliance with article 88 of the Sole Bank Circular is found in the Risk Management note of Grupo Financiero Banorte's Quarterly Report.

33 - MEMORANDUM ACCOUNTS (not audited)

	2017	2016
Contingent assets and liabilities	Ps.100	Ps.44
Credit commitments	213,098	285,689
Assets in trust or mandate	290,749	292,173
Managed assets in custody	363,730	294,203
Collateral received	133,904	82,196
Collateral received and sold or given as a pledge	62,240	20,124
Investment banking transactions on account of third parties (net)	87,333	93,306
Interest accrued but not charged of past due loans	366	439
	Ps. 1,151,520	**Ps.1,068,174**

34 - COMMITMENTS

As of December 31, 2017 and 2016, the Institution had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 213,198 (Ps. 285,735 in 2016), which are recorded in memorandum accounts (not audited).

- Certain operating equipment is leased. Total property lease payments for the years ended December 31, 2017 and 2016, were Ps. 87 and Ps. 130, respectively.

35 – CONTINGENCIES

As of December 31, 2017, there are lawsuits filed against the Institution in civil and labor court cases; however, the Institution's attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Institution's consolidated financial position. As of December 31, 2017, the Institution has recorded a reserve for contentious matters of Ps. 488 (Ps. 601 in 2016).

36 - PREVENTIVE MECHANISM FOR SAVINGS' PROTECTION

The objective of the Institute for the Protection of Bank Savings (IPAB) is to protect the deposits of small customers and thereby contribute to maintaining the financial system's stability and the proper functioning of the payments systems.

According to the Law of Bank Savings Protection (LPAB), the IPAB manages a bank savings protection system that guarantees the payment of bank deposits or loans or credits to Full Service Banking Institution up to an amount equivalent to 400 thousand UDIS per individual or business entity, regardless of the number or type of such obligations in the customer's favor and charged to a single bank.

On July 30, 2007, general rules were issued for addressing joint accounts or those in which there is more than one account holder, referred to in art. 14 of the LPAB, as well as the rules banks must observe for classifying information relative to transactions associated with guaranteed obligations.

The IPAB plays a major role in the implementation of the LPAB resolutions methods and the Law of Credit Institutions (LIC) as timely and adequate mechanisms for salvaging and liquidating Full Service Banking Institutions in financial trouble that may affect their solvency. The purpose is to provide maximum protection to the public while minimizing the negative impact that salvaging an institution may have on others in the banking system.

During 2017 and 2016, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps 2,634 and Ps 2,325, respectively.

37 - NEW ACCOUNTING GUIDELINES

As of December 31, 2017, CINIF has issued the following NIF and improvements to current NIF which could generate accounting changes.

a. New NIF

In relation to the NIF issued by the CINIF, in accordance with the fourth article of the resolution amending the general provisions applicable to credit institutions published on December 27, 2017, will be applicable to credit institutions as of January 1, 2019.

The Institution is waiting for the CNBV to publish the final version of the criterion A-2 "Application of particular Rules" which currently has as a project in review, same that could include some clarification in the application of the NIF, derived from the recommendations and comments that credit institutions did through the Association of Banks of Mexico to the CNBV, considering that credit institutions perform specialized operations.

To date we are in the process of analysis of the impacts that these NIF 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 1 January 2019 are:

- 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-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”.

b. Improvements to NIF 2018

The following improvements were issued with effect from January 1, 2018, which could generate accounting changes.

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

NIF B-10, effects of inflation- in a non-inflationary environment, it is established to disclose the percentages of inflation accumulated by the three previous annual exercises and which served as the basis for qualifying the economic environment in which the entity operated in the financial year. Current, as non-inflationary; The accumulated that includes the two previous annual exercises and the period to which the financial statements relate.

NIF C-6, Properties, plant and equipment- indicates that the recognition of the change to this NIF valid from January 2018 must be made in prospective form. The change establishes that the depreciation method should be made in a method that reflects the pattern based on which the entity is expected to consume the future economic benefits of the component rather than revenues, as such income amount may be affected by factors other than the profit consumption pattern.

NIF C-8, intangible assets- indicates that the recognition of the change to this NIF valid from January 2018 must be made in prospective form. The change establishes that the method of depreciation should be made in a method that reflects the pattern based on which the entity is expected to consume the future economic benefits of the asset rather than revenue, since such an income amount may be affected by factors other than the pattern of consumption of economic benefits. However it will be allowed to use a method based on income in specific cases.

NIF C-14, transfer and lowering of financial assets-it is indicated that the recognition of the change to this NIF valid from January 2018 must be made retrospectively for all the financial statements that are presented in comparative form with those of the period Current. The change establishes that an entity must continue to recognize an asset transferred to the extent that it has continuous involvement, also that the subsequent recognition of such asset should be carried out on the basis of applicable rules, the recognition must be made depending on the type of asset in question and the classification of the same by the entity.

The following improvements were issued that do not generate accounting changes:

NIF B-7, business acquisitions- a contingent liabilities of the acquired business must be recognized on the date of purchase as a provision, if in the process of valuation of the net assets acquired, that item represents is a present obligation to the business acquired that arises from past events, and it can reliably determine its fair value, and there is likely to be an outflow of resources in the future to liquidate that obligation. It was previously required that all contingent liabilities were recognized, which contradicts the requirements of NIF C-9.

NIF B-15, conversion of foreign currencies - Due to the functional currency is the basis of the economy of an entity, it must carry out the valuation of its assets, liabilities, equity, income, costs and expenses on the information specified in its functional currency. On these values should be the testing of impairment that may be required.

NIF D-5, leases - establishes a single model for recognition of leases by the lessee and requires it to recognize the assets and liabilities of all leases with a duration of more than 12 months, unless the underlying asset is of low value, eliminating the classification of leases as operational and financial. For lessors are maintained almost without changing the current requirements.

In addition, in the resolution published on December 27, 2017 referred to in subparagraph (a) of this note, amendments to criterion B-6 were included, which require that the following concepts be recorded by decreasing the Item of "Provisions for loan losses" instead of registering for "other operating income (expenses)":

- excess of loan losses,
- Recoveries of loans write-off

These amendments come into force from January 1, 2019, establishing the option that credit institutions will be able to apply them in advance as of the day following their publication. GFNorte has decided to adopt them in advance.

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1Q18

Financial Results as of March 31, 2018

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GFNORTE **GBOOY** **XNOR**

Índice

"Mejor Equipo Ejecutivo en Latinoamérica 2017"

"Mejor Gobierno Corporativo 2017"

"Empresa Sustentable"

I. Executive Summary

GFNorte reports Net Income of Ps 6.77 billion in 1Q18, +22.5% higher than 1Q17.

(BMV: GFNORTEO; OTCQX: GBOOY; Latibex: XNOR)

Grupo Financiero Banorte, S.A.B. de C.V. reported results for the period ending March 31, 2018 highlighting:

- **1Q18 Net Income of Ps 6.77 billion, showing strong sequential growth of +4.4%, and +22.5% vs. 1Q17.** Net Interest Income grows +10%, and Earnings Before Taxes are up +3.1% sequentially.

- **Net Income from Long Term Savings** sector grows **+33%** vs. 1Q17; Insurance +52%, Annuities +21%.

- Key indicators show significant growth for the quarter: **NIM** grows from 5.6% to **5.9%**; profitability keeps improving with **Return on Equity (ROE)** of **18.2%, +10%bp** during the quarter and +252bp vs. 1Q17. **Return on Assets (ROA)** of **1.98%,** with a +22bp increase vs. 1Q17.

- **Stronger Efficiency Ratio now at 40.9%**, while **Non-Performing Loans** improving to **1.9%. Coverage Ratio** increased +7.5pp during the quarter reaching **137%.**

- **Net Interest Income (NII)** grows **+17.7%** YoY**; Non-Interest Income** grows **+24.3%,** while **Non-Interest Expense** grows **+6.5%** vs. 1Q17**,** resulting in **Net Operating Profit** before taxes growing **+18.8%** vs. 1Q17.

- **Performing Loans** grew **1.2%** QoQ and **+9.4%** YoY: Excellent **+12.9%** growth in **commercial loans** YoY**, consumer +17.3%**, while **government +1.9%**, and **corporate loans** decreased **(1.4%)**.

- **Consumer** products led portfolio growth, with **mortgage loans** growing **+17.2%, auto loans +30.2%, credit cards +14.8%, and payroll loans +14.7%**

- **Non-Performing Loans (NPL)** grow **+18.7%,** in line with the strong growth in consumer loans.

- **Total customer deposits** up **+13%** in the year: **demand deposits +6%** and **time deposits and money market +24%.**

- **The bank's Capital Ratio stood at a strong 17.6%** while **leverage ratio** stood at **8.6%.**

Income Statement Highlights - GFNorte (Million Pesos)	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Net Interest Income	15,555	16,640	**18,305**	10%	18%
Fees on Services ¬	2,512	3,279	**2,607**	(20%)	4%
Trading	737	331	**866**	161%	17%
Other Operating Income (Expenses) ° *	33	699	**607**	(13%)	N.A.
Non Interest Income	3,282	4,310	**4,080**	(5%)	24%
Total Income	18,836	20,949	**22,385**	7%	19%
Non Interest Expense ¬ °	8,590	8,732	**9,151**	5%	7%
Provisions	2,698	3,544	**4,264**	20%	58%
Operating Income	7,549	8,674	**8,970**	3%	19%
Taxes	2,279	2,476	**2,472**	(0%)	8%
Subsidiaries & Minority Interest	184	283	**270**	(5%)	46%
Discontinued Operations	74	2	**-**	(100%)	(100%)
Net Income	5,527	6,482	**6,768**	4%	22%

Balance Sheet Highlights - GFNorte (Million Pesos)	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Asset Under Management	2,293,278	2,423,321	**2,428,272**	0%	6%
Performing Loans (a)	569,147	615,598	**622,695**	1%	9%
Past Due Loans (b)	10,284	12,482	**12,205**	(2%)	19%
Total Loans (a+b)	579,432	628,080	**634,900**	1%	10%
Total Loans Net (d)	565,197	611,958	**618,226**	1%	9%
Acquired Collection Rights (e)	2,082	2,477	**2,315**	(7%)	11%
Total Credit Portfolio (d+e)	567,279	614,435	**620,541**	1%	9%
Total Assets	1,245,334	1,354,147	**1,383,526**	2%	11%
Total Deposits	576,800	640,821	**642,579**	0%	11%
Total Liabilities	1,101,552	1,206,564	**1,229,446**	2%	12%
Equity	143,782	147,583	**154,081**	4%	7%

Financial Ratios GFNorte	1Q17	4Q17	1Q18
Profitability:			
NIM (1)	5.5%	5.6%	**5.9%**
ROE (2)	15.7%	18.1%	**18.2%**
ROA (3)	1.8%	2.0%	**2.0%**
Operation:			
Efficiency Ratio (4)	45.6%	41.7%	**40.9%**
Operating Efficiency Ratio (5)	2.7%	2.6%	**2.7%**
CCL for Banorte and SOFOM - Basel III (6)	93.2%	123.4%	**118.4%**
Asset Quality:			
Past Due Loan Ratio	1.8%	2.0%	**1.9%**
Coverage Ratio	138.4%	129.2%	**136.6%**
Cost of Risk (7)	1.9%	2.3%	**2.7%**
Market References			
Banxico Reference Rate	6.50%	7.25%	**7.50%**
TIIE 28 days (Average)	6.40%	7.42%	**7.75%**
Exchange Rate Peso/Dolar	18.80	19.66	**18.27**

1) NIM= Annualized Net Interest Income / Average Earnings Assets.
2) Annualized earnings as a percentage of average quarterly equity over the period, minus minority interest, for the same period.
3) Annualized earnings as a percentage of average quarterly assets over the period, minus minority interest, for the same period.
4) Non-Interest Expense / Total Income
5) Annualized Non-Interest Expense / Average Total Assets.
6) Preliminary CCL calculation. To be updated upon Banco de Mexico'sofficial indicators.
7) Cost of Riek = Annualized Provisions / Average Total Loans.

*As a result of changes to the B6 criterion Bank's Loan Book, starting on 1Q18 and retroactively for 2017, "Loan Recovery" and "Provisions Release" items previously under "Other Operating Income (Expenses)", were reclassified and now reconcile under "Preventive Provisions for Loan Losses".

°As of 1Q18 and retroactively for 2017, a component of Administrative Expenses from Banorte USA will now be reclassified under Fees Paid, and a component of Administrative Expenses from the Leasing business was reclassified under Other Income.

Subsidiaries Net Income *(Million Pesos)*	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Banco Mercantil del Norte	4,229	4,763	**4,536**	(5%)	7%
Banorte- Ixe-Broker Dealer	231	146	**158**	9%	(32%)
Operadora de Fondos Banorte-Ixe	56	85	**77**	(9%)	37%
Retirement Funds - Afore XXI Banorte	362	311	**329**	6%	(9%)
Insurance	885	606	**1,348**	123%	52%
Annuities	174	340	**210**	(38%)	21%
BAP (Holding)	0	1	**7**	771%	7302%
Leasing and Factoring	182	219	**191**	(13%)	5%
Warehousing	7	13	**9**	(30%)	29%
Sólida Administradora de Portafolios	(630)	(44)	**(277)**	(531%)	56%
Ixe Servicios	(1)	(1)	**(0)**	57%	(60%)
G. F. Banorte (Holding)	31	43	**180**	316%	483%
Total Net Income	5,527	6,482	**6,768**	**4%**	**22.5%**

Share Data	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Earnings per share (Pesos)	1.993	2.337	**2.440**	4%	22%
Dividend per Share for the period (Pesos)	1.23	0.00	**0.00**	NA	(100%)
Payout for the period	40.0%	0.0%	**0.0%**	NA	(100%)
Book Value per Share (Pesos)	51.12	52.55	**54.86**	4%	7%
Issued Shares (Million)	2,773.7	2,773.7	**2,773.7**	0%	0%
Stock Price (Pesos)	107.66	107.83	**111.13**	3%	3%
P/BV (Times)	2.11	2.05	**2.03**	(1%)	(4%)
Market Capitalization (Million Dollars)	15,888	15,211	**16,871**	11%	6%
Market Capitalization (Million Pesos)	298,620	299,091	**308,245**	3%	3%

Stock Performance

II. Management's Discussion & Analysis

Net Interest Income (NII) *(Million Pesos)*	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Interest Income	23,221	26,626	**27,524**	3%	19%
Interest Expense	9,778	11,517	**12,415**	8%	27%
Loan Origination Fees	282	297	**290**	(2%)	3%
Fees Paid	144	210	**239**	14%	66%
NII excluding Insurance and Annuities Co.	**13,581**	**15,197**	**15,160**	**(0%)**	**12%**
Premium Income (Net)	7,784	5,596	**11,632**	108%	49%
Technical Reserves	5,544	2,965	**6,976**	135%	26%
Damages, Claims and Other Obligations	3,306	3,845	**4,049**	5%	23%
Technical Results	**(1,065)**	**(1,214)**	**607**	N.A.	N.A.
Interest Income (Expenses) net	3,038	2,657	2,538	(4%)	(16%)
Insurance and Annuities NII	**1,973**	**1,443**	**3,144**	**118%**	**59%**
GFNORTE´s NII	**15,555**	**16,640**	**18,305**	**10%**	**18%**
Credit Provisions *	2,698	3,544	**4,264**	20%	58%
NII Adjusted for Credit Risk	**12,857**	**13,096**	**14,041**	**7%**	**9%**
Average Earning Assets	1,126,094	1,194,474	**1,239,231**	4%	10%
Net Interest Margin (1)	5.5%	5.6%	**5.9%**		
NIM after Provisions (2) *	4.6%	4.4%	**4.5%**		
NIM adjusted w/o Insurance & Annuities	5.3%	5.6%	**5.4%**		
NIM from loan portfolio (3)	8.4%	8.6%	**8.5%**		

1) NIM = Annualized Net Interest Income / Average Interest Earnings Assets.
2) NIM= Annualized Net Interest Income adjusted by Loan Loss Provisions / Average Interest Earnings Assets.
3) NIM = Annualized Net Interest Income from loans / Average Performing Loans

*As a result of changes to the B6 criterion Bank's Loan Book, starting on 1Q18 and retroactively for 2017, "Loan Recovery" and "Provisions Release" items previously under "Other Operating Income (Expenses)", were reclassified and now reconcile under "Preventive Provisions for Loan Losses

Net Interest Income (NII)

NII excluding Insurance and Annuities amounted to **Ps 15.16** billion during the quarter, **+12%** above the number reported in **1Q17**, driven by the positive combination of loan book mix, and balance sheet re-pricing to incorporate progressive interest rate hikes from the Central Bank of +100bps during the period. NII from loans and deposits grew +12%.

Sequentially, NII excluding Insurance and Annuities remains unchanged vs. 4Q17 as NII from loans and deposits does not yet account for the additional yield derived from the +50bp hikes from Banxico (+25bp in December 2017, and +25bp in February 2018); however, it does account for the +23bp increase in funding cost during the quarter and the effect of faster growth in time deposits.

Insurance and Annuities NII totaled Ps 3.14 billion, +118% higher sequentially, and +59% vs. 1Q17. This increase is mainly driven by the seasonality ofpremium renewals, and an increase in the life portfolio within the Insurance business.

> **Technical Results** in 1Q18 amounted to **Ps 607 billion**, showing a +Ps 1.7 billion increase YoY, and +Ps 1.8 billion sequentially, mainly driven by seasonal higher insurance revenue related to premium renewals in the life and P&C books which took place during the quarter.
>
> **Interest Income (Expenses) Net:** declined by (Ps 501) million vs. 1Q17 and (Ps 119) million sequentially, mainly on higher UDI valuation at the annuities company of (Ps 755) million YoY, and (Ps 150) million vs. 1Q17, effect of lower inflation during the period.

In 1Q18 GFNorte's Net Interest Income (NII) totaled Ps 18.30 billion, up +18% YoY, and +10% vs. 1Q17, showing not only the positive performance of the loan portfolio and insurance and annuities businesses, but also the good control in funding cost.

Net Interest Margin (NIM) for the first three months of the year rose to 5.9%, growing +38bp YoY, as a result of a better mix in the loan book, and the benefit of re-pricing the balance sheet due to rising market rates. Compared to 4Q17, NIM increases +34bp, mainly driven by the good performance of the Insurance business.

Loan Loss Provisions

Starting on the first quarter of 2018, and retroactively for all 2017, amounts related to "Loan Recovery" and "Provisions Release" items, previously included under "Other Operating Income (Expenses)", are now classified under "Preventive Provisions for Loan Losses" in the Income Statement. For further details, please refer to Section V –Accounting and Regulatory Changes– Early adoption of changes to B-6 criterion "Bank's Loan Book".

Loan Loss Provisions totaled **Ps 4.26** billion during the quarter, +58% higher vs. 1Q17, and +20% sequentially.

The increase vs. 1Q17 is explained by higher requirements across the loan portfolio, specifically in the consumer books. The sequential increase is driven by higher provision requirements in corporate, payroll, commercial and mortgage books, which off-set an important reduction in credit card requirements. In particular,there was a Ps 619 million provision assigned to a corporate loan exposure which was registered as NPL during 4Q17. Excluding this specific provision, total provisions for the rest of the book were Ps 3.65 billion, up 3% sequentially and +35% YoY.

Provisions represented 23.3% of **Net Interest Income** in 1Q18, up **+5.9pp** YoY, and +2.0pp sequentially. While **Cost of Risk** accounted for 2.8% of the average loan book in the first three months of the year, an +83bp increase YoY, and +42bp sequentially. Without considering the specific provision mentioned above, **Cost of Risk** would have been stable at 2.3% in the quarter.

Non-Interest Income

Non-Interest Income *(Million Pesos)*	**1Q17**	**4Q17**	**1Q18**	**Change**	
				4Q17	**1Q17**
Fees on Services ¬	2,512	3,279	**2,607**	(20%)	4%
Trading	737	331	**866**	N.A.	17%
Other Operating Income (Expenses) *	33	699	**607**	(13%)	N.A.
Non-Interest Income	**3,282**	**4,310**	**4,080**	(5%)	24%

¬* As a result of changes to the B6 criterion Bank's Loan Book, starting on 1Q18 and retroactively for 2017, "Loan Recovery" and "Provisions Release" items previously under "Other Operating Income (Expenses)", were reclassified and now reconcile under "Preventive Provisions for Loan Losses".
° As of 1Q18 and retroactively for 2017, a component of Administrative Expenses from Banorte USA will now be reclassified under Fees Paid, and a component of Administrative Expenses from the Leasing business was reclassified under Other Income.

Non-Interest Income rose to Ps 4.08 billion in 1Q18, +24% higher YoY, driven by good performance across all of its components. Sequentially, it declined (5%), as a result of lower Service Fees. Trading income shows an increase of Ps 535 million vs. 4Q17.

Service Fees

Service Fees (Million Pesos)	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Fund Transfers	368	380	**363**	(4%)	(1%)
Account Management Fees	596	662	**618**	(7%)	4%
Electronic Banking Services	1,639	1,902	**1,880**	(1%)	15%
Basic Banking Services Fees	2,604	2,944	**2,861**	(3%)	10%
For Commercial and Mortgage Loans	94	178	**135**	(24%)	44%
For Consumer Loans	999	1,146	**1,120**	(2%)	12%
Fiduciary	92	133	**108**	(19%)	18%
Income from Real Estate Portfolios	7	40	**36**	(12%)	N.A.
Mutual Funds	282	372	**374**	0%	33%
Trading & Financial Advisory Fees	115	134	**201**	50%	75%
Other Fees Charged (1)	264	306	**289**	(5%)	10%
Fees Charged on Services	**4,455**	**5,252**	**5,124**	**(2%)**	**15%**
Interchange Fees	722	875	**880**	1%	22%
Insurance Fees	379	186	**725**	291%	91%
Other Fees Paid	843	912	**911**	(0%)	8%
Fees Paid on Services ¬	**1,944**	**1,972**	**2,516**	**28%**	**29%**
Service Fees	**2,512**	**3,279**	**2,607**	**(20%)**	**4%**

1) Includes fees from letters of credit, transactions with pension funds, warehousing services, financial advisory services and securities trading among others.
° As of 1Q18 and retroactively for 2017, a component of Administrative Expenses from Banorte USA will now be reclassified under Fees Paid

During the first three months of the year, Service Fees rose to Ps 2.61 billion, +4% higher year over year. Although Fees Paid grew significantly, mainly due to the +91% increase in Insurance Fees (which is itself explained by the seasonality of acquisition cost), and also due to the +22% growth in Interchange Fees, this is compensated by:

- +10% increase in Core Banking Services Fees supported by larger transaction volume, which is mainly driven by +15% in Electronic Banking Fees.
- +15% growth in Consumer, Commercial and Mortgage origination fees.
- 33% growth in Mutual Fund fees
- +75% growth in Advisory and Financial Fees, due to higher operating volumes with customers and investment banking activities in the quarter.

In the quarter, Service Fees decreased (20%), mainly impacted by a Ps 540 million growth in Insurance acquisitions costs, which are entirely related to premium renewals registered in the quarter. The rest of Fees Paid derive from the transactional volume dynamics.

Trading

Trading Income (Million Pesos)	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Currency and Metals	(151)	(9)	**(123)**	N.A.	(19%)
Derivatives	(195)	387	**195**	(50%)	N.A.
Negotiable Instruments	27	(639)	**(55)**	91%	N.A.
Valuation	**(319)**	**(260)**	**17**	**N.A.**	**N.A.**
Currency and Metals	520	452	**613**	35%	18%
Derivatives	281	(189)	**39**	N.A.	(86%)
Negotiable Instruments	255	328	**198**	(40%)	(23%)
Trading	**1,056**	**592**	**850**	**44%**	**(20%)**
Trading Income	**737**	**331**	**866**	**161%**	**17%**

During 1Q18 Trading Income totaled **Ps 866 million, 17%** higher vs. 1Q17, driven by mark to market valuation gains.

Sequentially, **Trading Income** grew **+Ps 535 million, or +161% QoQ,** driven by strong trading income.

Other Operating Income (Expenses)

Other Operating Income (Expenses) *(Million Pesos)*	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Loan Recovery*	3	5	**3**	(46%)	(21%)
Loan Portfolios	42	64	**44**	(32%)	5%
Income from Foreclosed Assets	21	156	**80**	(49%)	N.A.
Provisions Release*	4	3	**14**	N.A.	N.A.
Losses and Estimates	(295)	(583)	**(913)**	(57%)	N.A.
Impairment of Assets	(428)	134	**(173)**	N.A.	(60%)
Lease Income	111	125	**123**	(2%)	11%
From Insurance	234	199	**200**	0%	(14%)
Others	341	596	**1,229**	N.A.	N.A.
Other Operating Income (Expenses)	**33**	**699**	**607**	**(13%)**	**N.A.**

* As a result of changes to the B6 criterion Bank's Loan Book, starting on 1Q18 and retroactively for 2017, "Loan Recovery" and "Provisions Release" items previously under "Other Operating Income (Expenses)", were reclassified and now reconcile under "Preventive Provisions for Loan Losses

During **1Q18 Other Operating Income (Expenses)** totaled **Ps 607 million**, Ps 574 million above 1Q17. Sequentially, it declines (13%), impacted by higher Losses and Estimates (+57%) and charges related to Impairment of Assets -which in 4Q17 benefited from a Ps 323 million provision release- while income from Foreclosed Assets declined (49%) in the period.

During the quarter, the following line items are noteworthy:

- (Ps 913) million in Losses and Impairments of which (Ps $302) million result from two events whose recoveries were registered under "Others" by the same amount.
- Ps 1.23 billion in Others, mainly composed of:
    - A Ps 206 million income in "Others", under Results from Securitization Valuation, related to the termination of a mortgage loan trust.
    - Ps 306 million registered in "Others", related to inactive account closures.
    - (Ps 173) million were registered as reserves for investment projects valuation adjustments.

Non-Interest Expense

Non-Interest Expense *(Million Pesos)*	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Personnel	3,512	3,445	**3,535**	3%	1%
Professional Fees	567	875	**714**	(18%)	26%
Administrative and Promotional ¬ °	1,947	1,931	**1,937**	0%	(1%)
Rents, Depreciation & Amortization	1,306	1,245	**1,347**	8%	3%
Taxes other than income tax & non deductible expenses	523	453	**788**	74%	51%
Contributions to IPAB	634	696	**725**	4%	14%
Employee Profit Sharing (PTU)	101	88	**106**	21%	5%
Non-Interest Expense	**8,590**	**8,732**	**9,151**	**5%**	**7%**

° As of 1Q18 and retroactively for 2017, a component of Administrative Expenses from Banorte USA will now be reclassified under Fees Paid, and also a component of Administrative Expenses from the Leasing business was reclassified under Other Income

In 1Q18 Non-Interest Expense totaled Ps 9.15 billion, only +7% above 1Q17 as result of a general increase across all line items.

Compared to **4Q17**, Non-Interest Expense increases +Ps 419 million; however, there is an (18%) reduction in Paid Fees as there was an extraordinary expense during 4Q17 related to a relevant transaction.

Efficiency Ratio shows consistent improvement, reaching a record low of **40.9%,** (427bp) lower YoY, and (80bp) lower sequentially, in both cases showing a positive operating leverage.

Net Income

Net Income (Million Pesos)	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Operating Income	**7,549**	**8,674**	**8,970**	**3%**	**19%**
Subsidiaries' Net Income	263	375	**357**	(5%)	36%
Pre-Tax Income	**7,812**	**9,049**	**9,327**	**3%**	**19%**
Taxes	2,279	2,476	**2,472**	(0%)	8%
Discontinued Operations	74	2	**-**	N.A.	N.A.
Minority Interest	(79)	(93)	**(87)**	(6%)	10%
Net Income	**5,527**	**6,482**	**6,768**	**4%**	**22%**

In 1Q18 Net Income from Subsidiaries totaled Ps 357 million –which includes Ps 329 million from Afore XXI Banorte''s net income–, up 36% vs. 1Q17, as a consequence of better results in Solida''s investments (in 1Q17 there was a (Ps 120) million loss reported compared to a (Ps 2) million loss reported this quarter). Sequentially, it declined by (Ps 19) million, due to losses in Solida.

During 1Q18 Accumulated taxes totaled Ps 2.47 billion, up +8% vs. 1Q17, as result of a higher taxable base, and (Ps 4) million lower sequentially. **The effective tax rate during the quarter was 26.5%, decreasing (2.7pp) YoY, and (0.9pp) QoQ.**

GFNorte reported Net Income of Ps 6.77 billion for 1Q18, showing very strong sequential growth of +4.4%, and +22.5% vs. 1Q17.

Net Income from Long Term Savings business is noteworthy, growing +33% vs 1Q17: Insurance +52%, and Annuities +21%.

Significant growth in Key financial indicators for the quarter: **NIM increases to 5.9%** from 5.6%, while profitability keeps improving with **ROE** of **18.2%,** up +10bp in the quarter and +252 vs. 1Q17; **ROA** at **1.98%,** up +22bp vs. 1Q17; **Efficiency Ratio** improves to **40.9%; NPL ratio** also improves, reaching **1.9%, while Coverage Ratio** totaled 137%, growing +7.5pp during the quarter.

Profitability

	1Q17	4Q17	1Q18
ROE	**15.7%**	**18.1%**	**18.2%**
Goodwill & Intangibles (billion pesos)	25.3	28.2	**27.2**
Average Tangible Equity (billion pesos)	115.5	114.6	**121.2**
ROTE	**19.1%**	**22.3%**	**22.3%**

Outstanding **ROE** growth vs. 1Q17, increasing +252bp reaching **18.2%** during **1Q18**; and +10bp sequentially. In both cases, ROE growth is supported by growth in Net Income and an efficient management of the capital base.

Return on Tangible Equity (ROTE) was **22.3%** in **1Q18**, up +319bps vs. 1Q17, and +6bp higher QoQ.

	1Q17	4Q17	1Q18
ROA	**1.8%**	**2.0%**	**2.0%**
Average Risk Weighted Assets (billion pesos)	621.0	620.8	622.7
RRWA	**3.3%**	**3.9%**	**4.0%**

*Amounts in Billion pesos.

ROA for 1Q18 reached 2.0%, +22bp higher vs. 1Q17, and +2bp higher than 4Q17. **Return on Risk-Weighted Assets was 4.0%**, +19bp higher QoQ and +76bp YoY.

Regulatory Capital (Banco Mercantil del Norte)

Capitalization *(Million Pesos)*	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Core Tier 1	85,080	75,220	79,218	5.3%	(6.9%)
Tier 1 Capital	87,336	95,323	97,855	2.7%	12.0%
Tier 2 Capital	15,808	13,286	12,795	(3.7%)	(19.1%)
Net Capital	103,143	108,609	110,650	1.9%	7.3%
Credit Risk Assets	479,075	507,721	520,834	2.6%	8.7%
Net Capital / Credit Risk Assets	21.5%	21.4%	21.2%	(0.1 pp)	(0.3 pp)
Total Risk Assets	622,068	626,976	629,534	0.4%	1.2%
Core Tier 1	13.68%	12.00%	12.58%	0.6 pp	(1.1 pp)
Tier 1	14.04%	15.20%	15.54%	0.3 pp	1.5 pp
Tier 2	2.54%	2.12%	2.03%	(0.1 pp)	(0.5 pp)
Capitalization Ratio	**16.58%**	**17.32%**	**17.58%**	0.25 pp	1.00 pp

(*) The reported capitalization ratio of the period is submitted to the Central Bank.

Banorte has fully adopted the capitalization requirements established to date by Mexican authorities and international standards, so-called Basel III, which came into effect as of January 2013.

In April 2017, Banorte was confirmed as Level II - Domestic Systemically Important Financial Institution, which implies that Banorte must maintain a capital buffer of 0.90 pp, to be constituted progressively in up to four years, starting on December 2016. Therefore, starting on December 2017, the **minimum Capitalization Ratio required for Banorte amounts to 10.95%** (corresponding to the regulatory minimum of 10.5% plus the constituent capital supplement to date).

At the end of 1Q18 the estimated Capitalization Ratio (CR) for Banorte was 17.58% considering credit, market and operational risk; and, 21.24% considering only credit risks.

The Capitalization Ratio increased +25bp vs. 4Q17 due to the following effects:

1.	Profits for 1Q18	+ 0.73 pp
2.	Valuation of Financial Instruments	+ 0.07 pp
3.	Other Capital Effects	0.00 pp
4.	Issuance Payment	-0.05 pp
5.	Permanent Investments & Intangibles	- 0.07 pp
6.	Variation of Risk Assets	- 0.07 pp
7.	Subordinated Liabilities	- 0.36 pp

The Capitalization Ratio rose +1.00 pp vs. 1Q17, as follows:

1.	Profit growth for the period	+ 2.96 pp
2.	Subordinated Notes (BANORTE17 Perp NC10 and BANORTE17 Perp NC5)	+ 2.61 pp
3.	Valuation of Financial Instruments	-0.03 pp
4.	Capital Notes Valuation	-0.05 pp
5.	Other Capital Effects	-0.07 pp
6.	Growth in Risk Assets	- 0.20 pp
7.	Permanent Investments & Intangibles	- 0.37 pp
8.	Capital Notes Prepayment (Q BANORTE 012)	-0.49 pp
9.	Dividends paid during the period	-3.36 pp

Leverage Ratio (Banco Mercantil del Norte)

Leverage Ratio according to CNBV's regulation is presented below:

Leverage *(Million Pesos)*	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Tier 1 Capital	87,336	95,323	97,855	2.7%	12.0%
Adjusted Assets	1,094,203	1,133,176	1,133,135	(0.0%)	3.6%
Leverage Ratio	**7.98%**	**8.41%**	**8.64%**	0.2 pp	0.7 pp

Adjusted Assets are defined according to the General Provisions applicable to Credit Institutions.

Deposits

Deposits (Million Pesos)	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Non-Interest Bearing Demand Deposits	270,588	300,910	**287,671**	(4%)	6%
Interest Bearing Demand Deposits	97,276	95,742	**103,332**	8%	6%
Total Demand Deposits*	367,864	396,652	**391,003**	(1%)	6%
Time Deposits – Retail	173,891	193,617	**198,902**	3%	14%
Core Deposits	541,755	590,270	**589,906**	(0%)	9%
Money Market	36,437	58,352	**62,121**	6%	70%
Total Bank Deposits	**578,191**	**648,622**	**652,027**	1%	13%
GFNorte's Total Deposits	**576,800**	**640,821**	**642,579**	0%	11%
Third Party Deposits	**190,537**	**157,748**	**157,768**	0%	(17%)
Total Assets Under Management	**768,728**	**806,370**	**809,795**	0%	5%

*Starting on 1Q18 and retroactively for 2017, accounts that were previously registered under Interest Bearing Demand Deposits, will now be registered under Non-interest Bearing Demand Deposits, according to their particular situation.

Banorte's **Total Deposits** amounted to **Ps 652.02 billion** as of **1Q18,** a +13% annual variation, driven by +24% growth in time deposits and money market, as some clients continue migrating towards interest bearing instruments, given the rate cycle in Mexico. **Client deposits grew +11%** YoY, and Total Assets Under Management grew +5% YoY.

During the quarter,Non-interest bearing demand deposits declined **(4%),** while **Interest bearing deposits** increased **+8%, and time deposits +3%.** With this, total deposits grew + 1% QoQ.

Loans

Performing Loan Portfolio (Million Pesos)	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Commercial	123,547	137,501	**139,543**	1%	13%
Consumer	211,619	240,899	**248,189**	3%	17%
Corporate	102,345	102,220	**100,880**	(1%)	(1%)
Government	131,551	134,905	**134,017**	(1%)	2%
Sub Total	569,062	615,525	**622,628**	1%	9%
Recovery Bank	85	72	**67**	(7%)	(21%)
Total	569,147	615,598	**622,695**	1%	9%

Performing Consumer Loan Portfolio (Million Pesos)	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Mortgages	119,227	135,334	**139,713**	3%	17%
Car Loans	15,916	19,189	**20,726**	8%	30%
Credit Card	29,516	33,906	**33,872**	(0%)	15%
Payroll	46,960	52,469	**53,877**	3%	15%
Consumer Loans	211,619	240,899	**248,189**	3%	17%

Total Performing Loans increased +9% YoY for an ending balance of Ps 622.63 billion in 1Q18. Despite a slight slowdown, **consumer loans** grew at a **remarkable rate of +17%, well above** that of the banking system, driven by the bank''s strong origination capabilities, based on technology and business analytics**.** Commercial, Corporate and Government Loans keep showing moderate growth in line with the banking system.

- **Mortgages:** Grew **+17%** YoY, reaching a total balance of **Ps 139.71** billion in **1Q18.** During the quarter, mortgage loan book grew Ps 4.38 billion, +3% QoQ. Based on regulatory data from February 2018, Banorte shows **twofold growth vs. the banking system** (+17.7% vs. +8.2%) and a market share of 18.8%, growing +152bp vs. 1Q18 and reaching second place in the mortgage banking system.

- **Car Loans:** Strong growth of **+30%** vs. 1Q17, and +8% sequentially, reaching a **Ps 20.7** billion balance, mainly driven by loan origination through exclusivity agreements with car dealerships. As of February 2018, Banorte holds a 16.8% market share, gaining +180bp vs. 1Q17, leading loan growth among the main banking players.

- **Credit Cards:** Reached an **ending balance of Ps 33.87 billion,** up +15% YoY, with no change during the quarter. Origination efforts are reduced, in an effort to maintain asset quality. Banorte holds a 9.4% market share; using February regulatory data, Banorte gained +20bp during the first three months of the year, and +64bp vs. 1Q17, standing in fourth place, and **growing twofold vs. competitors**.

- **Payroll Loans:** Showed a significant 15% increase YoY and +3% QoQ, **reaching a balance of Ps 53.87 billion.** Growth was driven by higher credit penetration on a larger base of Banorte's payroll account holders. Banorte holds a market 21.4% market share as of February 2018, gaining +151bps vs. 1Q17, and ranking third in the market.

- **Commercial Book:** With 1% growth during the quarter, it reaches an **ending balance of Ps 139.54 billion,** which represents a Ps 15.99 billion increase during the quarter and +13% vs. 1Q17. Market share as of February 2018 (incluing corporate loans, according to the regulator's methodology), is at 9.5%, ranking fourth in the banking system.

  GFNorte's SME performing portfolio amounted to **Ps 33.79 billion**, +9% higher YoY, and 1% QoQ. **NPL** grows +30bp reaching **5.6% in 1Q18.**

	1Q17	4Q17	1Q18
Performing Portfolio	$30,878	$33,447	$33,793
% of Performing Commercial Portfolio	25.0%	24.3%	24.2%
% of Total Performing Portfolio	5.4%	5.4%	5.4%
NPL Ratio	6.1%	5.3%	5.6%

- **Corporate Loans: Ending balance in 1Q18 stood at Ps 100.88 billion**, a (1%) reduction in the quarter and (1%) YoY. During the quarter, growth was affected by a slight reduction in demand, and prepayments of approximately Ps 7 billion. GFNorte''s corporate loan book is well diversified by industry and regions, and shows low concentration risk. GFNorte's 20 main corporate borrowers accounted for 9.9% of the group's total portfolio. The group's largest corporate exposure represents 1.2% of the total portfolio; whereas number 20 represent 0.3%. 95% of GFNorte's main corporate borrowers have an A1 rating, and 5% an A2 rating.

  As of March 31, 2018 GFNorte's **loan exposure to home builders was Ps 2.19 billion** in Urbi Desarrollos Urbanos, S.A.B. de C.V., Corporación Geo, S.A.B. de C.V., and Desarrolladora Homex, S.A.B. de C.V., (2.5%) lower than the previous quarter. This exposure represented 0.3% of the total loan portfolio, similar to 4Q17. Credit exposure has 100% collateral coverage, with no changes vs. 4Q17. Loan Loss Reserve coverage was 36.1% in 1Q18. **Sólida had a balance of Ps 5.25 billion in investment projects** to these companies, (0.9%) lower vs. 4Q17.

- **Government Book: had an ending balance of Ps 134.02 billion in 1Q18**, +2% vs. 1Q17. Sequentially, it decreased (1%). GFNorte's government portfolio is diversified by sectors and regions, and shows adequate concentration risk. GFNorte's 20 largest government loans account for 19 % of the group's total portfolio, The largest government loan represents 3.0% of the total portfolio and is rated A1; whereas, number 20 represents 0.3%, also rated A1. The portfolio's risk profile is adequate with 29.2% of the loans granted to Federal Government entities and 99.3% of loans to States and Municipalities have a fiduciary guarantee (consisting of Federal budget transfers and local revenues such as payroll tax), and 0.7% of the loans have short-term maturities. As of February 2018, Banorte held a 24.3% market share of the total system, standing in first place.

Past Due Loans

(Million Pesos)	1Q17	4Q17	1Q18	Change	
				4Q17	1Q17
Past Due Loans	10,284	12,482	**12,205**	(2%)	19%
Loan Loss Reserves	14,235	16,122	**16,674**	3%	17%
Acquired Rights	2,082	2,477	**2,315**	(7%)	11%

During 1Q18, **Past Due Loans** were **Ps 12.20** billion, up Ps 1.92 billion or **+19%** YoY. There is a quarterly deterioration in the commercial loan book, and improvements across the rest of the segments. YoY there is an overall improvement in NPL levels.

The quarterly evolution of NPL balances was as follows:

Past Due Loans *(Million Pesos)*	1Q17	4Q17	1Q18	Change	
				4Q17	1Q17
Credit Cards	1,660	2,188	**2,186**	(1)	526
Payroll	1,218	2,020	**1,601**	(419)	383
Car Loans	150	233	**189**	(44)	39
Mortgages	1,019	1,323	**1,315**	(8)	296
Commercial	3,667	3,239	**3,564**	325	(103)
Corporate	2,569	3,481	**3,350**	(131)	781
Government	-	-	**-**	-	-
Total	10,284	12,482	**12,205**	(278)	1,921

In 1Q18, Past Due Loan Ratio reached 1.9%, improving 7bps vs. 1Q17, with deterioration in the commercial segment, mainly SMEs and improvements in payroll, car and corporate loans. Quarterly evolution for the segment follows:

Past Due Loans Ratios	1Q17	2Q17	3Q17	4Q17	1Q18
Credit Cards	5.3%	6.2%	6.2%	6.1%	**6.1%**
Payroll	2.5%	3.2%	3.2%	3.7%	**2.9%**
Car Loans	0.9%	1.1%	1.1%	1.2%	**0.9%**
Mortgages	0.8%	0.9%	0.9%	1.0%	**0.9%**
Commercial	2.9%	2.6%	2.6%	2.3%	**2.5%**
SMEs	*6.1%*	*5.5%*	*5.9%*	*5.3%*	***5.6%***
Commercial	*1.8%*	*1.6%*	*1.5%*	*1.3%*	***1.4%***
Corporate	2.4%	2.1%	2.0%	3.3%	**3.2%**
Government	0.0%	0.0%	0.0%	0.0%	**0.0%**
Total	1.8%	1.8%	1.8%	2.0%	**1.9%**

The expected loss for Banco Mercantil del Norte, the group''s largest subsidiary, was 2.2% and the unexpected loss 4.1%, both with respect to the total portfolio as of 1Q18. These ratios were 2.2% and 4.1%, respectively vs. 4Q17 and 2.0% and 4.1% YoY

Banco Mercantil del Norte's Net Credit Losses (NCL) including write-offs and considering its merger with Banorte Ixe Tarjetas **was 2.1%,** +9bp higher vs. 4Q17.

Quarterly changes in accounts that affect Non Performing Loans' balances for the Financial Group were:

Past Due Loan Variations *(Million Pesos)*	
Balance as of December '17	**12,482**
Transfer from Performing Loans to Past Due Loans	6,077
Portfolio Purchase	-
Renewals	(110)
Cash Collections	(755)
Discounts	(109)
Charge Offs	(3,648)
Foreclosures	(14)
Transfer from Past Due Loans to Performing Loans	(1,605)
Loan Portfolio Sale	-
Foreign Exchange Adjustments	(114)
Fair Value Ixe	-
Balance as of March '18	**12,205**

84% of the total loan book is rated A Risk, 10% B Risk and 5% as Risk C, D and E combined.

Risk Rating of Performing Loans as of 1Q18 – GF Norte
(Million Pesos)

CATEGORY	LOANS	LOAN LOSS RESERVES					
		COMMERCIAL			CONSUMER	MORTGAGES	TOTAL
		MIDDLE MARKET COMPANIES	GOVERNMENT ENTITIES	FINANCIAL INTERMEDIARIES			
A1	527,276	955	496	110	587	209	**2,357**
A2	45,780	301	57	7	305	34	**703**
B1	42,988	122	119	5	930	21	**1,197**
B2	12,596	63	-	2	353	33	**451**
B3	14,077	145	6	2	528	21	**703**
C1	8,919	98	19	0	458	81	**656**
C2	8,145	55	-	0	1,124	129	**1,308**
D	13,160	2,765	-	0	1,726	375	**4,866**
E	5,702	857	-	0	2,969	54	**3,880**
Total	678,642	5,359	697	126	8,981	958	**16,121**
Not Classified	(231)						
Exempt	-						
Total	678,412	5,359	697	126	8,981	958	**16,121**
Reserves							**16,674**
Preventive Reserves							**553**

Notes:
1) Figures for reserve creation and grading are as of March 31, 2018.
2) The loan portfolio is graded following rules issued by the Ministry of Finance and Public Credit (SHCP),and the methodology established by the CNBV.
The Institution uses regulatory methodologies to grade all credit portfolios. For the revolving consumer portfolio, as of January 2018, the bank will use the internal methodology authorized by CNBV.
The Institution uses risk ratings: A1, A2, B1, B2, B3, C1, C2, D and E to classify provisions according to the portfolio segment and percentage of the provisions representing the outstanding balance of the loan, and which are set forth in Fifth Section of the "De la constitución de reservas y su clasificación por grado de riesgo" contained in Chapter 5, Title Section of such regulation.
3) Additional loan loss reserves follow the rules applicable to banks and credit institutions.

Based on B6 Credit Portfolio criterion of the CNBV, Distressed Portfolio is defined as the pool of commercial loans unlikely to be recovered fully, including both principal and interest pursuant to terms and conditions originally agreed upon. Such determination is made based on actual information and data and on the loan review process. Performing loans and past-due loans are susceptible of being identified as Distressed Portfolios. The D and E risk degrees of the commercial loan rating are as follows:

(Million Pesos)	Total
Distressed Portfolio	8,309
Total Loans	678,412
Distressed Portfolio / Total Loans	1.2%

Loan Loss Reserves and Loan Loss Provisions

Loan Loss Reserves *(Million Pesos)*	1Q18
Previous Period Ending Balance	**16,122**
Provisions charged to results	4,588
Cargos a utilidades retenidas	0
Created with profitability margin	0
Reserve Portfolio Sold	0
Other items	72
Charge offs and discounts:	
Commercial Loans	(297)
Consumer Loans	(3,395)
Mortgage Loans	(393)
Foreclosed assets	0
	(4,084)
Cost of debtor support programs	(2)
Valorization and Others	-23
Adjustments	0
Loan Loss Reserves at Period End	**16,674**

Loan Loss Reserves in 1Q18 totaled Ps 16.67 billion, +3.4% higher vs. 1Q18. Charge-offs during the quarter amounted to Ps 4.08 billion, +1% higher than the previous quarter. Of this amount, 83% are related to the consumer portfolio, 7% to commercial and 10% to mortgages.

Loan loss coverage ratio was 136.6. % in 1Q18, improving from the 129.2% during 4Q17 and similar to 138.5% in 1Q17.

Capital

Shareholders equity had an ending balance of **Ps 154.08 billion, +7% higher vs. 1Q17, and 4% higher** sequentially. During the quarter equity benefited from net income of Ps 6.77 billion. The mark to market value of securities available for sale declined by (Ps 1.12 billion), affected by FX variation on the USD denominated securities. This valuation loss is offset by a Ps 1.45 billion gain on the valuation of hedging instruments. Moreover, during the quarter Ps 725 million interest payment from capital notes were registered in retained earnings.

Recent Events

1. FITCH RATINGS AFFIRMS "AAA" RATING WITH NEGATIVE WATCH FOR SEGUROS BANORTE AND PENSIONES BANORTE.

In March 2018, Fitch Ratings affirmed the financial strength of Seguros Banorte, and considered it as one of the most important subsidiaries of Grupo Financiero Banorte (GFNORTE). The agency highlighted that the strong support provided by the group is an important factor for the rating, together with the company's adequate leverage levels, positive profitability trend, and reasonable liquidity levels.

The rating agency mentioned that the IT implementation during the integration with GF Interacciones (GFINTER) could add some pressure to the business, keeping its negative watch for the company.

Regarding Pensiones Banorte, the agency equally affirmed its AAA rating with negative watch, as it values the group's support behind the company, and regards the annuities business as a strategic subsidiary for the group.

There are no expected changes to the financial profile of the company derived from the merger with GFINTER. The agency highlights the company's strong market positioning, its positive earnings trend, and its conservative asset management strategy, consistent with Mexican regulation. On the other hand, the agency considered that the company's leverage ratio has some room for improvement.

2. GFNORTE JOINS BLOOMBERG's 2018 GENDER EQUALITY INDEX

In January 2018, GFNorte was added to the recently created Bloomberg Gender Equality Index (GEI), constituted by 104 companies in the communications, consumer products, energy, finance, materials, and techynology sectors across 24 countries.

This Index measures gender equality from internally generated statistics from all rated companies. It also evaluates employee policies, support and participation of external communities, and focus on gender-specific product offerings.

It is noteworthy that companies within the GEI index scored at or above the global limit set by Bloomberg to publish the accomplishment or adoption of the best policies and statistics. Banorte was the only Mexican company in the financial sector that reached an international standard for its internal policies, and product offering focused in empowering women.

3. INDEXAMERICAS RECOGNIZES GFNORTE AS SUSTAINABILITY LEADER

IndexAmericas sustainability index, part of the Inter-American Development Bank (BID), and the Inter-American Investment Corporation (CII), recognized several publicly traded companies across Latin America and the Caribean for their outstanding performance in four main areas: environmental, society, corporate governance and development (ESGD).

IndexAmericas evaluated more than 400 metrics of over 6,000 companies included in Thomson Reuter's' ESG database, from which only 30 companies were selected, including Banorte, to join the Multilatin Index.

4. BANORTE RECOGNIZED IN THE BRAND FINANCE BANKING 500 REPORT

In February 2018, Brand Finance consulting published its annual report of the 500 most valuable brands in the global banking sector. This ranking considers long term macroeconomic perspectives, historic performance, financial projections, as well as overall brand strength relative to its direct competitors.

In the report's 2018 edition, Banorte escalated three notches ranking #139, being the best ranked Mexican bank and the fifth best ranked in Latin America.

5. BANORTE AND MASTERCARD LAUNCHED AMAZON RECHARGEABLE AND SOCIO 7 CARDS

In March 2018, Banorte, Mastercard and 7-Eleven launched Socio 7 debit card, in an effort to offer financial products across the broad network of more than 26,000 correspondent banking establishments in Mexico. In March 2018, also in partnership with Mastercard, Banorte and Amazon launched Amazon Rechargeable debit card. With this product, Banorte seeks to boost e-commerce and digital services subscriptions.

Consolidated Bank

Consolidated Bank: Banco Mercantil del Norte Banorte USA.

Income Statement and Balance Sheet Highlights - Consolidated Bank (Million Pesos)	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Net Interest Income	13,272	14,856	**14,744**	(1%)	11%
Non-Interest Income	3,448	3,729	**4,297**	15%	25%
Total Income	16,719	18,585	**19,041**	2%	14%
Non-Interest Expense	7,984	8,127	**8,585**	6%	8%
Provisions *	2,658	3,450	**4,149**	20%	56%
Operating Income	6,078	7,007	**6,307**	(10%)	4%
Taxes	1,861	2,196	**1,714**	(22%)	(8%)
Discontinued Operations	74	2	**-**	(100%)	(100%)
Subsidiaries & Minority Interest	14	37	**25**	(31%)	76%
Net Income	4,305	4,850	**4,618**	(5%)	7%
Balance Sheet					
Performing Loans (a)	560,589	603,522	**612,074**	1%	9%
Past Due Loans (b)	10,034	12,192	**11,914**	(2%)	19%
Total Loans (a+b)	570,622	615,714	**623,988**	1%	9%
Total Loans Net (d)	556,818	600,163	**607,880**	1%	9%
Acquired Collection Rights (e)	1,477	1,925	**1,794**	(7%)	21%
Total Loans (d+e)	558,294	602,088	**609,673**	1%	9%
Total Assets	975,193	1,056,423	**1,023,894**	(3%)	5%
Total Deposits	578,191	648,622	**652,027**	1%	13%
Total Liabilities	880,289	970,361	**933,350**	(4%)	6%
Equity	94,904	86,062	**90,544**	5%	(5%)

Financial Ratios - Consolidated Bank	1Q17	4Q17	1Q18
Profitability:			
NIM (1)	5.7%	6.0%	**6.0%**
NIM after Provisions (2)	4.6%	4.6%	**4.3%**
ROE (3)	18.4%	22.1%	**20.9%**
ROA (4)	1.7%	1.8%	**1.8%**
Operation:			
Efficiency Ratio (5)	47.8%	43.7%	**45.1%**
Operating Efficiency Ratio (6)	3.2%	3.1%	**3.3%**
Average Liquidity Coverage Ratio for Banorte and SOFOM - Basel III (7)	93.20%	123.42%	**118.42%**
Asset Quality:			
Past Due Loan Ratio	1.8%	2.0%	**1.9%**
Coverage Ratio	137.6%	127.6%	**135.2%**
Past Due Loan Ratio w/o Banorte USA	1.8%	2.0%	**1.9%**
Coverage Ratio w/o Banorte USA	137.6%	127.6%	**135.2%**
Growth (8)			
Performing Loans (9)	10.5%	8.4%	**9.2%**
Core Deposits	13.3%	7.0%	**8.9%**
Total Deposits	7.6%	12.7%	**12.8%**
Capitalization:			
Net Capital/ Credit Risk Assets	21.5%	21.4%	**21.2%**
Total Capitalization Ratio	16.6%	17.3%	**17.6%**
Leverage			
Basic Capital/ Adjusted Assets	8.0%	8.4%	**8.6%**

1) NIM = Annualized Net Interest Income for the quarter / Average of Performing Assets.
2) NIM = Annualized Net Interest Income for the quarter adjusted for Credit Risks / Average of Performing Assets.
3) Net Income of the period annualized as a percentage of the quarterly average of Equity (excluding minority interest) for the same period.
4) Net Income of the period annualized as a percentage of the quarterly average of Total Assets (excluding minority interest) for the same period.
5) Non-Interest Expenses / Total Income.
6) Annualized Non-Interest Expenses of the quarter / Average of Total Assets.
7) CCL calculation is preliminary and will be updated once Banco de Mexico publishes official indicators.
8) Growth compared to the same period of the previous year.
9) Excludes Fobaproa / IPAB and proprietary portfolio managed by the Recovery Bank.

* As a result of changes to the B6 criterionBank's Loan Book, starting on 1Q18 and retroactively for 2017, "Loan Recovery" and "Provisions Release" items previously under "Other Operating Income (Expenses)", were reclassified and now reconcile under "Preventive Provisions for Loan Losses".

° As of 1Q18 and retroactively for 2017, a component of Administrative Expenses from Banorte USA will now be reclassified under Fees Paid

Net Interest Income

Net Interest Income in 1Q18 amounted to Ps 14.74 million, +11% higher vs. 1Q17, in line with the +12% increase in NII from loan and deposit books, driven by the loan portfolio mix, and the rate rate hikes from Banxico which totaled +100bp during the period.

Sequentially, NII declined (1%) as NII from loan book and deposits did not yet incorporate the +50bp increase in Banxico''s reference rate (+25bp in December 2017, and +25bp in February 2018), but did incorporate the +23bp increase in cost of funds during the quarter.

Accumulated Net Interest Margin (NIM) in 1Q18 totaled 6.0%, (1bp) below 4Q17, and +33bp higher vs. 1Q17, the latter driven by an better mix in loan book and the balance re-pricing effect as a result of a high interest rate cycle.

Additionally, **NIM adjusted for credit risk** was **4.3%, (**30bp) and (22bp) lower sequentially and YoY respectively, as a result in an increase in provisions.

Loan Loss Provisions

During 1Q18 Loan Loss Provisions reached Ps 4.14 billion, up +56% YoY, and +20% vs. 4Q17.

The increase during 1Q18 is explained by an overall increase in reserve requirements from our loan book, mainly driven by consumer book growth during 2017. Furthermore, the sequential increase is a result of higher provision requirements from corporate, payroll, commercial and mortgate books which off-set an important decline in credit card provision requirements.

Non-Interest Income

In 1Q18, Non-Interest Income amounted to Ps 4.3 billion, +25% higher vs. 1Q17, given the increase all lines. Sequentially, they grew +15% mainly driven by a Ps 661 million increase in Trading Income.

Revenues **from core banking services** (account management, fund transfers and electronic banking services) **grew +10% vs 1Q17,** on higher transaction volume and on an improved fee structure in products and segments.

Non-Interest Expenses

Accumulated Non-Interest Expenses were Ps 8.58 billion for 1Q18, +8% higher vs. 1Q17, as result of increases in all lines. **Sequentially, Non-Interest Expenses** increased +6%, with a (17%) reduction in Fees Paid, which were higher during 4Q17 due to an extraordinary expense from a relevant transaction.

The Efficiency Ratio continued improving during 1Q17 reaching 45.1% vs. 47.8% in 1Q17.

Net Income

Net Income during the quarter rose to Ps 4.62 billion, up +7% vs. 1Q17, driven by positive traction in total revenues. Net Income during 1Q17 was (5%) lower than 4Q17, affected by the specific provision registered in the quarter.

Consolidated Bank's profits –according to GFNorte's holding- **in 1Q18 were Ps 4.53 billion**, +7% higher YoY. The bank contributed with 67.0% of the Group's accumulated results.

1Q18 ROE for the Consolidated Bank reached 20.9%, 113bp) below 4Q17, explained by the overall slowdown in Net Income; however, it is +257bp higher vs. 1Q17 driven by good net income levels throughout the year, and the reduction in capital (prior fiscal years).

ROA for the quarter totaled 1.8%, growing +6% vs. 1Q17, and (7bp) vs. 4Q17.

NPL Ratio

The Consolidated Bank's **Non-Performing Loan Ratio in 1Q18 was 1.9%,** +15bp higher vs. 1Q17, but (7bp) lower than 4Q17.

Capital

The Bank''s capital ending balance was Ps 90.54 billion as of March 2018, showing a (5%) decline vs. 1Q17, and +5% vs. 4Q17, due to earnings of Ps 4.61 billion during the quarter. During the quarter there was a reduction in the valuation of securities available for sale of Ps 1.07 billion, mainly related to dollar-denominated securities, which were affected by FX changes during the quarter. This amount is offset by the Ps. 1.52 billion positive valuation from hedging instruments. During the quarter Retained Earnings registered a Ps 317 million interest payment from capital notes.

Long Term Savings

Seguros Banorte

Income Statement and Balance Sheet Highlights - Insurance - Seguros Banorte (Million Pesos)	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Interest Income (Net)	174	284	**338**	19%	94%
Premium Income (Net)	5,986	3,581	**9,479**	N.A.	58%
Net Increase in Technical Reserves	1,920	(389)	**3,954**	N.A.	106%
Damages, Claims and Other Obligations	2,325	2,762	**2,912**	5%	25%
Technical Results	1,741	1,209	**2,613**	116%	50%
Net Interest Income (NII)	**1,916**	**1,493**	**2,951**	**98%**	**54%**
Other Fees (acquisition costs)	(564)	(398)	**(952)**	N.A.	69%
Securities-Realized Gains	12	19	**5**	(72%)	(56%)
Other Operating Income (Expenses)	228	(5)	**192**	N.A.	(16%)
Total Operating Income	**1,592**	**1,110**	**2,197**	**98%**	**38%**
Non Interest Expense	322	332	**303**	(9%)	(6%)
Operating Income	**1,018**	**778**	**1,895**	**N.A.**	**86%**
Taxes	384	169	**544**	N.A.	42%
Subsidiaries' Net Income	369	316	**335**	6%	(9%)
Minority Interest	(8)	(8)	**(8)**	7%	1%
Net Income	**1,247**	**917**	**1,677**	**83%**	**34%**
Shareholder's Equity	21,346	22,967	**24,657**	7%	16%
Total Assets	46,137	49,292	**61,795**	25%	34%
Technical Reserves	18,623	21,426	**29,468**	38%	58%
Premiums sold	7,727	4,046	**13,236**	N.A.	71%
Coverage ratio of technical reserves	1.3	1.3	**1.2**	(0.0 pp)	(0.0 pp)
Solvency capital requirement coverage ratio	2.5	3.7	**4.2**	0.5 pp	1.7 pp
Coverage ratio of minimum capital	228.8	238.1	**255.9**	17.7 pp	27.1 pp
Claims ratio	58%	70%	**53%**	(16.8 pp)	(4.4 pp)
Combined ratio	67%	89%	**61%**	(27.6 pp)	(5.3 pp)
ROE	24.3%	16.4%	**28.6%**	12.2 pp	4.3 pp
ROE ex-Afore	57.0%	31.7%	**65.5%**	33.8 pp	8.5 pp

(*) The reported Solvency capital requirement coverage ratio of the period is preliminary.

Income from Retained Premiums had a significant growth of **+58%** vs. 1Q17, and **+165%** sequentially, reaching a balance of **Ps 9.48 billion** in 1Q18, as a result of the **seasonality effect** caused by premium renewals of large accounts at the beginning of the year, and the **overall good performance** of the bankassurance business.

Accrued Retained Premiums (excluding the net increase of catastrophic reserves) amounted to **Ps 5.58** billion during **1Q18,** growing +39% sequentially, and +36% vs. 1Q17.

Net Damages, Claims and Other Obligations amounted to **Ps 2.914 billion in 1Q18,** up +5% sequentially, and +25% vs. 1Q18, as a result of growth in the book and the changes mix.

Despite this, Technical Results in 1Q18 totaled Ps 2.61 billion, growing 116% vs. 4Q17, and +50% vs 1Q17.

Acquisition Costs in 1Q18 increased by +Ps 553 vs. 4Q17, and +Ps 388 million vs. 1Q17; in both cases, as a result of the change in mix of the insurance book and seasonality effect caused by premium renewals during the first quarter.

Other Operating Income had sequential growth of +Ps 197 million, totaling Ps 192 million, stabilizing from the extraordinary reinsurance provision recorded in 4Q17.

Non-Interest Expenses decreased **(9%)** sequentially, and (6%) YoY, reaching **Ps 303** million during 1Q18.

Operating Income in 1Q18 amounted to **Ps 1.89 billion**, more than twofold growth vs. 4Q17, which was affected by the reinsurance provision posted in 4Q17.

Seguros Banorte *(including Afore XXI Banorte)* reported net income of **Ps 1.67** billion in **1Q18, +83%** sequentially, and **+34% vs. 1Q17**. Net Income for Seguros Banorte excluding Afore XXI Banorte totaled Ps 1.35 billion during 1Q18, 123% above the previous quarter, and +52% YoY, increasing its contribution to 19.9% of the group's results.

ROE for the consolidated insurance company was 28.6% in 1Q18, +12.2pp higher sequentially, and +4.3pp vs. 1Q17. Excluding Afore, this indicator totaled **65.5% vs. 31.7% in 4Q17, and vs. 57% in 1Q17.**

Regarding the disclosure requested by the General Provisions applicable to Financial Groups' holding companies, for this reporting period:

i. Risks assumed through the issuance of insurance premiums and bonds, with respect to operations and authorized branches of cancelled operations.
   - *No cancellations were registered during 1Q18 that involved any technical risk.*

ii. Damages and claims, as well as the fulfillment with reinsurers and bonding companies according to their participation.
   - *In 1Q18 damage ratios remained under control, and reinsurers complied with their obligations.*

iii. Costs derived from placement of insurance policies and bonds.
   - *There were no relevant events to disclose in 1Q18*

iv. Transfer of risks through reinsurance and bonding contracts
   - *In the Damages and Life, books, thirteen important businesses were transferred to foreign reinsurers: seven related to government, two to the manufacturing sector, two to the services industry, one to transportation, and one more to primary sectors.*

v. Contingencies arising from non-fulfillment by reinsurers and bonding companies.
   - *There were no relevant issues related to non-fulfillment during 1Q18.*

Afore XXI Banorte

Afore XXI Banorte (Million Pesos)	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Net Income	737	633	**670**	6%	(9%)
Shareholder's Equity	22,446	24,333	**22,653**	(7%)	1%
Total Assets	23,787	26,056	**24,451**	(6%)	3%
AUM (SIEFORE)	670,135	732,700	**737,171**	1%	10%
ROE	12.7%	10.5%	**11.4%**	0.9 pp	(1.3 pp)

Afore XXI Banorte posted net profits of Ps 670 million in 1Q18, +6% higher sequentially, as a result of a (43%) reduction in Adminstrative Expenses. Compared to 4Q17, net profits decline by (9%) due to higher onboarding and transfer costs, and also due to the net result of SIEFORES.

ROE for the quarter was 11.4%, +86bps above 4Q17, and (130bp) lower YoY. Excluding goodwill, **Tangible ROE (ROTE) would have been 39.8% in 1Q18,** +488bp higherr sequentially, and **(583bp) lower vs. 1Q17.**

Afore XXI Banorte contributed with **4.9%** of the Financial Group's profits in 1Q18.

Assets under management as of March 2018 totaled **Ps 737.17** billion, an increase of +1% QoQ and +10% vs. 1Q17.

Pensiones Banorte

Income Statement and Balance Sheet Highlights - Annuities - Pensiones Banorte *(Million Pesos)*	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Interest Income (Net)	2,864	2,373	**2,199**	(7%)	(23%)
Premium Income (Net)	1,979	2,200	**2,350**	7%	19%
Net Increase in Technical Reserves	3,623	3,354	**3,023**	(10%)	(17%)
Claims and Other Obligations	981	1,084	**1,137**	5%	16%
Technical Results	(2,626)	(2,237)	**(1,810)**	19%	(31%)
Net Interest Income (NII)	**238**	**135**	**389**	**187%**	**63%**
Net Fees	-	-	**-**	N.A.	N.A.
Securities-Realized Gains	89	222	**(0)**	N.A.	N.A.
Other Operating Income (Expenses)	(2)	(4)	**(0)**	93%	(84%)
Total Operating Income	**325**	**353**	**389**	**10%**	**20%**
Non Interest Expense	78	97	**98**	1%	26%
Operating Income	**247**	**256**	**291**	**14%**	**18%**
Taxes	75	(82)	**82**	N.A.	11%
Subsidiaries' Net Income	1	2	**2**	(34%)	16%
Minority Interest	-	-	**-**	N.A.	N.A.
Net Income	**174**	**340**	**210**	**(38%)**	**21%**
Shareholder's Equity	2,320	3,030	**3,238**	7%	40%
Total Assets	81,517	90,333	**93,577**	4%	15%
Technical Reserves	78,241	86,180	**89,233**	4%	14%
Premiums sold	1,979	2,200	**2,350**	7%	19%
Coverage ratio of technical reserves	1.0	1.0	**1.0**	0.0 pp	0.0 pp
Solvency capital requirement coverage ratio	22.4	28.6	**28.9**	0.0 pp	0.3 pp
Coverage ratio of minimum capital	15.4	19.5	**20.8**	0.1 pp	0.4 pp
ROE	31.1%	47.5%	**26.8%**	(20.7 pp)	(4.4 pp)

During 1Q18, Pensiones Banorte reported profits of Ps 210 million, (38%) lower QoQ, mainly affected by lower income from interest and securities trading, which were impacted by lower inflation during the period, and also by an increase in total taxes paid – in 4Q17 there was a deferred tax release of Ps 159 million. Nevertheless, net profit compared to 1Q17 had a +21% increase, mainly driven by a lower technical reserves (Ps 619) million, and by good growth in income from premium origination.

It is worth mentioning that there was a relevant decline in inflation during the quarter, which reduced the income from inflation-indexed securities in the investment portfolio; therefore, UDI denominated valuation result totaled Ps 1.29 billion, which was lower than the Ps 1.44 billion in 4Q17, and also lower than the Ps 2.04 billion in 1Q17.

In 1Q18 **Net Income** from Pensiones Banorte represented **3.1%** of the Financial Group's profits.

Quarterly **ROE** totaled **26.8%,** (20.pp) lower than 4Q17, and (4.4pp) lower than 1Q17.

Brokerage

Brokerage Sector (Million Pesos)	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Net Income	287	230	**235**	2%	(18%)
Shareholder's Equity	3,019	3,060	**3,277**	7%	9%
Assets Under Custody	791,671	824,291	**820,639**	(0%)	4%
Total Assets	109,700	121,833	**171,784**	41%	57%
ROE	39.8%	30.7%	**29.7%**	(1.0 pp)	(10.2 pp)
Net Capital					
Net Capital (1)	2,338	2,371	**2,512**	6%	7%

1) Net capital structure: Tier 1 =Ps 2.5 billion, Tier 2 = Ps 0 million.

Net Income

The Brokerage Sector (Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte Ixe) reported profits of Ps 235 million in 1Q18, (17%) lower vs. 1Q17, driven by a (59%) lower Net Margin, and a (62%) reduction in trading income YoY. This was affected by very high comparison basis, which does not offset an increase of +42% in net fees. Brokerage Net Income during the quarter accounted for 3.5% of the Group's total results.

Sequentially, net income grows +2% QoQ, driven by a +10% improvement in trading results, and +15% increase in fees.

Assets under Management

At the end of 1Q18 AUMs totaled Ps 821 billion, growing +4% YoY, and flat vs. 4Q17.

Mutual fund assets totaled Ps 163.2 billion, increasing +9% YoY and +1.8% vs. 4Q17. Assets held in fixed income funds totaled Ps 148.7 billion, +8.8% higher vs. 1Q17, while equity funds held assets amounting to Ps 14.5 billion, up +11.9% vs. 1Q17, and +2.3% vs. 4Q17. Banorte had a 7.1% share of the mutual fund market, comprised of 9.2% in fixed income funds and 2.1% in equity funds.

SOFOM and other Finance Companies

SOFOM & Other Finance Companies (Million Pesos)	1Q17	4Q17	1Q18	Change 4Q17	Change 1Q17
Leasing and Factoring					
Net Income	182	219	**191**	(13%)	5%
Shareholder's Equity	4,664	5,149	**5,341**	4%	15%
Loan Portfolio (1)	26,261	29,841	**30,754**	3%	17%
Past Due Loans	190	154	**165**	7%	(13%)
Loan Loss Reserves	318	302	**311**	3%	(2%)
Total Assets	26,534	30,362	**31,295**	3%	18%
ROE	16.0%	17.4%	**14.6%**	(2.8 pp)	(1.3 pp)
Warehousing					
Net Income	7	13	**9**	(30%)	29%
Shareholder's Equity	191	226	**235**	4%	23%
Inventories	399	783	**594**	(24%)	49%
Total Assets	535	955	**786**	(18%)	47%
ROE	15.7%	24.6%	**16.4%**	(8.2 pp)	0.7 pp
Sólida Administradora de Portafolios					
Net Income	(635)	(44)	**(279)**	531%	(56%)
Shareholder's Equity	3,419	3,573	**3,205**	(10%)	(6%)
Loan Portfolio	1,701	4,211	**3,647**	(13%)	114%
Past Due Loans	60	137	**126**	(8%)	109%
Loan Loss Reserves	112	270	**254**	(6%)	126%
Total Assets	13,853	15,459	**14,774**	(4%)	7%
Ixe Servicios					
Net Income	(0.5)	(0.5)	**(0.2)**	(57%)	(60%)
Shareholder's Equity	140	139	**139**	(0%)	(1%)
Total Assets	140	139	**139**	(0%)	(1%)
ROE	(1.6%)	(1.5%)	**(0.6%)**	0.9 pp	0.9 pp

1) Includes operating lease portfolio of Ps 3.52 billion, and fixed assets of Ps 46 million, both registered in property, furniture and equipment (net).

Leasing and Factoring

Arrendadora y Factor Banorte reported profits of Ps 191 million in 1Q18, down (13%) sequentially. Despite interest income growth, non-interest income declined as a result of lower leasing income. During 1Q18 the Leasing and Factoring book grew by Ps 1.43 billion.

At the end of 1Q18, the **Past Due Loans Ratio** was **0.6%,** and the **Coverage ratio** was **189%,** -7pp higher QoQ and +22pp YoY.

The **Capitalization ratio** as of March 2018 was **15.8%** considering total risk-weighted assets of Ps 33.71 billion.

Leverage ratio as of December 2017 and March 2018 was 15.13% and 15.28% respectively; considering adjusted assets of Ps 33.95 billion and Ps 34.88 billion in each case.

During 1Q18, Net Income from Leasing and Factoring accounted for 2.8% of the Group's total results.

Warehouse

In 1Q18, Warehouse posted profits of **Ps 9** million, a **+29%** increases vs. 1Q17 on higher inventory origination. Almacenadora Banorte accounted for 0.14% of the Financial Group's profits in 1Q18.

ROE for 1Q18 was **16.4**%, +0.7pp vs. 1Q17.

At the end of 1Q18, the **Capitalization Ratio** was **172%** considering net capital of Ps 197 million and deposit certificates for sale issued in warehouses of Ps 2.29 billion. Almacenadora Banorte ranks third among the 14 warehouses of this sector in terms of profits generated.

Sólida Administradora de Portafolios

Sólida Administradora de Portafolios reported a net result of **(Ps 279)** million, as a result lower revenues

Past Due Loan Ratio was 3.4% at the end of March 2018, up +0.2 pp vs. 4Q17. **Coverage ratio was 202**%, +5 pp higher vs. 1Q17.

The estimated Capitalization ratio in 1Q18 was 14.7%, (1.2pp) QoQ, and +1.8 pp YoY.

Leverage ratio as of December 2017 and March 2018 was 19.32% and 17.24%, respectively; considering adjusted assets of Ps 15.07 billion and Ps 14.68 billion in each case.

Recovery Banking

Income Statement Highlights - Recovery Banking

(Million Pesos)	1Q17	1Q18	Var.
Net Interest Income	(2)	(2)	(29%)
Loan Loss Provisions	0	1	2323%
Non Interest Income	582	670	15%
Non Interest Expense	(276)	(277)	0%
Pre-tax Income & Subsidiaries	304	392	29%
Income Tax and Profit Sharing	(97)	(116)	19%
Net Income	**207**	**276**	**34%**

Assets Under Management (Million Pesos)	1Q18	ACCOUNTING IN THE BALANCE SHEET	ACCOUNTING IN THE INCOME STATEMENT
Banking Sector Portfolio- Banorte:	**128,905**	Banorte's Portfolio and Repossessed Assets	Net Interest Income and Other Revenues and Expenses
Loans purchased and managed:	**27,194**	Solida Asset Management and Banorte	Non Interest Income and Other Revenues and Expenses (Sólida / Banorte)
Investment Projects:	**5,671**	Solida Asset Management and Banorte	Non Interest Income
Total	**161,770**		

Net Income

Recovery Banking posted profits of Ps 276 million in 1Q18, up +34% YoY, on higher revenues driven by loan recoveries of Ps 38 million, a +Ps 19 million recovery in acquired portfolios, and +Ps 8 million higher fees collected from SHG project.

Assets Under Management

The Recovery Bank managed total assets of Ps 129 billion in 1Q18, of which 25% were mortgage loans, 22% credit cards, 20% payroll loans, 14% relate to Crediactivo, 7% are auto loans, 6% are foreclosed assets, 3% relate to commercial loans and 3% to other loans. Gross revenues in 1Q18 amounted to Ps 473 million, +14% higher YoY.

The asset inventory **managed by the Recovery Bank** includes mortgages which make up 46%, 13% were assets managed on behalf of the Mexican mortgages agency SHF, 17% were real estate portfolios, 12% were loans to middle market companies and other commercial loans, and 12% were foreclosed assets and payments in kind. Gross income from these portfolios was Ps 214 million in 1Q18, 46% higher vs. 1Q17.

III. General Information

Infrastructure

INFRASTRUCTURE	1Q17	4Q17	1Q18
Employees (1)	27,572	29,903	**29,792**
Banorte - Ixe Branches	1,139	1,148	**1,152**
ATM's	7,242	7,911	**7,937**
POS's	153,322	165,441	**169,405**

1) Includes full time and third party employees from Banking and Afore

GFNORTE's Analyst Coverage

In compliance with requirements from BOLSA MEXICANA DE VALORES, S.A.B. DE C.V, the list of brokers who provide analysis coverage to Ticker GFNORTEO are:

BROKER	ANALYST	RECOMMENDATION	DATE
Barclays	Benjamín Theurer	Buy	20-Oct-17
BBVA	Rodrigo Ortega	Buy	7-Mar-18
Bradesco	Alain Nicolau	Buy	7-Mar-18
Brasil Plural	Eduardo Nishio	Buy	15-Jan-18
BTG Pactual	Eduardo Rosman	Buy	16-Mar-18
Citi	Carlos Rivera	Buy	28-Feb-18
Credit Suisse	Marcelo Telles	Buy	18-Sep-17
GBM	Jorge Benitez	Buy	20-Oct-17
HSBC	Carlos Gómez	Buy	2-Feb-18
Intercam	Sofía Robles	Buy	20-Feb-18
Itaú BBA	Thiago Batista	Buy	27-Sep-17
JP Morgan	Domingos Falavina	Buy	20-Oct-17
Morgan Stanley	Jorge Kuri	Buy	20-Oct-17
Nau	Iñigo Vega	Buy	7-Feb-18
Santander	Claudia Benavente	Buy	6-Dec-17
UBS	Philip Finch	Buy	10-Jan-18
Actinver	Enrique Mendoza	Hold	16-Oct-17
BOFA - Merill Lynch	Mario Pierry	Hold	26-Jan-18
Goldman Sachs	Carlos Macedo	Hold	24-Apr-17
Scotia	Jason Mollin	Sell	26-Feb-18

Ratings

International Ratings - GFNorte

Rating Agency	Rated Intitutions	Rating	Category	Date
Standard & Poor's	Banco Mercantil del Norte	Stable	Outlook	July, 2017
		BBB+	Counterparty credit - Long term foreign currency	
		BBB+	Counterparty credit - Long term local currency	
		A-2	Counterparty credit - Short term foreign currency	
		A-2	Counterparty credit - Short term local currency	
		BBB	Senior Unsecured Notes	
		BB	Subordinated Junior Notes (from the merged Ixe Banco)	
Fitch	Grupo Financiero Banorte	Stable / Negative	Outlook / Risk Watch	October, 2017
		Negative	Risk Watch	
		bbb+	Viability	
		BBB+	Long term foreign currency (IDR'S)	
		F2	Short term foreign currency (IDR'S)	
		5	Support Rating-GFNorte	
		NF (Not Floor)	Support Rating Floor - GFNorte	
	Banco Mercantil del Norte	Stable / Negative	Outlook / Risk Watch	
		bbb+	Viability	
		BBB+	Long term foreign currency	
		F2	Short term foreign Currency	
		C	Individual - Foreign Currency	
		BBB-	Support Rating Floor	
		2	Support Rating - Banco Mercantil del Norte	
		BB+ (EXP)	Long term foreign currency subordinated debt	
		BB	Subordinated Junior Notes (from the merged Ixe Banco)	
Moody's	Banco Mercantil del Norte	Negative	Outlook BFSR	September, 2016
		baa2	Baseline Credit Assessment	
		Negative	Outlook	
		A3	Long term local currency deposits*	
		A3	Long term foreign currency deposits	
		P-2	Short term local currency deposits*	
		P-2	Short term foreign currency deposits	
		A3	Long term foreign currency senior debt*	
		Baa3	Long term local currency subordinated debt	
		Baa2 (hyb)	Long term foreign currency subordinated debt	
		Ba1 (hyb)	Long term local currency junior subordinated debt	
		(P)Ba1 (hyb)	Long term foreing currency subordinated debt	
		Ba1	Long term foreing currency junior subordinated debt	
		baa2	Adjusted baseline credit assesment	
		A2 (cr)	Long term counterparty risk assesment	
		Prime-1 (cr)	Short term counterparty risk assesment	
	Arrendadora y Factor Banorte	Stable	Outlook	November, 2016
		(P)P-2	Short term local currency issuer	
		(P)P-2	Short term local currency senior debt	

Domestic Ratings - GFNorte

Rating Agency	Rated Institutions	Rating	Category	Date
Standard & Poor's	Banco Mercantil del Norte	Stable	Outlook	March, 2017
		mxA-1+	National Scale Counterparty credit - Short term	
		mxAAA	National Scale Counterparty - Long term	
	Casa de Bolsa Banorte Ixe	Stable	Outlook	
		mxA-1+	National Scale Counterparty credit - Short term	
		mxAAA	National Scale Counterparty credit - Long term	
Fitch	Banco Mercantil del Norte	Stable / Negative	Outlook / Risk Watch	October, 2017
		AAA (mex)	National Scale Counterparty - Long term	
		F1+ (mex)	National Scale Counterparty - Short term	
		F1 + (mex)	Depo. Certi. y P.R.L.V. short Term	
		AA+ (mex)	Depo. Certi. y P.R.L.V. long term	
	Casa de Bolsa Banorte Ixe	Stable / Negative	Outlook / Risk Watch	
		F1+ (mex)	National Scale - Short term	
		AAA (mex)	National Scale - Long term	
	Arrendadora y Factor Banorte	F1+ (mex)	National Scale Counterparty - Short term	
		AAA (mex)	National Scale Counterparty - Long term	
		F1+ (mex)	National Scale - Unsecured Debt - Short term	
		AAA (mex)	National Scale - Unsecured Debt - Long term	
	Almacenadora Banorte	F1+ (mex)	National Scale Counterparty - Short term	
		AAA (mex)	National Scale Counterparty - Long term	
	Pensiones Banorte	Stable / Negative	Outlook / Risk Watch	
		AAA (mex)	National Scale	
	Seguros Banorte	Stable / Negative	Outlook / Risk Watch	
		AAA (mex)	Financial Strenght	
Moody's	Banco Mercantil del Norte	Negative	Outlook	June, 2016
		Aaa.mx	National Scale - Long term deposits	
		MX-1	National Scale - Short term deposits	
		Aa3.mx	Subordinated debt - Long term	
		A1.mx	Junior Subordinated debt - Long term	
	Arrendadora y Factor Banorte	Stable	Outlook	Noviembre, 2016
		MX-1	National Scale - Short term issuer	
		Aa2.mx	National Scale - Long term senior debt*	
		MX-1	National Scale - Short term senior debt	
HR Ratings	Banco Mercantil del Norte	Stable	Outlook	May, 2016
		HR AAA	Long term debt	
		HR+1	Short term debt	
		HR AA+	Subordinated Debt Preferential	

Ownership on Subsidiaries

GFNorte Ownership of Subsidiaries	1Q18
Banco Mercantil del Norte, S. A.	98.2190%
Arrendadora y Factor Banorte, S.A. de C.V., SOFOM	99.9999%
Almacenadora Banorte, S.A. de C.V.	99.9999%
Casa de Bolsa Banorte Ixe, S.A. de C.V.	99.9999%
Operadora de Fondos Banorte Ixe, S.A. de C.V.	99.9990%
Ixe Servicios, S.A. de C.V.	99.9999%
Sólida Administradora de Portafolios, S.A. de C.V., SOFOM	99.4574%
Banorte Ahorro y Previsión, S.A. de C.V.	99.9999%

Holding Company Capital Structure

Holding Company Capital Structure

Number of Shares (Million)	SERIES O As of March 2018
Number of Issued Shares	2,773.73
Number of Shares Outstanding	2,773.73
Shares held in GFNorte's Treaury	0

Group's Main Officers

Group's Main Officers 1Q18	
Name	**Current Position**
José Marcos Ramírez Miguel	Chief Executive Officer, Grupo Financiero Banorte
BUSINESS UNITS	
Armando Rodal Espinosa	Managing Director – Wholesale Banking
Carlos Eduardo Martínez González	Managing Director – Retail Banking
Manuel Romo Villafuerte	Managing Director – Consumer Products
Fernando Solís Soberón	Managing Director – Long Term Savings
STAFF	
Rafael Arana de la Garza	Chief Operating Officer & Chief Financial Officer
Guillermo Chávez Eckstein	Chief Credit & Risk Officer
Isaías Velázquez González	Managing Director - Internal Audit

Integration of the Board of Directors

Board of Directors for the fiscal year 2018, appointed and approved in the Annual General Shareholders' Meeting held on April 27, 2018.

Grupo Financiero Banorte Board of Directors	
PROPRIETARY	
Carlos Hank González	Chairman
Juan Antonio González Moreno	
David Juan Villarreal Montemayor	
José Marcos Ramírez Miguel	
Everardo Elizondo Almaguer	Independent
Carmen Patricia Armendáriz Guerra	Independent
Héctor Federico Reyes-Retana y Dahl	Independent
Eduardo Livas Cantú	Independent
Alfredo Elías Ayub	Independent
Adrián Sada Cueva	Independent
Alejandro Burillo Azcárraga	Independent
José Antonio Chedraui Eguía	Independent
Alfonso de Angoitia Noriega	Independent
Olga María del Carmen Sánchez Cordero Dávila	Independent
Thomas Stanley Heather Rodríguez	Independent
SUBSTITUTE	
Graciela González Moreno	
Juan Antonio González Marcos	
Carlos de la Isla Corry	
Clemente Ismael Reyes Retana Valdés	Independent
Alberto Halabe Hamui	Independent
Manuel Aznar Nicolín	Independent
Roberto Kelleher Vales	Independent
Robert William Chandler Edwards	Independent
Isaac Becker Kabacnik	Independent
José María Garza Treviño	Independent
Javier Braun Burillo	Independent
Rafael Contreras Grosskelwing	Independent
Guadalupe Phillips Margain	Independent
Eduardo Alejandro Francisco García Villegas	Independent
Ricardo Maldonado Yáñez	Independent

IV. Financial Statements

Holding

Income Statement-Holding *(Million Pesos)*	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**1Q18**
Income Subsidiaries	5,496	5,615	6,226	6,439	6,588
Interest Income	47	89	13	91	202
Interest Expense	-	-	-	-	-
Fund Transfers	-	-	-	-	-
Trading Income	-	-	-	-	-
Other Operating Income (Expenses)	0	0	0	0	0
Non-Interest Expense	27	25	28	39	25
Pre-Tax Income	**5,516**	**5,678**	**6,212**	**6,491**	**6,765**
Income Tax	-	-	-	-	-
Tax on Assets	-	-	-	-	-
Deferred Income Tax	(4)	(2)	(1)	15	4
Taxes	**(4)**	**(2)**	**(1)**	**15**	**4**
Net Income from Continuos Operations	**5,520**	**5,680**	**6,213**	**6,475**	**6,762**
Discontinued Operations	-	-	-	-	-
Net Income	**5,520**	**5,680**	**6,213**	**6,475**	**6,762**

Holding - Balance Sheet *(Million Pesos)*	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**1Q18**
ASSETS					
Cash and Due from Banks	**21**	**40**	**48**	**6,081**	**6,263**
Margin Accounts	**-**	**-**	**-**	**-**	**-**
Investment in Securities	**-**	**-**	**-**	**-**	**-**
Non-assigned Securities for Settlement	**-**	**-**	**-**	**-**	**-**
Debtor Balance in Repo Trans,net	**1,451**	**611**	**3,613**	**4,915**	**4,816**
Securities Lending	**-**	**-**	**-**	**-**	**-**
Transactions with Derivatives	**-**	**-**	**-**	**-**	**-**
Operations w/Derivatives & Securities	**1,451**	**611**	**3,613**	**4,915**	**4,816**
Valuation adjustments for Asset Coverage	**-**	**-**	**-**	**-**	**-**
Performing Loans	**-**	**-**	**-**	**-**	**-**
Past Due Loans	**-**	**-**	**-**	**-**	**-**
Gross Loan Portfolio	**-**	**-**	**-**	**-**	**-**
Preventive Loan Loss Reserves	-	-	-	-	-
Net Loan Portfolio	**-**	**-**	**-**	**-**	**-**
Acquired Collection Rights	-	-	-	-	-
Total Credit Portfolio	**-**	**-**	**-**	**-**	**-**
Benef.receivab.securization transactions	-	-	-	-	-
Sundry Debtors & Other Accs Rec, Net	0	0	0	0	0
Inventories	-	-	-	-	-
Foreclosed Assets, Net	-	-	-	-	-
Real Estate, furniture & equipment, Net	-	-	-	-	-
Investment in Subsidiaries	127,454	121,286	124,613	121,961	128,314
Long-term assets held for sale	-	-	-	-	-
Deferred Taxes, Net	198	200	201	186	182
Goodwill and Intangibles	10,638	10,615	10,592	10,556	10,536
Other Assets Short and Long Term	-	-	-	-	-
Other Assets	138,291	132,101	135,407	132,704	139,032
TOTAL ASSETS	**139,762**	**132,753**	**139,068**	**143,701**	**150,111**

Holding - Balance Sheet *(Million Pesos)*	1Q17	2Q17	3Q17	4Q17	1Q18
LIABILITIES					
Demand Deposits	-	-	-	-	-
Senior Unsecured Debt	-	-	-	-	-
Deposits	**-**	**-**	**-**	**-**	**-**
Due to Banks & Correspondents	**-**	**-**	**-**	**-**	**-**
Total Collateral sold	**-**	**-**	**-**	**-**	**-**
Total Operations w/ Derivatives & Securities	**-**	**-**	**-**	**-**	**-**
Margin Accounts Payable	-	-	-	-	-
Other Creditors & Accounts Payable	1	1	1	0	0
Subordinated Non Convertible Debt	-	-	-	-	-
Deferred Taxes, Net	-	-	-	-	-
Deferred Credits	-	-	-	-	-
TOTAL LIABILITIES	**1**	**1**	**1**	**0**	**0**
EQUITY					
Paid-in Capital	14,582	14,568	14,579	14,594	14,591
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-
Share Subscription Premiums	35,934	35,758	35,606	35,419	35,519
Subordinated Convertible Debentures	-	-	-	-	-
Subscribed Capital	**50,516**	**50,326**	**50,185**	**50,013**	**50,110**
Capital Reserves	4,870	4,827	5,095	5,491	5,379
Retained Earnings	82,129	69,718	69,710	69,412	92,801
Surplus (Deficit) of Secs Available for Sale	(2,731)	(2,442)	(2,389)	(2,369)	(3,488)
Results from Valuation of Hedging Secs	(1,790)	(1,943)	(1,884)	(3,588)	(2,103)
Result in the valuation reserve for unexpired risks variations in rates	82	68	65	96	77
Results from Conversions	1,660	1,616	1,613	1,684	1,618
Remeasurements defined benefits for employees	(494)	(618)	(741)	(926)	(1,045)
Surplus (Deficit) in Capital Restatement	-	-	-	-	-
Adjustments in the Employee´s Pensions					
Accumulated Effect of Deferred Taxes	-	-	-	-	-
Net Income	5,520	11,201	17,414	23,889	6,762
Earned Capital	**89,245**	**82,426**	**88,881**	**93,688**	**100,002**
Minority Interest	-	-	-	-	-
Total Equity	**139,762**	**132,752**	**139,067**	**143,701**	**150,111**
TOTAL LIABILITIES & EQUITY	**139,762**	**132,753**	**139,068**	**143,701**	**150,111**

Holding - Memorandum Accounts *(Million Pesos)*	1Q17	2Q17	3Q17	4Q17	1Q18
TOTAL ON BEHALF OF THIRD PARTIES	**-**	**-**	**-**	**-**	**-**
Properties in Custody or Management	3,716	35,685	36,535	36,535	36,535
Collateral Received	1,452	607	3,612	4,913	4,812
Proprietary Transactions	**5,168**	**36,292**	**40,147**	**41,448**	**41,347**
TOTAL PROPRIETARY	**5,168**	**36,292**	**40,147**	**41,448**	**41,347**

Grupo Financiero Banorte

Income Statement -GFNorte (Million Pesos)	1Q17	2Q17	3Q17	4Q17	1Q18
Interest Income	26,265	25,938	27,853	29,283	30,062
Interest Expense	9,783	10,984	11,657	11,517	12,415
Charged Fees	282	295	296	297	290
Fees Paid	144	167	174	210	239
Net Interest Income from interest & fees (NII)	**16,620**	**15,082**	**16,319**	**17,854**	**17,698**
Premium Income (Net)	7,784	6,507	5,156	5,596	11,632
Net Increase in Technical Reserves	5,544	2,654	1,482	2,965	6,976
Damages, Claims and Other Obligations	3,306	3,645	4,110	3,845	4,049
Net Interest Income (NII)	**15,555**	**15,289**	**15,883**	**16,640**	**18,305**
Preventive Provisions for Loan Losses	2,698	3,514	3,359	3,544	4,264
Net Interest Income Adjusted for Credit Risk	**12,857**	**11,776**	**12,524**	**13,096**	**14,041**
Fund Transfers	368	390	350	380	363
Account Management Fees	596	624	647	662	618
Electronic Banking Services	1,639	1,709	1,653	1,902	1,880
For Commercial and Mortgage Loans *	94	198	225	178	135
For Consumer and Credit Card Loans	999	1,055	1,096	1,146	1,120
Fiduciary	92	101	97	133	108
Income from Real Estate Portfolios	7	17	43	40	36
Mutual Funds	282	329	360	372	374
Trading & Financial Advising Fees	115	167	305	134	201
Other Fees Charged (1) *	264	205	263	306	289
Fees Charged on Services	**4,455**	**4,795**	**5,040**	**5,252**	**5,124**
Interchange Fees	722	762	739	875	880
Insurance Fees	379	269	384	186	725
Other Fees Paid	843	841	892	912	911
Fees Paid on Services	**1,944**	**1,872**	**2,016**	**1,972**	**2,516**
Service Fees	**2,512**	**2,923**	**3,025**	**3,279**	**2,607**
Currency and Metals	(151)	(15)	22	(9)	(123)
Derivatives	(195)	(56)	357	387	195
Negotiable Instruments	27	56	(153)	(639)	(55)
Valuation	(319)	(15)	225	(260)	17
Currency and Metals	520	523	234	452	613
Derivatives	281	73	(28)	(189)	39
Negotiable Instruments	255	381	197	328	198
Trading	1,056	977	402	592	850
Trading Income	**737**	**961**	**628**	**331**	**866**
Loan Recovery	3	3	2	5	3
Loan Portfolios	42	46	38	64	44
Income from foreclosed assets	21	(273)	255	156	80
Provisions Release	4	0	1	3	14
Losses and Estimates	(295)	(423)	(335)	(583)	(913)
Impairment of Assets	(428)	(10)	(189)	134	(173)
Lease Income	111	105	106	125	123
From Insurance	234	213	189	199	200
Other Operating Expense	341	443	173	596	1,229
Total Other Operating Income (Expense)	**33**	**105**	**240**	**699**	**607**
Total Non Interest Income	**3,282**	**3,989**	**3,892**	**4,310**	**4,080**
Total Operating Income	**16,138**	**15,765**	**16,416**	**17,406**	**18,122**
Personnel	3,512	3,285	3,206	3,445	3,535
Employee Profit Sharing (PTU)	101	101	101	88	106
Professional Fees	567	712	771	875	714
Administrative and Promotional Expenses	1,947	1,888	1,787	1,931	1,937
Rents, Depreciation & Amortization	1,306	1,274	1,233	1,245	1,347
Taxes other than income tax & non deductible	523	374	422	453	788
Contributions to IPAB/Fobaproa	634	636	668	696	725
Total Non Interest Expense	**8,590**	**8,271**	**8,188**	**8,732**	**9,151**
Operating Income	**7,549**	**7,494**	**8,227**	**8,674**	**8,970**
Subsidiaries' Net Income	263	335	291	375	357
Pre-Tax Income	**7,812**	**7,828**	**8,519**	**9,049**	**9,327**
Income Tax	2,070	2,015	2,184	2,200	2,343
Tax on Assets	-	-	-	-	-
Deferred Income Tax	210	59	34	276	128
Taxes	**2,279**	**2,074**	**2,218**	**2,476**	**2,472**
Net Income from Continuos Operations	**5,532**	**5,754**	**6,300**	**6,573**	**6,856**
Discontinued Operations	74	6	8	2	-
Minority Interest	(79)	(80)	(90)	(93)	(87)
Net Income	**5,527**	**5,680**	**6,219**	**6,482**	**6,768**

GFNorte - Balance Sheet *(Million Pesos)*	1Q17	2Q17	3Q17	4Q17	1Q18
ASSETS					
Cash and Due from Banks	**60,422**	**65,840**	**59,809**	**76,269**	**87,954**
Margin Accounts	**1,909**	**2,635**	**1,628**	**1,986**	**1,739**
Negotiable Instruments	244,183	240,223	242,347	239,019	258,739
Securities Available for Sale	136,570	139,264	153,555	168,540	164,663
Securities Held to Maturity	85,347	87,127	91,188	95,310	97,981
Investment in Securities	**466,100**	**466,614**	**487,090**	**502,870**	**521,382**
Non-assigned Securities for Settlement	**-**	**-**	**-**	**-**	**-**
Debtor Balance in Repo Trans, net	**2**	**0**	**231**	**679**	**595**
Securities Lending	**-**	**-**	**-**	**-**	**-**
For trading purposes	22,780	20,387	18,983	25,520	24,404
For hedging purposes	387	216	94	205	293
Operations w/Derivatives & Securities					
Transactions with Derivatives	**23,167**	**20,603**	**19,077**	**25,725**	**24,697**
Operations w/Derivatives & Securities	**23,168**	**20,604**	**19,308**	**26,403**	**25,291**
Valuation adjustments for Asset Coverage	**110**	**106**	**102**	**99**	**95**
Commercial Loans	220,656	231,284	231,954	233,777	234,847
Financial Intermediaries´ Loans	5,237	5,607	4,882	5,944	5,576
Consumer Loans	92,394	98,478	103,222	105,567	108,477
Mortgage Loans	119,310	124,206	130,084	135,405	139,779
Medium and Residential	115,226	120,197	126,120	131,563	135,952
low income housing	37	33	29	26	23
Loans acquired from INFONAVIT or FOVISSSTE	4,048	3,975	3,934	3,816	3,804
Restructuring or improvement guaranteed by development banks or public trusts	-	-	-	-	-
Government Entities´ Loans	131,551	134,423	131,460	134,905	134,017
Performing Loans	**569,147**	**593,997**	**601,602**	**615,598**	**622,695**
Commercial PDL´s	5,893	5,739	5,731	6,719	6,913
Financial Intermediaries PDL´s	344	0	0	0	1
Consumer PDL´s	3,029	3,918	4,088	4,440	3,976
Mortgage PDL´s	1,019	1,161	1,234	1,323	1,315
Medium and Residential	911	1,044	1,096	1,179	1,186
low income housing	1	1	1	1	1
Loans acquired from INFONAVIT or FOVISSSTE	106	117	137	143	128
Restructuring or improvement guaranteed by development banks or public trusts	-	-	-	-	-
Government Entities PDL´s	-	-	-	-	-
Past Due Loans	**10,284**	**10,818**	**11,053**	**12,482**	**12,205**
Gross Loan Portfolio	**579,432**	**604,815**	**612,656**	**628,080**	**634,900**
Preventive Loan Loss Reserves	14,235	16,119	16,205	16,122	16,674
Net Loan Portfolio	**565,197**	**588,696**	**596,451**	**611,958**	**618,226**
Acquired Collection Rights	2,082	1,986	2,593	2,477	2,315
Total Credit Portfolio	**567,279**	**590,682**	**599,044**	**614,435**	**620,541**
Account Receivables from Insurance and Annuities	1,620	1,769	1,879	1,904	1,879
Premium Debtors (Net)	8,406	8,223	6,519	4,031	11,026
Account Receivables from Reinsurance	7,189	8,878	9,285	8,717	13,682
Benef. receivab. securization transactions	151	152	177	141	162
Sundry Debtors & Other Accs Rec, Net	46,084	36,699	46,338	51,834	36,942
Inventories	399	1,309	1,204	783	594
Foreclosed Assets, Net	1,569	1,149	1,121	1,100	1,131
Real Estate, Furniture & Equipment, Net	15,770	15,981	16,896	18,171	17,871
Investment in Subsidiaries	12,875	13,104	13,395	13,771	12,953
Long-term assets held for sale	-	-	-	-	-
Deferred Taxes, Net	3,750	3,729	3,011	2,949	2,629
Goodwill and Intangibles	25,281	25,493	25,826	28,238	27,226
Other Assets Short and Long Term	3,253	2,709	2,488	448	431
Other Assets	126,347	119,194	128,140	132,085	126,524
TOTAL ASSETS	**1,245,334**	**1,265,675**	**1,295,121**	**1,354,147**	**1,383,526**

GFNorte - Balance Sheet *(Million Pesos)*	1Q17	2Q17	3Q17	4Q17	1Q18
LIABILITIES					
Demand Deposits	365,031	366,429	375,201	393,308	387,601
Time Deposits-Retail	209,159	227,113	235,524	239,174	240,557
Time Deposits-Money Market	1,115	15,394	8,983	3,679	9,984
Global Account of deposits without movements	1,410	1,456	1,523	1,657	1,673
Senior Unsecured Debt	85	2,750	2,745	3,003	2,764
Deposits	**576,800**	**613,142**	**623,976**	**640,821**	**642,579**
Demand Loans	1,137	1,591	0	0	0
Short Term Loans	13,264	14,886	15,104	18,213	13,029
Long Term Loans	17,984	18,222	15,751	15,731	17,508
Due to Banks & Correspondents	**32,385**	**34,698**	**30,856**	**33,944**	**30,537**
Technical Reserves	97,016	100,982	103,550	107,794	118,660
Non-assigned Securities for Settlement	-	-	-	-	-
Creditor Balance in Repo Trans, Net	314,163	307,161	299,573	301,665	311,829
Secs to be received in Repo Trans, Net	-	-	0	-	-
Repos (Credit Balance)	2	0	54	3	1
Securities' Loans	-	-	-	-	-
Transactions with Derivatives	-	-	-	-	-
Other sold collateral	-	-	-	-	-
Total Collateral sold	**2**	**0**	**54**	**3**	**1**
For trading purposes	22,092	19,445	17,958	24,608	21,195
For hedging purposes	6,555	6,552	7,104	12,401	8,180
Operations w/ Derivatives & Securities					
Transactions with Derivatives	**28,647**	**25,997**	**25,062**	**37,009**	**29,374**
Total Operations w/ Derivatives & Securities	**342,812**	**333,158**	**324,690**	**338,677**	**341,204**
Valuation adjustments for financial liability coverage	-	-	-	-	-
Obligations in securitization transactions	-	-	-	-	-
Payable Accountsfor Reinsurance	2,526	3,348	3,185	1,255	4,075
Income Tax Payable	2,021	1,933	2,455	3,132	2,549
Profit Sharing Payable	494	222	320	405	127
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-
Creditors for settlement of transactions	6,609	6,956	10,616	16,047	28,512
Margin Accounts Payable	-	-	-	-	-
Other Creditors & Accounts Payable	23,072	20,612	21,812	31,615	30,270
Other Payable Accounts	**32,196**	**29,722**	**35,203**	**51,198**	**61,458**
Subordinated Non Convertible Debt	17,551	13,733	30,255	32,445	30,482
Deferred Taxes, Net	0	(0)	0	0	0
Deferred Credits	265	252	418	429	450
TOTAL LIABILITIES	**1,101,552**	**1,129,036**	**1,152,133**	**1,206,564**	**1,229,446**
EQUITY					
Paid-in Capital	14,578	14,564	14,576	14,591	14,588
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-
Share Subscription Premiums	36,098	35,932	35,780	35,592	35,692
Subordinated Convertible Debentures	-	-	-	-	-
Subscribed Capital	**50,676**	**50,496**	**50,355**	**50,183**	**50,280**
Capital Reserves	4,870	4,827	5,095	5,491	5,379
Retained Earnings	84,011	71,600	71,592	71,294	94,702
Surplus (Deficit) of Secs Available for Sale	(2,754)	(2,471)	(2,428)	(2,390)	(3,513)
Results from Valuation of Hedging Secs	(1,790)	(1,943)	(1,884)	(3,588)	(2,103)
Result in the valuation reserve for unexpired risks variations in rates	82	68	65	96	77
Results from Conversions	1,660	1,616	1,613	1,684	1,618
Remeasurements defined benefits for employees	(494)	(618)	(741)	(926)	(1,045)
Surplus (Deficit) in Capital Restatement	-	-	-	-	-
Adjustments in the Employee´s Pensions					
Accumulated Effect of Deferred Taxes	-	-	-	-	-
Net Income	5,527	11,207	17,426	23,908	6,768
Earned Capital	**91,112**	**84,287**	**90,737**	**95,567**	**101,885**
Minority Interest	1,994	1,856	1,896	1,832	1,916
Total Equity	**143,782**	**136,639**	**142,988**	**147,583**	**154,081**
TOTAL LIABILITIES & EQUITY	**1,245,334**	**1,265,675**	**1,295,121**	**1,354,147**	**1,383,526**

GFNorte - Memorandum Accounts *(Million Pesos)*	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**1Q18**
On behalf of Third Parties					
Customer's Banks	154	53	79	33	37
Dividends Receivable from Customers	-	-	-	-	-
Interest Receivable from Customers	-	-	-	-	-
Settlement of Customer Transactions	(3)	5	48	(64)	182
Customer Premiums	-	-	-	-	-
Settlement with Clients' Foreign Currency	-	-	-	-	-
Margin Accounts in Futures' Operations	-	-	-	-	-
Other Current Accounts	-	-	-	-	-
Customers' Current Account	**150**	**58**	**128**	**(32)**	**219**
Client Securities Received in Custody	642,019	670,333	678,718	663,995	657,387
Securities and Documents Received in Guarantee	-	-	-	-	-
Client Securities Abroad	-	-	-	-	-
Clients' Securities	**642,019**	**670,333**	**678,718**	**663,995**	**657,387**
Clients' Repurchase Operations	106,095	90,620	75,928	118,210	167,552
Clients' Repo Transactions w/ Securities	-	-	-	-	-
Collateral received in guarantee for customer accounts	106,060	90,585	75,949	118,175	167,518
Purchase of Futures & Forward Contracts, national	-	-	-	-	-
Sale of Futures and Forward Contracts, national	-	-	-	-	-
Clients' Option Purchase Operations	-	-	-	-	-
Clients' Option Sales Operations					
Purchase Operations of derivatives	-	-	-	-	-
Clients' Sales Operations of derivatives	-	-	-	-	-
Trusts under Management	108,323	113,681	103,775	112,960	104,431
Transactions On Behalf of Clients	**320,478**	**294,885**	**255,652**	**349,346**	**439,500**
Investment Bank Trans. on behalf of Third (Net)	**90,367**	**77,102**	**85,844**	**87,333**	**89,601**
TOTAL ON BEHALF OF THIRD PARTIES	**1,053,014**	**1,042,379**	**1,020,341**	**1,100,642**	**1,186,708**
Endorsement Guarantees Granted	-	-	-	-	-
Loan Obligations	326,160	259,402	236,364	252,516	269,875
Trusts	271,144	279,574	269,077	276,410	267,263
Mandates	2,712	13,148	14,482	14,339	14,628
Properties in Trusts and Warrant	273,856	292,722	283,559	290,749	281,891
Properties in Custody or Management	475,934	553,930	559,611	561,016	577,678
Collateral Received	164,657	101,105	110,142	145,077	187,966
Collateral Received or sold or delivered	203,465	123,597	111,691	184,011	273,284
Drafts in Transit	-	-	-	-	-
Assets' Deposit	2,368	2,415	1,802	3,068	2,498
Letters of Credit to the Corporation as Guarantee	-	-	-	-	-
Securities to the Corporation for Custody	-	-	-	-	-
Government Secs of the Corp under Custody	-	-	-	-	-
Securities of the Corp given as Guarantee	-	-	-	-	-
Securities of the Corp Abroad	-	-	-	-	-
Settlement with FX of the Corp Abroad	-	-	-	-	-
Debts with the Contingency Fund	-	-	-	-	-
Contingent assets & Liabilities	63	73	111	100	119
Uncollected Accrued Interest from Past Due Loans	437	471	361	367	363
Investments of Retirement Savings Funds	-	-	-	-	-
Integration of the Credit Portfolio	-	-	-	-	-
Amounts Contracted in Derivatives	-	-	-	-	-
Proprietary Transactions	**1,446,941**	**1,333,715**	**1,303,640**	**1,436,905**	**1,593,673**
Repo Securities to be Received	-	-	-	-	-
(Minus) Repo Creditors	-	-	-	-	-
Net Repo Transactions	**-**	**-**	**-**	**-**	**-**
Repo Debtors	-	-	-	-	-
(Minus) Repo Securities to be Delivered	-	-	-	-	-
Net Repo Transactions	**-**	**-**	**-**	**-**	**-**
TOTAL PROPRIETARY	**1,446,941**	**1,333,715**	**1,303,640**	**1,436,905**	**1,593,673**

GFNORTE - CONSOLIDATED STATEMENT OF CASH FLOW JANUARY 1, 2018 – MARCH 31, 2018 *(Million Pesos)*	
Net Income	**6,768**
Items charged to results that do not generate or require use of resources	
Depreciation	442
Technical Reserves	6,976
Provisions	(1,388)
Income taxes and deferred	2,472
Minority Interest	(270)
	8,232
	15,000
Change in items related to operations	
Change in Margin Accounts	247
Change in Invesment in Securities	(18,512)
Change in repo debtors	84
Change in derivatives (assets)	1,119
Changein Loan Portfolio (net)	(6,239)
Change in purchased receivables (net)	163
Change in accounts receivable insurance and bonding institutions (net)	25
Change in debtor premiums (net)	(6,995)
Change in Reinsurance (net)	(4,966)
Change in benefits to receive from securitizations	(21)
Change in foreclosed assets (net)	(31)
Change in other operating assets (net)	16,082
Change in core deposits	1,757
Change in interbank loans and other entities	(3,428)
Change in repo creditors	10,164
Change in collateral pledged sold	(3)
Change in derivatives (liability)	(3,413)
Change in Technical Reserves (net)	3,889
Change in Reinsurance (net) (liability)	2,820
Change in subordinated debt with characteristics of liabilities	(1,963)
Change in other operating liabilities	12,395
Change in hedging instruments (the related hedged transaction activities)	(4,309)
Discontinued Operational Assets	-
Income Tax Payments	(2,729)
Net cash generated or used from operations	**11,136**
Investment Activities	
Charges for disposal of property, furniture and equipment	991
Payments for acquisition of property, furniture and equipment	(1,139)
Charges for disposal of subsidiaries, associated and agreements with mutual control	-
Payments for other permanent investmentes	-
Charges for cash dividends	1,175
Discontinued Operational Assets	-
Net cash generated or used from investment activities	**1,027**
Financing Activities	
Payments of cash dividends	-
Payments associated with the repurchase of proprietary shares	(115)
Payments of intrests of subordinated debentures	(312)
Net cash flows from financing activities	**(427)**
Net Cash Increase (decrease) and equivalents value	**11,736**
Effects for changes in cash and equivalents value	**(51)**
Cash and cash equivalents at beginning of period	**76,269**
Cash and cash equivalents at end of period	**87,954**

GFNORTE - CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

JANUARY 1, 2018 – MARCH 31, 2018

(Million Pesos)

	CONTRIBUTED CAPITAL		EARNED CAPITAL									
	Fixed Paid-in Capital	**Premium from sale of securities**	**Capital Reserves**	**Retained Earnings**	**Valuation Effects of Securities Available for Sale**	**Results from val of instrum Cash flow hedges**	**Results in the val. reserve for unexpired risks variations in rates**	**Results from Conversions**	**Remeasurements defined benefits for employees**	**Net Income**	**Minority Interest**	**Total Stockholders' Equity**
Balance as of December 31, 2017	**14,591**	**35,592**	**5,491**	**71,294**	**(2,390)**	**(3,588)**	**96**	**1,684**	**(926)**	**23,908**	**1,832**	**147,584**
<u>Changes stemming from stockholders' decisions</u>												
Repurchase of payment plan based on shares payable in equity instruments	(4)	102	(112)		(3)							(17)
Capitalization of profits				23,908						(23,908)		
INB's Sale Accounting Effect				(179)								(179)
Reserve creation for share repurchase			0	0								0
Total	**(4)**	**102**	**(112)**	**23,729**	**(3)**	**0**	**0**	**0**	**0**	**(23,908)**	**0**	**(196)**
<u>Changes stemming from profits</u>												
<u>Total profits:</u>												
Net Income										6,768		6,768
Result from valuation of securities available for sale					(1,120)							(1,120)
Effect of subsidiaries, associates and mutual funds		(2)		(8)				(66)				(76)
Result from valuation of instruments of cash flow hedges						1,485						1,485
Result in valuation of current risk reserve due to changes in rates							(19)					(19)
Remeasurements defined benefits for employees									(118)			(118)
Interest of subordinated debentures				(312)								(312)
Total	**0**	**(2)**	**0**	**(320)**	**(1,120)**	**1,485**	**(19)**	**(66)**	**(118)**	**6,768**	**0**	**6,608**
Recognition of minority interest											**84**	**84**
Balance as of March 31, 2018	**14,587**	**35,692**	**5,379**	**94,703**	**(3,513)**	**(2,103)**	**77**	**1,618**	**(1,044)**	**6,768**	**1,916**	**154,081**

Consolidated Bank

Income Statement - Consolidated Bank *(Million Pesos)*	1Q17	2Q17	3Q17	4Q17	1Q18
Interest Income	21,747	23,165	24,448	25,181	26,045
Interest Expense	8,614	9,831	10,515	10,415	11,354
Charged Fees	282	294	296	297	290
Fees Paid	143	165	171	207	237
Net Interest Income (NII)	**13,272**	**13,463**	**14,057**	**14,856**	**14,744**
Preventive Provisions for Loan Losses	2,658	3,433	3,343	3,450	4,149
Net Interest Income Adjusted for Credit Risk	**10,614**	**10,030**	**10,715**	**11,406**	**10,596**
Fund Transfers	368	390	350	380	363
Account Management Fees	614	639	662	681	639
Electronic Banking Services	1,639	1,709	1,653	1,902	1,880
For Commercial and Mortgage Loans	94	193	225	178	135
For Consumer Loans	997	1,052	1,093	1,143	1,117
Fiduciary	91	101	96	132	107
Income from Real Estate Portfolios	5	9	10	13	20
Trading & Financial Advising Fees	-	-	-	-	-
Trading & Financial Advising Fees	1	1	1	1	1
Other Fees Charged (1) *	473	464	521	557	580
Fees Charged on Services	**4,282**	**4,557**	**4,611**	**4,986**	**4,842**
Interchange Fees	722	762	739	875	880
Insurance Fees	-	-	-	-	-
Other Fees Paid	802	779	836	871	864
Fees Paid on Services	**1,524**	**1,541**	**1,576**	**1,746**	**1,744**
Net Fees	**2,758**	**3,016**	**3,036**	**3,240**	**3,099**
Foreign Exchange	(124)	(11)	22	(16)	(116)
Derivatives	16	(49)	368	402	199
Negotiable Instruments	(63)	26	(130)	(554)	(31)
Valuation	(172)	(34)	260	(168)	52
Currency and Metals	520	523	234	452	613
Derivatives	281	73	(28)	(189)	39
Negotiable Instruments	64	149	87	50	103
Trading	865	745	292	314	755
Trading Income	**693**	**711**	**552**	**145**	**807**
Loan Recovery	-	-	-	-	-
Loan Portfolios	30	30	25	47	29
Income from foreclosed assets	12	(266)	229	151	70
Provisions Release	-	-	-	-	-
Losses and Estimates	(280)	(325)	(267)	(361)	(715)
Impairment of Assets	(58)	(9)	(9)	(8)	-
Lease Income	8	8	19	13	15
From Insurance	-	-	-	-	-
Other Operating Expense	285	333	158	502	993
Total Other Operating Income (Expenses)	**(3)**	**(230)**	**155**	**344**	**391**
Total Non-Interest Income	**3,448**	**3,496**	**3,743**	**3,729**	**4,297**
Total Operating Income	**14,062**	**13,526**	**14,457**	**15,135**	**14,892**
Personnel	3,361	3,127	3,048	3,272	3,370
Employee Profit Sharing (PTU)	99	99	99	85	104
Professional Fees	463	612	655	726	606
Administrative and Promotional Expenses	1,749	1,765	1,649	1,797	1,784
Rents, Depreciation & Amortization	1,219	1,184	1,155	1,158	1,272
Taxes other than income tax & non-deductible expenses	458	337	358	394	724
Contributions to IPAB/Fobaproa	634	636	668	696	725
Total Non-Interest Expense	**7,984**	**7,760**	**7,634**	**8,127**	**8,585**
Operating Income	**6,078**	**5,766**	**6,823**	**7,007**	**6,307**
Subsidiaries' Net Income	14	17	(6)	37	25
Pre-Tax Income	**6,092**	**5,783**	**6,817**	**7,044**	**6,332**
Income Tax	1,541	1,509	1,755	1,977	1,591
Deferred Income Tax	320	89	78	219	123
Taxes	**1,861**	**1,597**	**1,833**	**2,196**	**1,714**
Net Income from Continuos Operations	**4,232**	**4,185**	**4,985**	**4,848**	**4,618**
Discontinued Operations	74	6	8	2	-
Minority Interest	0	(0)	(0)	(0)	(0)
-					
Net Income	**4,305**	**4,191**	**4,993**	**4,850**	**4,618**

Consolidated Bank - Balance Sheet *(Million Pesos)*	1Q17	2Q17	3Q17	4Q17	1Q18
ASSETS					
Cash and Due from Banks	**60,405**	**65,822**	**59,618**	**76,063**	**87,771**
Margin Accounts	**1,909**	**2,635**	**1,628**	**1,986**	**1,739**
Negotiable Instruments	150,913	159,894	174,661	122,065	85,206
Securities Available for Sale	106,886	110,750	126,881	152,910	150,133
Securities Held to Maturity	6,245	6,202	6,849	6,834	6,836
Investment in Securities	**264,044**	**276,846**	**308,392**	**281,810**	**242,175**
Non-assigned Securities for Settlement	**-**	**-**	**-**	**-**	**-**
Debtor Balance in Repo Trans,net	**2**	**0**	**20**	**5**	**1**
Securities Lending	**-**	**-**	**-**	**-**	**-**
For trading purposes	22,738	20,352	18,959	25,511	24,399
For hedging purposes	387	216	94	205	293
Operations w/Derivatives & Securities	-	-	-	-	-
Transactions with Derivatives	**23,125**	**20,568**	**19,053**	**25,716**	**24,692**
Operations w/Derivatives & Securities	**23,126**	**20,568**	**19,073**	**25,721**	**24,693**
Valuation adjustments for Asset Coverage	**110**	**106**	**102**	**99**	**95**
Commercial Loans	199,150	208,717	209,711	210,431	211,079
Financial Intermediaries´ Loans	21,122	23,538	22,517	22,875	24,843
Consumer Loans	90,824	93,999	99,186	101,995	105,358
Mortgage Loans	119,310	124,206	130,084	135,405	139,779
Medium and Residential	115,226	120,197	126,120	131,563	135,952
low income housing	37	33	29	26	23
Loans acquired from INFONAVIT or FOVISSSTE	4,048	3,975	3,934	3,816	3,804
Restructuring or improvement guaranteed by development banks or public trusts	-	-	-	-	-
Government Entities´ Loans	130,183	133,394	130,617	132,816	131,014
Loans granted as Federal Agent	-	-	-	-	-
Performing Loans	**560,589**	**583,853**	**592,114**	**603,522**	**612,074**
Commercial PDL´s	5,677	5,570	5,566	6,540	6,723
Financial Intermediaries PDL´s	344	0	0	0	1
Consumer PDL´s	2,993	3,867	3,987	4,329	3,875
Mortgage PDL´s	1,019	1,161	1,234	1,323	1,315
Medium and Residential	911	1,044	1,096	1,179	1,186
low income housing	1	1	1	1	1
Loans acquired from INFONAVIT or FOVISSSTE	106	117	137	143	128
Restructuring or improvement guaranteed by development banks or public trusts	-	-	-	-	-
Government Entities PDL´s	-	-	-	-	-
Past Due Loans	**10,034**	**10,598**	**10,788**	**12,192**	**11,914**
Gross Loan Portfolio	**570,622**	**594,452**	**602,902**	**615,714**	**623,988**
Preventive Loan Loss Reserves	13,805	15,499	15,628	15,551	16,108
Net Loan Portfolio	**556,818**	**578,953**	**587,274**	**600,163**	**607,880**
Acquired Collection Rights	1,477	1,394	2,021	1,925	1,794
Total Credit Portfolio	**558,294**	**580,347**	**589,295**	**602,088**	**609,673**
Benef. receivab. securization transactions	151	152	177	141	162
Sundry Debtors & Other Accs Rec, Net	36,363	26,519	35,953	37,492	27,055
Inventories	-	-	-	-	-
Foreclosed Assets, Net	1,182	791	755	752	754
Real Estate, Furniture & Equipment, Net	12,120	12,306	12,777	13,474	13,720
Investment in Subsidiaries	199	119	113	150	175
Long-term assets held for sale	-	-	-	-	-
Deferred Taxes, Net	3,602	3,651	3,146	3,517	3,189
Goodwill and Intangibles	10,775	10,805	10,918	13,051	12,639
Other Assets Short and Long Term	2,914	2,364	2,137	81	57
	67,306	56,707	65,977	68,658	57,750
TOTAL ASSETS	**975,193**	**1,003,031**	**1,044,085**	**1,056,423**	**1,023,894**

Consolidated Bank - Balance Sheet *(Million Pesos)*	1Q17	2Q17	3Q17	4Q17	1Q18
LIABILITIES					
Demand Deposits	366,454	367,839	376,822	394,995	389,330
Time Deposits-Retail	209,212	227,186	235,605	245,288	248,275
Time Deposits-Money Market	1,115	15,394	8,983	3,679	9,984
Global Account of deposits without movements	1,410	1,456	1,523	1,657	1,673
Senior Unsecured Debt	-	2,750	2,745	3,003	2,764
Deposits	**578,191**	**614,625**	**625,678**	**648,622**	**652,027**
Demand Loans	1,137	1,591	0	0	0
Short Term Loans	7,204	7,557	7,610	8,441	6,971
Long Term Loans	8,702	8,495	6,520	6,797	6,520
Due to Banks & Correspondents	**17,043**	**17,642**	**14,130**	**15,238**	**13,491**
Non-assigned Securities for Settlement	-	-	-	-	-
Creditor Balance in Repo Trans, Net	210,936	218,158	228,696	190,363	150,684
Secs to be received in Repo Trans, Net	-	-	-	-	-
Repos (Credit Balance)	2	0	0	3	1
Securities' Loans	-	-	-	-	-
Transactions with Derivatives	-	-	-	-	-
Other sold collateral	-	-	-	-	-
Total Collateral sold	**2**	**0**	**0**	**3**	**1**
For trading purposes	22,092	19,445	17,958	24,608	21,195
For hedging purposes	6,555	6,552	7,104	12,401	8,180
Operations w/ Derivatives & Securities	-	-	-	-	-
Transactions with Derivatives	**28,647**	**25,997**	**25,062**	**37,009**	**29,374**
Total Operations w/ Derivatives & Securities	**239,585**	**244,155**	**253,758**	**227,375**	**180,059**
Valuation adjustments for financial liability coverage	-	-	-	-	-
Obligations in securitization transactions	-	-	-	-	-
Payable Accountsfor Reinsurance	-	-	-	-	-
Income Tax Payable	1,477	1,143	1,351	1,940	1,794
Profit Sharing Payable	494	222	320	405	127
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-
Creditors for settlement of transactions	6,516	6,828	9,904	15,871	28,150
Margin Accounts Payable	-	-	-	-	-
Other Creditors & Accounts Payable	19,290	17,026	18,544	27,981	26,757
Other Payable Accounts	**27,777**	**25,218**	**30,119**	**46,196**	**56,828**
Subordinated Non Convertible Debt	17,551	13,733	30,255	32,445	30,482
Deferred Taxes, Net	-	-	-	-	-
Deferred Credits	142	107	258	485	464
TOTAL LIABILITIES	**880,289**	**915,480**	**954,198**	**970,361**	**933,350**
EQUITY					
Paid-in Capital	18,105	18,105	18,105	18,105	18,105
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-
Share Subscription Premiums	180	294	420	648	750
Subordinated Convertible Debentures	-	-	-	-	-
Subscribed Capital	**18,285**	**18,399**	**18,525**	**18,753**	**18,855**
Capital Reserves	11,509	13,013	13,013	13,013	13,013
Retained Earnings	62,685	49,462	46,400	38,959	56,788
Surplus (Deficit) of Secs Available for Sale	(1,139)	(752)	(402)	4	(1,068)
Results from Valuation of Hedging Secs	(1,827)	(1,982)	(1,923)	(3,653)	(2,141)
Result in the valuation reserve for unexpired risks variations in rates	-	-	-	-	-
Results from Conversions	1,579	1,544	1,540	1,591	1,542
Remeasurements defined benefits for employees	(503)	(629)	(755)	(943)	(1,063)
Surplus (Deficit) in Capital Restatement	-	-	-	-	-
Adjustments in the Employee´s Pensions	-	-	-	-	-
Accumulated Effect of Deferred Taxes	-	-	-	-	-
Net Income	4,305	8,496	13,489	18,339	4,618
Earned Capital	**76,609**	**69,152**	**71,362**	**67,309**	**71,689**
Minority Interest	10	0	0	0	0
Total Equity	**94,904**	**87,551**	**89,887**	**86,062**	**90,544**
TOTAL LIABILITIES & EQUITY	**975,193**	**1,003,031**	**1,044,085**	**1,056,423**	**1,023,894**

Consolidated Bank - Memorandum Accounts *(Million Pesos)*	1Q17	2Q17	3Q17	4Q17	1Q18
Investment Banking transactions for third parties, net	90,367	77,102	85,844	87,333	89,601
TOTAL ON BEHALF OF THIRD PARTIES	**90,367**	**77,102**	**85,844**	**87,333**	**89,601**
Proprietary Transactions					
Endorsement Guarantees Granted	-	-	-	-	-
Loan Obligations	287,187	217,510	194,370	213,098	230,194
Trusts	271,144	279,574	269,077	276,410	267,263
Mandates	2,712	13,148	14,482	14,339	14,628
Properties in Trusts and Warrant	273,856	292,722	283,559	290,749	281,891
Properties in Custody or Management	321,987	359,766	360,273	363,730	377,497
Collateral Received	158,596	97,317	101,413	133,904	174,273
Collateral Received or sold	94,204	30,833	32,285	62,240	99,167
Drafts in Transit	-	-	-	-	-
Deposits of assets	-	-	-	-	-
Letters of Credit to the Corporation as Guarantee	-	-	-	-	-
Securities to the Corporation for Custody	-	-	-	-	-
Government Secs of the Corp under Custody	-	-	-	-	-
Securities of the Corp given as Guarantee	-	-	-	-	-
Securities of the Corp Abroad	-	-	-	-	-
Settlement with FX of the Corp Abroad	-	-	-	-	-
Debts with the Contingency Fund	-	-	-	-	-
Contingent assets & liabilites	63	73	111	100	119
Uncollected Accrued Interest from Past Due Loans	436	470	359	365	361
Investments of Retirement Savings Funds	-	-	-	-	-
Integration of the Credit Portfolio	-	-	-	-	-
Amounts Contracted in Derivatives	-	-	-	-	-
Proprietary Transactions	**1,136,328**	**998,692**	**972,371**	**1,064,187**	**1,163,501**
Repo Securities to be Received	-	-	-	-	-
(Minus) Repo Creditors	-	-	-	-	-
Net Repo Transactions	**-**	**-**	**-**	**-**	**-**
Repo Debtors	-	-	-	-	-
(Minus) Repo Securities to be Delivered	-	-	-	-	-
Net Repo Transactions	**-**	**-**	**-**	**-**	**-**
TOTAL PROPRIETARY	**1,136,328**	**998,692**	**972,371**	**1,064,187**	**1,163,501**

BANORTE - CONSOLIDATED STATEMENT OF CASH FLOW

JANUARY 1, 2018 – MARCH 31, 2018

(Million Pesos)

Net Income	**4,618**
Items charged to results that do not generate or require use of resources	
Depreciation	404
Provisions	(1,376)
Income taxes and deferred	1,714
Minority Interest	(25)
	717
	5,335
Change in items related to operations	
Change in Margin Accounts	247
Change in Invesment in Securities	38,563
Change in repo debtors	5
Change in derivatives (assets)	1,115
Changein Loan Portfolio (net)	(7,687)
Change in purchased receivables (net)	131
Change in accounts receivable insurance and bonding institutions (net)	
Change in debtor premiums (net)	
Change in Reinsurance (net)	
Change in benefits to receive from securitizations	(21)
Change in foreclosed assets (net)	(2)
Change in other operating assets (net)	10,826
Change in core deposits	3,405
Change in interbank loans and other entities	(1,768)
Change in repo creditors	(39,679)
Change in collateral pledged sold	(2)
Change in derivatives (liability)	(3,413)
Change in Technical Reserves (net)	
Change in Reinsurance (net) (liability)	
Change in subordinated debt with characteristics of liabilities	(1,964)
Change in other operating liabilities	11,965
Change in hedging instruments (the related hedged transaction activities)	(2,797)
Discontinued Operational Assets	
Income Tax Payments	(1,527)
Net cash generated or used from operations	**12,732**
Investment Activities	
Charges for disposal of property, furniture and equipment	21
Payments for acquisition of property, furniture and equipment	(677)
Charges for disposal of subsidiaries, associated and agreements with mutual control	0
Charges for cash dividends	0
Net cash generated or used from investment activities	**(656)**
Financing Activities	
Payments of cash dividends	0
Payments of intrests of subordinated debentures	(317)
Net cash flows from financing activities	**(317)**
Net Cash Increase (decrease) and equivalents value	**11,759**
Effects for changes in cash and equivalents value	**(51)**
Cash and cash equivalents at beginning of period	**76,063**
Cash and cash equivalents at end of period	**87,771**

BANORTE - CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

JANUARY 1, 2018– MARCH 31, 2018

(Million Pesos)

	CONTRIBUTED CAPITAL		EARNED CAPITAL								
	Fixed Paid-in Capital	Premium from sale of securities	Capital Reserves	Retained Earnings	Valuation Effects of Securities Available for Sale	Results from val of instrum Cash flow hedges	Results from Conversions	Remeasurements defined benefits for employees	Net Income	Minority Interest	Total Stockholders' Equity
Balance as of December 31, 2017	**18,105**	**648**	**13,013**	**38,959**	**4**	**(3,653)**	**1,590**	**(943)**	**18,339**	**275**	**86,062**
Changes stemming from stockholders' decisions											
Capitalization of profits				18,339					(18,339)		
Creation of Reserves according to Annual General Ordinary Shareholders Meeting held on April 28, 2017.											
Payment plan based on equity-settle shares in equity instruments		102									102
INB's Sale Accounting Effect				(183)							(183)
Total	**0**	**102**	**0**	**18,156**	**0**	**0**	**0**	**0**	**(18,339)**	**0**	**(81)**
Changes stemming from profits											
Total profits:											
Net Income									4,618		4,618
Result from valuation of securities available for sale					(1,072)						(1,072)
Effect of subsidiaries, associates and mutual funds											0
Convertion accumulated effect							(48)				(48)
Result from valuation of instruments of cash flow hedges						1,512					1,512
Remeasurements defined benefits for employees				(10)				(120)			(130)
Modification in the norms of the qualification of non-revolving consumer and mortgage housing portfolio											0
Interest of subordinated debentures				(317)							(317)
Total	**0**	**0**	**0**	**(327)**	**(1,072)**	**1,512**	**(48)**	**(120)**	**4,618**	**0**	**4,563**
Recognition of minority interest	0	0	0	0	0	0	0	0	0	7	0
Saldos al 31 de Marzo de 2018	**18,105**	**750**	**13,013**	**56,788**	**(1,068)**	**(2,141)**	**1,542**	**(1,063)**	**4,618**	**282**	**90,544**

Seguros Banorte

Income Statement - Insurance - Seguros Banorte *(Million Pesos)*	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**1Q18**
Interest Income	179	252	290	284	338
Interest Expense	5	(2)	(3)	-	-
Premium Income (Net)	5,986	4,336	3,302	3,581	9,479
Net Increase in Technical Reserves	1,920	463	(1,004)	(389)	3,954
Damages, Claims and Other Obligations	2,325	2,602	3,051	2,762	2,912
Net Interest Income	**1,916**	**1,524**	**1,548**	**1,493**	**2,951**
Fees Charged on Services	**-**	**-**	**-**	**-**	**-**
Fees Paid on Services	**564**	**469**	**577**	**398**	**952**
Securities-Valuation Gains	-	-	-	-	-
Securities Trading	12	(5)	16	19	5
Trading Income	**12**	**(5)**	**16**	**19**	**5**
From Insurance	232	213	188	199	194
Losses and Estimates	(7)	(43)	(39)	(209)	(6)
Other Operating Income (Expense)	3	2	2	5	5
Total Other Operating Income (Expenses)	**228**	**172**	**152**	**(5)**	**192**
Total Non-Interest Income	**(324)**	**(302)**	**(409)**	**(384)**	**(754)**
Total Operating Income	**1,592**	**1,222**	**1,139**	**1,110**	**2,197**
Personnel	84	90	96	106	93
Employee Profit Sharing (PTU)	1	1	1	2	1
Professional Fees	60	56	59	62	57
Administrative and Promotional Expenses	101	66	84	97	84
Rents, Depreciation & Amortization	38	38	39	41	41
Taxes other than income tax & non-deductible expenses	38	(0)	21	24	27
Contributions to IPAB/Fobaproa	-	-	-	-	-
Total Non-Interest Expense	**322**	**252**	**300**	**332**	**303**
Operating Income	**1,270**	**970**	**839**	**778**	**1,895**
Subsidiaries' Net Income	369	316	306	316	335
Pre-Tax Income	**1,639**	**1,287**	**1,145**	**1,094**	**2,229**
Income Tax	387	298	256	141	590
Deferred Income Tax	(4)	(4)	(28)	27	(46)
Taxes	**384**	**295**	**228**	**169**	**544**
Net Income from Continuos Operations	**1,255**	**992**	**917**	**925**	**1,685**
Discontinued Operations	-	-	-	-	-
Minority Interest	(8)	(7)	(7)	(8)	(8)
Net Income	**1,247**	**985**	**910**	**917**	**1,677**

Insurance - Seguros Banorte - Balance Sheet *(Million Pesos)*	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**1Q18**
ASSETS					
Cash and Due from Banks	**55**	**37**	**58**	**69**	**81**
Margin Accounts	**-**	**-**	**-**	**-**	**-**
Negotiable Instruments	11,834	13,264	13,996	15,509	17,777
Securities Available for Sale	2,232	2,093	2,103	1,505	1,188
Securities Held to Maturity	(0)	-	-	(0)	(0)
Investment in Securities	**14,066**	**15,356**	**16,099**	**17,013**	**18,965**
Debtor Balance in Repo Trans,net	1,150	927	1,153	2,235	2,261
Securities Lending	-	-	-	-	-
Transactions with Derivatives	-	-	-	-	-
Operations w/Derivatives & Securities	**1,150**	**927**	**1,153**	**2,235**	**2,261**
Valuation adjustments for Asset Coverage	**-**	**-**	**-**	**-**	**-**
Acquired Collection Rights	-	-	-	-	-
Account Receivables	360	480	562	558	500
Premium Debtors (Net)	8,319	8,105	6,401	3,916	10,913
Account Receivables from Reinsurance	7,189	8,878	9,285	8,717	13,682
Benef.receivab.securization transactions	-	-	-	-	-
Sundry Debtors & Other Accs Rec, Net	-	-	-	-	-
Inventories	-	-	-	-	-
Real Estate, Furniture & Equipment, Net	337	330	331	363	353
Investment in Subsidiaries	12,551	12,867	13,173	13,495	12,655
Long-term assets held for sale	-	-	-	-	-
Deferred Taxes, Net	134	134	158	127	169
Goodwill and Intangibles	1,891	2,152	2,386	2,706	2,121
Other Assets Short and Long Term	85	86	87	93	94
	30,866	**33,033**	**32,384**	**29,975**	**40,488**
TOTAL ASSETS	**46,137**	**49,353**	**49,694**	**49,292**	**61,795**

Insurance - Seguros Banorte - Balance Sheet *(Million Pesos)*	**1Q17**	**2Q17**	**3Q17**	**4Q17**	**1Q18**
LIABILITIES					
Technical Reserves	18,623	20,346	20,426	21,426	29,468
Total Operations w/ Derivatives & Securities	**-**	**-**	**-**	**-**	**-**
Valuation adjustments for financial liability coverage	-	-	-	-	-
Obligations in securitization transactions	-	-	-	-	-
Payable Accountsfor Reinsurance	2,526	3,348	3,185	1,255	4,075
Income Tax Payable	409	702	952	1,087	630
Profit Sharing Payable	-	-	-	-	-
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-
Creditors for settlement of transactions	-	-	-	-	-
Margin Accounts Payable	-	-	-	-	-
Other Creditors & Accounts Payable	2,770	2,413	2,172	2,111	2,518
Other Payable Accounts	**3,179**	**3,115**	**3,124**	**3,198**	**3,147**
Subordinated Non Convertible Debt	-	-	-	-	-
Deferred Taxes, Net	397	394	390	386	383
Deferred Credits	66	60	58	60	65
TOTAL LIABILITIES	**24,791**	**27,262**	**27,183**	**26,326**	**37,138**
EQUITY					
Paid-in Capital	13,766	13,766	13,766	13,766	13,766
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-
Share Subscription Premiums	-	-	-	-	-
Subordinated Convertible Debentures	-	-	-	-	-
Subscribed Capital	**13,766**	**13,766**	**13,766**	**13,766**	**13,766**
Capital Reserves	1,499	1,789	1,789	1,789	1,789
Retained Earnings	4,419	3,879	3,379	2,889	6,948
Surplus (Deficit) of Secs Available for Sale	31	52	58	45	68
Results from Valuation of Hedging Secs	-	-	-	-	-
Result in the valuation reserve for unexpired risks variations in rates	82	68	65	96	77
Results from Conversions	-	-	-	-	-
Remeasurements defined benefits for employees	-	-	-	-	-
Surplus (Deficit) in Capital Restatement	-	-	-	-	-
Adjustments in the Employee´s Pensions	-	-	-	-	-
Accumulated Effect of Deferred Taxes	-	-	-	-	-
Net Income	1,247	2,232	3,142	4,059	1,677
Earned Capital	**7,278**	**8,020**	**8,433**	**8,878**	**10,560**
Minority Interest	302	305	312	323	330
Total Equity	**21,346**	**22,091**	**22,511**	**22,967**	**24,657**
TOTAL LIABILITIES & EQUITY	**46,137**	**49,353**	**49,694**	**49,292**	**61,795**

Information by Segments

GFNorte - Income Statement as of March '18

(Million Pesos)

	Holding	Banorte	Ahorro y Previsión	Arrendadora y Factor	Almacenadora	Casa de Bolsa Banorte Ixe
Interest Income	202	26,335	2,545	574	17	1,708
Premium Income (Net)	-	-	11,819	-	-	-
Interest Expense	-	11,590	-	363	0	1,655
Net Increase in Technical Reserves	-	-	6,976	-	-	-
Damages, Claims and Other Obligations	-	-	4,049	-	-	-
Net Interest Income (NII)	**202**	**14,744**	**3,338**	**211**	**17**	**53**
Preventive Provisions for Loan Losses	-	4,149	-	28	-	-
Net Interest Income Adjusted for Credit Risk	**202**	**10,596**	**3,338**	**183**	**17**	**53**
Loan Origination Fees	-	4,842	-	6	-	343
Fees Paid	-	1,744	952	17	0	34
Trading Income	-	807	5	(0)	-	65
Other Operating Income (Expenses)	0	391	192	153	9	20
Non Interest Income	**0**	**9,885**	**1,759**	**174**	**9**	**772**
Total Operating Income	**202**	**20,481**	**5,097**	**356**	**26**	**825**
Administrative and Promotional Expenses	25	8,585	391	54	12	228
Operating Income	**177**	**6,307**	**2,193**	**271**	**13**	**220**
Subsidiaries' Net Income	6,588	25	335	-	0	0
Pre-Tax Income	**6,765**	**6,332**	**2,528**	**271**	**13**	**220**
Income Tax	-	1,591	590	66	4	61
Deferred Income Tax	4	123	37	14	(0)	0
Net Income from Continuos Operations	**6,762**	**4,618**	**1,900**	**192**	**9**	**158**
Discontinued Operations	**-**	**-**	**-**	**-**	**-**	**-**
Minority Interest	**-**	**(0)**	**(6)**	**(0)**	**-**	**-**
Net Income	**6,762**	**4,618**	**1,894**	**191**	**9**	**158**

GFNorte - Income Statement as of March '18

(Million Pesos)

	Operadora de Fondos Banorte Ixe	IXE Servicios	Sólida Administradora de Portafolios	Total	Charges Intercompany Eliminations	Credits Intercompany Eliminations	Final Balance
Interest Income	7	1	176	31,564	1,212	-	30,352
Premium Income (Net)	-	-	-	11,819	186	-	11,632
Interest Expense	-	-	249	13,858	-	1,204	12,654
Net Increase in Technical Reserves	-	-	-	6,976	-	-	6,976
Damages, Claims and Other Obligations	-	-	-	4,049	-	-	4,049
Net Interest Income (NII)	**7**	**1**	**(74)**	**18,499**	**-**	**-**	**18,305**
Preventive Provisions for Loan Losses	-	-	87	4,264	-	-	4,264
Net Interest Income Adjusted for Credit Risk	**7**	**1**	**(160)**	**14,235**	**-**	**-**	**14,041**
Loan Origination Fees	374	-	43	5,608	484	-	5,124
Fees Paid	262	-	0	3,008	-	491	2,516
Trading Income	-	-	(11)	866	-	-	866
Other Operating Income (Expenses)	0	0	(147)	618	13	2	607
Non Interest Income	**636**	**0**	**(488)**	**12,747**	**498**	**503**	**11,771**
Total Operating Income	**643**	**1**	**(648)**	**26,983**	**498**	**503**	**25,812**
Administrative and Promotional Expenses	9	1	45	9,350	185	384	9,151
Operating Income	**109**	**(0)**	**(320)**	**8,970**	**-**	**-**	**8,970**
Subsidiaries' Net Income	(2)	-	(2)	6,945	6,588	-	357
Pre-Tax Income	**107**	**(0)**	**(322)**	**15,915**	**-**	**-**	**9,327**
Income Tax	31	-	-	2,343	-	-	2,343
Deferred Income Tax	(0)	-	(43)	135	-	7	128
Net Income from Continuos Operations	**77**	**(0)**	**(279)**	**13,437**	**-**	**-**	**6,856**
Discontinued Operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Minority Interest	**-**	**-**	**-**	**(6)**	**81**	**-**	**(87)**
Net Income	**77**	**(0)**	**(279)**	**13,431**	**8,750**	**2,081**	**6,768**

GFNorte - Balance Sheet as of March 31 '18

(Million Pesos)

ASSETS	Holding	Banorte	Ahorro y Previsión	Arrendadora y Factor	Almacenadora	Casa de Bolsa Banorte Ixe
Cash and Due from Banks	**6,263**	**87,771**	**1,486**	**12**	**20**	**1,088**
Margin Accounts	**-**	**1,739**	**-**	**-**	**-**	**-**
Investment in Securities	**-**	**242,175**	**109,972**	**0**	**-**	**169,136**
Negotiable Instruments	-	85,206	18,245	-	-	155,287
Securities Available for Sale	-	150,133	1,268	0	-	13,134
Securities Held to Maturity	-	6,836	90,459	-	-	715
Debtor Balance in Repo Trans, net	**4,816**	**1**	**2,267**	**-**	**-**	**-**
Transactions with Derivatives For trading purposes	**-**	**24,399**	**-**	**0**	**-**	**-**
Transactions with Derivatives For hedging purposes	**-**	**293**	**-**	**-**	**-**	**-**
Valuation adjustments for Asset Coverage	**-**	**95**	**-**	**-**	**-**	**-**
Gross Loan Portfolio	**-**	**609,673**	**-**	**26,878**	**-**	**-**
Net Loan Portfolio	**-**	**607,880**	**-**	**26,878**	**-**	**-**
Performing Loans	**-**	**612,074**	**-**	**27,024**	**-**	**-**
Commercial Loans	-	211,079	-	23,366	-	-
Financial Intermediaries´ Loans	-	24,843	-	650	-	-
Government Entities´ Loans	-	131,014	-	3,003	-	-
Consumer Loans	-	105,358	-	6	-	-
Mortgage Loans	-	139,779	-	-	-	-
Medium and Residential	-	135,952	-	-	-	-
Low income housing	-	23	-	-	-	-
Loans acquired from INFONAVIT or FOVISSSTE	-	3,804	-	-	-	-
Past Due Loans	**-**	**11,914**	**-**	**165**	**-**	**-**
Commercial PDL´s	-	6,723	-	165	-	-
Financial Intermediaries PDL´s	-	1	-	-	-	-
Consumer PDL´s	-	3,875	-	0	-	-
Mortgage PDL´s	-	1,315	-	-	-	-
Medium and Residential	-	1,186	-	-	-	-
Low income housing	-	1	-	-	-	-
Loans acquired from INFONAVIT or FOVISSSTE	-	128	-	-	-	-
Preventive Loan Loss Reserves	**-**	**16,108**	**-**	**311**	**-**	**-**
Acquired Collection Rights	**-**	**1,794**	**-**	**-**	**-**	**-**
Account Receivables from Insurance and Annuities	**-**	**-**	**1,879**	**-**	**-**	**-**
Premium Debtors (Net)	**-**	**-**	**11,026**	**-**	**-**	**-**
Account Receivables from Reinsurance	**-**	**-**	**13,682**	**-**	**-**	**-**
Benef.receivab.securization transactions	**-**	**162**	**-**	**-**	**-**	**-**
Sundry Debtors & Other Accs Rec, Net	**0**	**27,055**	**0**	**561**	**89**	**561**
Inventories	**-**	**-**	**-**	**-**	**594**	**-**
Foreclosed Assets, Net	**-**	**754**	**-**	**48**	**-**	**-**
Real Estate, Furniture & Equipment, Net	**-**	**13,720**	**376**	**3,565**	**67**	**44**
Investment in Subsidiaries	**128,314**	**175**	**12,655**	**-**	**-**	**1**
Long-term assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**
Deferred Taxes, Net	**182**	**3,189**	**-**	**10**	**3**	**-**
Total other Assets	**10,536**	**12,696**	**2,221**	**221**	**14**	**324**
Goodwill	9,683	1,360	-	-	-	-
Intangible	853	11,279	2,126	221	1	58
Other Assets	-	57	95	-	13	266
TOTAL ASSETS	**150,111**	**1,023,894**	**155,564**	**31,295**	**786**	**171,155**

GFNorte - Balance Sheet as of March 31 '18

(Million Pesos)

ASSETS	Operadora de Fondos Banorte Ixe	IXE Servicios	Sólida Administradora de Portafolios	Total	Charges Intercompany Eliminations	Credits Intercompany Eliminations	Final Balance
Cash and Due from Banks	**409**	**35**	**74**	**97,159**	**255**	**9,460**	**87,954**
Margin Accounts	**-**	**-**	**-**	**1,739**	**-**	**-**	**1,739**
Investment in Securities	**-**	**-**	**236**	**521,519**	**208**	**346**	**521,382**
Negotiable Instruments	-	-	-	258,739	-	-	258,739
Securities Available for Sale	-	-	236	164,771	-	108	164,663
Securities Held to Maturity	-	-	-	98,010	208	237	97,981
Debtor Balance in Repo Trans, net	**-**	**-**	**15**	**7,098**	**-**	**6,504**	**595**
Transactions with Derivatives For trading purposes	**-**	**-**	**5**	**24,404**	**-**	**-**	**24,404**
Transactions with Derivatives For hedging purposes	**-**	**-**	**-**	**293**	**-**	**-**	**293**
Valuation adjustments for Asset Coverage	**-**	**-**	**-**	**95**	**-**	**-**	**95**
Gross Loan Portfolio	**-**	**-**	**3,914**	**640,465**	**-**	**19,924**	**620,541**
Net Loan Portfolio	**-**	**-**	**3,393**	**638,150**	**-**	**19,924**	**618,226**
Performing Loans	**-**	**-**	**3,522**	**642,619**	**-**	**19,924**	**622,695**
Commercial Loans	-	-	409	234,853	-	7	234,847
Financial Intermediaries´ Loans	-	-	-	25,493	-	19,917	5,576
Government Entities´ Loans	-	-	-	134,017	-	-	134,017
Consumer Loans	-	-	3,113	108,477	-	-	108,477
Mortgage Loans	-	-	-	139,779	-	-	139,779
Medium and Residential	-	-	-	135,952	-	-	135,952
Low income housing	-	-	-	23	-	-	23
Loans acquired from INFONAVIT or FOVISSSTE	-	-	-	3,804	-	-	3,804
Past Due Loans	**-**	**-**	**126**	**12,205**	**-**	**-**	**12,205**
Commercial PDL´s	-	-	25	6,913	-	-	6,913
Financial Intermediaries PDL´s	-	-	-	1	-	-	1
Consumer PDL´s	-	-	101	3,976	-	-	3,976
Mortgage PDL´s	-	-	-	1,315	-	-	1,315
Medium and Residential	-	-	-	1,186	-	-	1,186
Low income housing	-	-	-	1	-	-	1
Loans acquired from INFONAVIT or FOVISSSTE	-	-	-	128	-	-	128
Preventive Loan Loss Reserves	**-**	**-**	**254**	**16,674**	**-**	**-**	**16,674**
Acquired Collection Rights	**-**	**-**	**521**	**2,315**	**-**	**-**	**2,315**
Account Receivables from Insurance and Annuities	**-**	**-**	**-**	**1,879**	**-**	**-**	**1,879**
Premium Debtors (Net)	**-**	**-**	**-**	**11,026**	**-**	**-**	**11,026**
Account Receivables from Reinsurance	**-**	**-**	**-**	**13,682**	**-**	**-**	**13,682**
Benef.receivab.securization transactions	**-**	**-**	**-**	**162**	**-**	**-**	**162**
Sundry Debtors & Other Accs Rec, Net	**165**	**4**	**9,057**	**37,493**	**73**	**624**	**36,942**
Inventories	**-**	**-**	**-**	**594**	**-**	**-**	**594**
Foreclosed Assets, Net	**-**	**-**	**329**	**1,130**	**201**	**201**	**1,131**
Real Estate, Furniture & Equipment, Net	**0**	**99**	**-**	**17,871**	**212**	**212**	**17,871**
Investment in Subsidiaries	**103**	**-**	**117**	**141,365**	**767**	**129,179**	**12,953**
Long-term assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deferred Taxes, Net	**0**	**-**	**753**	**4,137**	**451**	**1,959**	**2,629**
Total other Assets	**0**	**1**	**274**	**26,286**	**2,453**	**1,081**	**27,657**
Goodwill	-	-	-	11,042	2,453	876	12,619
Intangible	0	1	274	14,813	-	205	14,607
Other Assets	-	-	-	431	-	-	431
TOTAL ASSETS	**677**	**139**	**14,774**	**1,548,396**	**4,620**	**169,489**	**1,383,526**

GFNorte - Balance Sheet as of March 31 '18

(Million Pesos)

LIABILITIES & EQUITY	Holding	Banorte	Ahorro y Previsión	Arrendadora y Factor	Almacenadora	Casa de Bolsa Banorte Ixe
Deposits	**-**	**652,027**	**-**	**-**	**-**	**-**
Demand Deposits	**-**	**389,330**	**-**	**-**	**-**	**-**
Time Deposits	**-**	**258,260**	**-**	**-**	**-**	**-**
Time Deposits-Retail	-	248,275	-	-	-	-
Time Deposits-Money Market	-	9,984	-	-	-	-
Senior Unsecured Debt	**-**	**2,764**	**-**	**-**	**-**	**-**
Cuenta global de captación sin movimientos	**-**	**1,673**	**-**	**-**	**-**	**-**
Due to Banks & Correspondents	**-**	**13,491**	**-**	**24,924**	**535**	**-**
Immediate Redemption Loans	-	0	-	-	-	-
Short Term Loans	-	6,971	-	13,936	535	-
Long Term Loans	-	6,520	-	10,988	-	-
Technical Reserves	**-**	**-**	**118,701**	**-**	**-**	**-**
Non-assigned Securities for Settlement	**-**	**-**	**-**	**-**	**-**	**-**
Creditor Balance in Repo Trans, Net	**-**	**150,684**	**-**	**-**	**-**	**167,648**
Collateral sold or pledged as collateral	**-**	**1**	**-**	**-**	**-**	**0**
Transactions with Derivatives for trading purposes	**-**	**21,195**	**-**	**-**	**-**	**-**
Transactions with Derivatives for hedging purposes	**-**	**8,180**	**-**	**-**	**-**	**-**
Valuation adjustments for financial liability coverage	**-**	**-**	**-**	**-**	**-**	**-**
Payable Accounts for Reinsurance	**-**	**-**	**4,075**	**-**	**-**	**-**
Other Payable Accounts	**0**	**56,828**	**3,265**	**908**	**16**	**643**
Income Tax Payable	-	1,794	631	63	3	44
Profit Sharing Payable	-	127	-	-	-	-
Creditors for settlement of transactions	(0)	28,150	-	-	-	490
Creditors for collateral received in cash	-	9,762	-	-	-	-
Other Creditors & Accounts Payable	0	16,994	2,635	844	14	109
Subordinated Non Convertible Debt	**-**	**30,482**	**-**	**-**	**-**	**-**
Deferred Taxes, Net	**-**	**-**	**1,201**	**-**	**-**	**108**
Deferred Credits	**-**	**464**	**65**	**122**	**-**	**0**
TOTAL LIABILITIES	**0**	**933,350**	**127,308**	**25,954**	**551**	**168,400**
EQUITY						
Subscribed Capital	**50,110**	**18,855**	**20,944**	**526**	**87**	**1,429**
Paid-in Capital	14,591	18,105	15,740	526	87	1,354
Share Subscription Premiums	35,519	750	5,204	-	-	75
Contributions for future capital increases agreed by the governing body	-	-	-	-	-	-
Earned Capital	**100,002**	**71,689**	**7,030**	**4,810**	**148**	**1,326**
Capital Reserves	5,379	13,013	62	526	49	182
Retained Earnings	92,801	56,788	5,029	4,103	89	757
Surplus (Deficit) of Secs Available for Sale	(3,488)	(1,068)	(28)	(10)	-	126
Results from Valuation of Hedging Secs	(2,103)	(2,141)	-	-	-	-
Result in the valuation reserve for unexpired risks variations in rates	77	-	72	-	-	-
Results from Conversions	1,618	1,542	-	-	-	104
Surplus (Deficit) in Capital Restatement	-	-	-	-	-	-
Remeasurements defined benefits for employees	(1,045)	(1,063)	-	-	-	-
Net Income	6,762	4,618	1,894	191	9	158
Capital Mayoritario	150,111	90,544	27,974	5,336	235	2,755
Minority Interest	-	0	282	5	0	-
Total Equity	**150,111**	**90,544**	**28,255**	**5,341**	**235**	**2,755**
TOTAL LIABILITIES & EQUITY	**150,111**	**1,023,894**	**155,564**	**31,295**	**786**	**171,155**

GFNorte - Balance Sheet as of March 31 '18

(Million Pesos)

LIABILITIES & EQUITY	Operadora de Fondos Banorte Ixe	IXE Servicios	Sólida Administradora de Portafolios	Total	Charges Intercompany Eliminations	Credits Intercompany Eliminations	Final Balance
Deposits	**-**	**-**	**-**	**652,027**	**9,448**	**-**	**642,579**
Demand Deposits	**-**	**-**	**-**	**389,330**	**1,729**	**-**	**387,601**
Time Deposits	**-**	**-**	**-**	**258,260**	**7,719**	**-**	**250,541**
Time Deposits-Retail	-	-	-	248,275	7,719	-	240,557
Time Deposits-Money Market	-	-	-	9,984	-	-	9,984
Senior Unsecured Debt	**-**	**-**	**-**	**2,764**	**-**	**-**	**2,764**
Cuenta global de captación sin movimientos	**-**	**-**	**-**	**1,673**	**-**	**-**	**1,673**
Due to Banks & Correspondents	**-**	**-**	**11,503**	**50,454**	**19,917**	**-**	**30,537**
Immediate Redemption Loans	-	-	-	0	-	-	0
Short Term Loans	-	-	11,503	32,946	19,917	-	13,029
Long Term Loans	-	-	-	17,508	-	-	17,508
Technical Reserves	**-**	**-**	**-**	**118,701**	**236**	**195**	**118,660**
Non-assigned Securities for Settlement	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Creditor Balance in Repo Trans, Net	**-**	**-**	**-**	**318,332**	**6,504**	**-**	**311,829**
Collateral sold or pledged as collateral	**-**	**-**	**-**	**1**	**-**	**-**	**1**
Transactions with Derivatives for trading purposes	**-**	**-**	**-**	**21,195**	**-**	**-**	**21,195**
Transactions with Derivatives for hedging purposes	**-**	**-**	**-**	**8,180**	**-**	**-**	**8,180**
Valuation adjustments for financial liability coverage	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Payable Accounts for Reinsurance	**-**	**-**	**-**	**4,075**	**-**	**-**	**4,075**
Other Payable Accounts	**155**	**0**	**61**	**61,876**	**471**	**53**	**61,458**
Income Tax Payable	15	0	-	2,549	-	-	2,549
Profit Sharing Payable	-	-	-	127	-	-	127
Creditors for settlement of transactions	-	-	-	28,640	128	-	28,512
Creditors for collateral received in cash	-	-	-	9,762	-	-	9,762
Other Creditors & Accounts Payable	140	0	61	20,797	343	53	20,507
Subordinated Non Convertible Debt	**-**	**-**	**-**	**30,482**	**-**	**-**	**30,482**
Deferred Taxes, Net	**-**	**-**	**-**	**1,310**	**1,310**	**-**	**-**
Deferred Credits	**-**	**-**	**4**	**656**	**205**	**-**	**450**
TOTAL LIABILITIES	**155**	**0**	**11,568**	**1,267,287**	**38,090**	**248**	**1,229,446**
EQUITY							
Subscribed Capital	**112**	**144**	**6,702**	**98,909**	**48,951**	**322**	**50,280**
Paid-in Capital	112	144	6,198	56,858	42,270	-	14,588
Share Subscription Premiums	-	-	4	41,551	6,181	322	35,692
Contributions for future capital increases agreed by the governing body	-	-	500	500	500	-	-
Earned Capital	**410**	**(5)**	**(3,496)**	**181,913**	**83,338**	**3,309**	**101,885**
Capital Reserves	22	2	117	19,354	13,974	-	5,379
Retained Earnings	310	(7)	(739)	159,131	67,731	3,303	94,702
Surplus (Deficit) of Secs Available for Sale	-	-	(2,595)	(7,063)	(3,550)	-	(3,513)
Results from Valuation of Hedging Secs	-	-	(0)	(4,244)	(2,141)	-	(2,103)
Result in the valuation reserve for unexpired risks variations in rates	-	-	-	149	72	-	77
Results from Conversions	-	-	-	3,264	1,646	-	1,618
Surplus (Deficit) in Capital Restatement	-	-	-	-	-	-	-
Remeasurements defined benefits for employees	-	-	-	(2,108)	(1,063)	-	(1,045)
Net Income	77	(0)	(279)	13,431	6,669	7	6,768
Capital Mayoritario	522	139	3,205	280,822	132,289	3,631	152,164
Minority Interest	-	-	-	286	-	1,630	1,916
Total Equity	**522**	**139**	**3,205**	**281,108**	**132,289**	**5,261**	**154,081**
TOTAL LIABILITIES & EQUITY	**677**	**139**	**14,774**	**1,548,396**	**170,379**	**5,509**	**1,383,526**

V. Appendix

Accounting & Regulatory Changes

Numbers in this section are stated in million pesos.

Changes to the rating methodologies for non-revolving consumer and mortgage portfolios.

On January 6th, 2017, the CNBV issued a resolution modifying the provisions regarding the rating methodologies for non-revolving consumer and mortgage portfolios which continue to have an expected loss approach and incorporate more recent information of the industry performance to the new variables incorporated. The main change in both methodologies is that, in addition to analyzing the credit history of the borrower with the current lender, it also requires analysis of the credit behavior of the borrower with other Institutions according to information from Sociedades de Información Crediticia. This new methodologies came into effect on June 1st , 2017.

The financial effect applied to Banorte at the end of June 2017 was Ps 1.054 billion and derived from the new provision methodologies minus the provisions of the previous methodologies. The accounting record of this financial effect was an increase in the estimated credit risk of Ps 1.054 billion (liabilities), a deferred tax increase of Ps 316 million (assets) and a decrease in prior years' income of Ps 725 million (stockholders' equity).

Main changes in the accounting criterion NIF D-3 "Employee Benefits".

On December 31st, 2015, the CNBV issued a resolution amending provisions corresponding to the application of the "NIF D-3 Employee Benefits". This provision is intended to publicize transitory articles that identify the options that institutions have to recognize accounting effects as a result of the new NIF-D-3.

Under the above, the Group took the option set forth in the third transitional article; consisting of progressively registering in equity the formula changes referred to in paragraphs a) and b) of paragraph 81.2 of the NIF D-3 "Employees' Benefits", issued by the "*Consejo Mexicano de Normas de Información Financiera, A.C.*", which became effective on January 1st, 2016 and promptly reported to the CNBV in accordance with the deadlines set in the provisions.

The registration of balances in paragraphs a) and b) of paragraph 81.2 of the NIF D-3, started in 2016 recognizing 20% of the balances in that year and an additional 20% in each of the subsequent years, up to 100% in a maximum period of 5 years.

The total amounts to register regarding paragraphs a) and b) of paragraph 81.2 of the NIF D-3 were determined using the corporate bond discount rate for market valuation, of the Defined Benefits Obligation in accordance with the new NIF D-3, in the following terms:

I. The amendments balance of the unrecognized plan, is recognized progressively, registering 20% annually the "results from prior years" line, using as a counterpart the "Provision for employee benefits" account, corresponding to the liability line "Other creditors & accounts payable", as follows:

Discount rate	Total balance to be applied	20% annual application	Progressive recognition as of 1Q18
Corporate bonds	$183.0	$36.6	$82.3

II. In the case of an accumulated balance of gains or losses of the unrecognized plan (broker approach), its perceived progressively, registering 20% in 2016, and increasing the "Provision for employee benefits" account, corresponding to the liability line "Other creditors & accounts payable", using as a counterpart the "Measurements of defined benefits for employees" of the "Earned Capital" line as follows:

Discount rate	Total balance to be applied	20% annual application	Progressive recognition as of 1Q18
Corporate bonds	$2,728.7	$545.7	$1,227.9

The 20% annual application is registered proportionally each month in 2017.

The amounts that would have been registered and presented in the balance sheet as of December 31st, 2017, if the aforementioned option in the affected lines had not been implemented are:

Other short and long term assets(1)	(1,171)
Total assets	**1,381,925**
Results from prior years	94,602
Measurements of defined benefits for employees	(2,545)
Total equity	**152,479**
Total liabilities plus equity	**1,381,925**

1. *Under this line, the "Provision for employee benefits" account is netted to show "Net assets for defined benefits" driven by the institutions' prepayments. (if the balance were negative, this would be presented under Different creditors and other accounts payable).*

Early termination of support programs for mortgage loan debtors

On June 30, 2010, the Federal Government, through the SHCP (Tax Authority), and Credit Institutions, signed an agreement to early terminate support programs for mortgage loan debtors; therefore, as of January 1, 2011, the Holding entity absorbed the discount that was early-applied to mortgage loan debtors that were enrolled in the program.

The agreement established a set of payment obligations by the Federal Government which were payable in 5 equal annual amortizations ending on June 1, 2015, on which Banorte received Ps 29 million, including monthly interest from the day after the cutoff date until the ending month before the payment date.

As of March 31, 2018, the remaining balance of CETES ESPECIALES which have not been repurchased by the Federal Government amounts to Ps 528 million, with maturities between 2022 and 2027.

Early adoption of changes to criterion B-6 "Bank Loan portfolio"

The Resolution that modifies the general provisions applicable to Credit Institutions published by the CNBV on December 27, 2017, includes modifications to criterion B-6 Credit Portfolio, which require that the following items be recorded by decreasing "Preventive Estimation for Credit Risks" item, instead of registering it under "Other Income (Expenses) of the Operation":

- Surplus of Credit Reserves,
- Recovered Credits

The above mentioned modifications will be effective as of January 1, 2019; however, Credit Institutions have an option toadopt them in advance, that is one day after they were published. In this regard Banorte decided to follow this early adoption.

As of March 31, 2018, Banorte has posted Ps 67 million under Preventive Provisions for Loan Losses, and Ps 349 million related to excess loan reserves and loan recoveries, which as of December 2017 were posted under Other Operating Income (Expenses).

For comparison purposes, the accounting change was applied to the quarterly information for 2017, as follows:

	1Q17	2Q17	3Q17	4Q17
Other OperatingIncome(Expenses)				
Original Balance	619	653	820	1,119
Reclassified Balance	49	109	252	701
	570	**544**	**568**	**418**
Preventive Reserves for Credit Risks				
Original Balance	3,268	4,058	3,927	3,961
Reclassified Balance	2,698	3,514	3,359	3,544
	570	**544**	**568**	**418**

New Financial Reporting Standards

Regarding the Normas de Información Financiera (NIF) issued by the Mexican Council for Research and Development of Financial Reporting Standards (CINIF), which have not yet been enforced, the Financial Group is waiting for the CNBV to publish the final version of the Resolution draft amending the general provisions applicable to Credit Institutions that we received on August 7, 2017, and which includes amendments to the accounting criteria to incorporate the future adoption of the mentioned NIF as of January 1st, 2019.

The final publication of the Resolution may include some clarifications in the application of the NIF through criterion A-2 “Application of Special Standards” derived from the recommendations and comments that the Credit Institutions made through the Association of Banks from Mexico to the CNBV, considering that Credit Institutions carry out specialized operations.

To date, we are in process of analyzing the impact that such NIF may have on the financial statements, wich we will inform at the time considering the final version of the project once it is published in the DOF, and in accordance with the requirements of the NIF B-1 “Acccounting Changes and Corrections of Errors”.

The NIFs issued and coming into force in January 1st 2019 are:

- NIF B-17 "Determination of Reasonable Value".
- NIF C-2 "Investment in financial instruments".
- NIF C-3 "Accounts Receivable".
- NIF C-9 "Provisions, contingencies and commitments".
- NIF C-10 "Derivative financial instruments and hedging operations".
- NIF C-16 "Impairment of financial instruments receivable".
- NIF C-19 "Financial instruments payable".
- NIF C-20 "Financial instruments receivable principal and interest".
- NIF D-1 "Income from contracts with customers".
- NIF D-2 "Costs for contracts with customers", disclose for each one of them.

Loan Portfolio Sales to Sólida

As instructed by the CNBV in the document 601-II-323110, we show the integration of the loan portfolio sold in 1Q03 by Banorte to its subsidiary Solida Administradora de Portafolios, S.A. de C.V. The Purpose of this sale was to concentrate the portfolio in this unit as it had been managing the collections of these loans previously. This was a one-time operation and not a permanent transfer procedure of the Solida's portfolio.

On February, 2003 Banorte sold Ps 1.92 billion (Ps 1.861 billion in past due loans and Ps 64 million in Performing loans) of its own portfolio (including interests) to its subsidiary, Solida Administradora de Portafolios, S.A. de C.V. for Ps 378 million. The transaction was done based on August 2002 figures, and therefore the final figure that affected the February balance was Ps 1.86 billion, once the collections made since August 2002 are considered. The past due portfolio, as well as Ps 1.577 billion in associated loan reserves, were cancelled.

	Local Currency			Foreign Currency (USD)			Total		
(Million of Nominal Pesos)	ago-02	dic-17	mar-18	ago-02	dic-17	mar-18	ago-02	dic-17	mar-18
Commercial	5	0	0	5	0	0	10	0	0
Consumer	0	0	0	0	0	0	0	0	0
Mortgage	54	19	19	0	0	0	54	19	19
Performing Loans	**59**	**19**	**19**	**5**	**0**	**0**	**64**	**19**	**19**
Commercial	405	184	184	293	1	1	698	185	185
Consumer	81	71	71	0	0	0	81	71	71
Mortgage	1,112	195	193	0	0	0	1,112	195	193
Non Performing Loans	**1,598**	**450**	**448**	**293**	**1**	**1**	**1,891**	**452**	**449**
TOTAL LOANS	**1,657**	**470**	**467**	**298**	**1**	**1**	**1,955**	**471**	**468**
Commercial	326	184	184	246	1	1	572	185	185
Consumer	77	71	71	0	0	0	77	71	71
Mortgage	669	195	193	0	0	0	669	195	193
Loan Loss Reserves (1)	**1,072**	**450**	**448**	**246**	**1**	**1**	**1,318**	**452**	**449**

(1) Reserve requirements according to the banking sector's rating methodology (*)There was a reserve difference of Ps $25 million as of December 2017.

(*) The dollar portfolio and reserves are re-expressed in pesos.

(*) Local Currency includes UDIS valued at the new exchange rate.

(*) Banorte has the 99.9% of the participation in the capital of Sólida

In 1Q18 the Loan portfolio showed changes due to charge offs of Ps 0.01 million, write-offs, penalties and reimbursements of Ps 0.10 million, No changes in restructure nor in foreclosed assets. In Loan loss provisions, there were changes of Ps 2.23 million. No transfers to performing loans or to past due loans were made.

As instructed by the CNBV in document 601-II-323110 for purposes of determining financial indicators and a general disclosure referred to regulations, we show the integration of the Banorte's portfolio including the portfolio which was sold to Solida Administradora de Portafolios, S.A. de C.V.

	Local Currency (1)		Foreign Currency (USD) (2)		Total	
(Million of Nominal Pesos)	**dic-17**	**mar-18**	**dic-17**	**mar-18**	**dic-17**	**mar-18**
Performing Loans						
Commercial	321,767	324,498	44,384	42,438	366,151	366,936
Financial Intermediaries´ Loans	0	0	0	0	0	0
Consumer	101,995	105,358	0	0	101,995	105,358
Mortgage	135,424	139,798	0	0	135,424	139,798
Performing Loans	**559,187**	**569,654**	**44,384**	**42,438**	**603,571**	**612,093**
Non Performing Loans						
Commercial	5,115	5,414	1,610	1,495	6,725	6,909
Consumer	4,400	3,946	0	0	4,400	3,946
Mortgage	1,528	1,508	0	0	1,528	1,508
Non Performing Loans	**11,043**	**10,868**	**1,610**	**1,495**	**12,653**	**12,363**
TOTAL LOANS	**570,230**	**580,522**	**45,994**	**43,934**	**616,224**	**624,456**
Loan Loss Reserves	**15,685**	**15,654**	**327**	**923**	**16,012**	**16,576**
Net Loan Portfolio	**554,545**	**564,869**	**45,667**	**43,011**	**600,212**	**607,880**
Loan Loss Reserves					**126.55%**	**134.08%**
% Past Due Loans					**2.05%**	**1.98%**

1. Includes UDIS.
2. The dollar portfolio and reserves are re-expressed in pesos.

Notes to Financial Statements

FINANCIAL INSTRUMENTS AND VALUATION EFFECTS 1Q18

(Million Pesos)

Negotiable Instruments	Book Value	Interest	Unrealized gain (loss)	Market Value
Government Securities	**219,844**	**1,601**	**81**	**221,526**
Unrestricted	**11,784**	**339**	**(3)**	**12,120**
BONDES D	5	0	0	5
BONDES M	(929)	2	(3)	(930)
BPA	1	0	0	1
BREMS	-	-	-	-
Government Securities	130	1	2	132
Municipalities Securities	0	0	0	1
UDI Securities	-	-	-	-
CETES	10,362	310	(24)	10,647
CETES (Special)	-	-	-	-
Government Eurobonds	10	0	0	10
Udibonds	2,204	27	23	2,253
Restricted	**208,060**	**1,263**	**84**	**209,406**
BONDES D	45,685	142	(5)	45,822
BONDES M	1,755	8	(17)	1,746
BPA	154,806	1,079	103	155,988
BREMS	-	-	-	-
Government Securities	2,618	9	(5)	2,622
Municipalities Securities	-	-	-	-
UDI Securities	-	-	-	-
CETES	1,119	-	0	1,119
CETES (Special)	-	-	-	-
Government Eurobonds	-	-	-	-
Udibonds	2,078	24	8	2,109
	-	-	-	-
Banking Securities	**34,682**	**132**	**20**	**34,835**
Unrestricted	**3,507**	**2**	**(0)**	**3,509**
Bank Acceptances	-	-	-	-
Bank Bonds	-	-	-	-
Development Bank Securities	4	0	(0)	4
Bank Securities	39	0	(0)	39
Deposit Certificates	-	-	-	-
Structured Notes	-	-	-	-
Other Banking Securities	575	0	(0)	575
Promissory Notes	2,888	2	0	2,890
Restricted	**31,176**	**130**	**20**	**31,326**
Bank Acceptances	-	-	-	-
Bank Bonds	-	-	-	-
Development Bank Securities	3,147	11	0	3,159
Bank Securities	10,332	45	19	10,396
Deposit Certificates	15,203	70	0	15,273
Structured Notes	-	-	-	-
Other Banking Securities	728	4	0	732
Promissory Notes	1,766	-	0	1,766
	-	-	-	-
Private Securities	**1,989**	**1**	**388**	**2,378**
Unrestricted	**1,735**	**1**	**391**	**2,127**
Shares	514	-	338	853
Investment Company Shares	785	-	22	807
ADRs	-	-	-	-
Stock Certificates BORHIS	-	-	-	-
Corporate Stock Certificates	417	1	33	451
Trust Stock Certificates	16	-	(3)	13
Private Eurobonds	3	0	(0)	3
Infrastructure and Real Estate Trusts	-	-	-	-
Subordinated Debt	-	-	-	-
Other Banking Securities	(0)	-	(0)	(0)
CP	-	-	-	-
Restricted	**253**	**0**	**(3)**	**250**
Shares	121	-	(2)	119
Stock Certificates BORHIS	-	-	-	-
Corporate Stock Certificates	132	0	(1)	132
Trust Stock Certificates	-	-	-	-
Private Eurobonds	-	-	-	-
Other Banking Securities	79	-	0	79
Reasonable value adjustment Ixe Bank Acq	-	-	-	-
Total	**256,515**	**1,735**	**489**	**258,739**

FINANCIAL INSTRUMENTS AND VALUATION EFFECTS 1Q18
(Million Pesos)

Securities Held for Sale	Book Value	Interest	Unrealized gain (loss)	Market Value
Government Securities	128,889	984	(590)	129,283
Unrestricted	51,996	243	(863)	51,376
BONDES D	-	-	-	-
BONDES M	372	7	(31)	348
BPA	-	-	-	-
BREMS	7,778	15	-	7,793
Government Securities	260	3	14	277
Municipalities Securities	193	4	62	259
UDI Securities	17	0	4	21
CETES	1,727	-	(0)	1,727
CETES (Special)	-	-	-	-
Government Eurobonds	41,648	214	(911)	40,952
Udibonds	-	-	-	-
Restricted	76,892	742	273	77,907
BONDES D	11,182	26	17	11,225
BONDES M	-	-	-	-
BPA	57,063	601	(17)	57,647
BREMS	-	-	-	-
Government Securities	5,953	27	3	5,983
Municipalities Securities	-	-	-	-
UDI Securities	-	-	-	-
CETES	95	-	0	95
CETES (Special)	-	-	-	-
Government Eurobonds	2,600	87	271	2,958
Udibonds	-	-	-	-
	-	-	-	-
Banking Securities	11,010	17	10	11,037
Unrestricted	11,010	17	10	11,037
Bank Acceptances	-	-	-	-
Bank Bonds	-	-	-	-
Development Bank Securities	-	-	-	-
Bank Securities	94	1	34	129
Deposit Certificates	6,441	16	(1)	6,456
Structured Notes	432	-	(23)	409
Other Banking Securities	-	-	-	-
Promissory Notes	4,044	-	1	4,045
Restricted	-	-	-	-
Bank Acceptances	-	-	-	-
Bank Bonds	-	-	-	-
Development Bank Securities	-	-	-	-
Bank Securities	-	-	-	-
Deposit Certificates	-	-	-	-
Structured Notes	-	-	-	-
Other Banking Securities	-	-	-	-
Promissory Notes	-	-	-	-
	-	-	-	-
Private Securities	28,659	248	(4,565)	24,342
Unrestricted	27,031	191	(4,568)	22,654
Shares	4,524	-	(4,184)	340
Investment Company Shares	3,582	-	157	3,739
ADRs	-	-	-	-
Stock Certificates BORHIS	118	0	(81)	37
Corporate Stock Certificates	5,660	30	(527)	5,163
Trust Stock Certificates	-	-	-	-
Private Eurobonds	13,146	161	67	13,373
Infrastructure and Real Estate Trusts	-	-	-	-
Subordinated Debt	-	-	-	-
Other Banking Securities	-	-	-	-
CP	-	-	-	-
Restricted	1,628	57	3	1,688
Shares	-	-	-	-
Stock Certificates BORHIS	-	-	-	-
Corporate Stock Certificates	-	-	-	-
Trust Stock Certificates	-	-	-	-
Private Eurobonds	1,628	57	3	1,688
Other Banking Securities	-	-	-	-
Reasonable value adjustment Ixe Bank Acq	-	-	-	-
Total	168,558	1,249	(5,144)	164,663

FINANCIAL INSTRUMENTS AND VALUATION EFFECTS 1Q18

(Million Pesos)

Securities Held to Maturity	Book Value	Interest	Unrealized gain (loss)	Market Value
Government Securities	**90,527**	**964**	**-**	**91,491**
Unrestricted	**87,939**	**950**	**-**	**88,889**
BONDES D	-	-	-	-
BONDES M	-	-	-	-
BPA	-	-	-	-
BREMS	-	-	-	-
Government Securities	1,722	3	-	1,726
Municipalities Securities	2,116	16	-	2,132
UDI Securities	244	4	-	249
CETES	-	-	-	-
CETES (Special)	528	-	-	528
Government Eurobonds	-	-	-	-
Udibonds	83,329	926	-	84,255
Restricted	**2,589**	**14**	**-**	**2,602**
BONDES D	-	-	-	-
BONDES M	-	-	-	-
BPA	-	-	-	-
BREMS	-	-	-	-
Government Securities	-	-	-	-
Municipalities Securities	2,589	14	-	2,602
UDI Securities	0	0	-	0
CETES	-	-	-	-
CETES (Special)	-	-	-	-
Government Eurobonds	-	-	-	-
Udibonds	-	-	-	-
	-	-	-	-
Banking Securities	**1,213**	**692**	**-**	**1,905**
Unrestricted	**1,213**	**692**	**-**	**1,905**
Bank Acceptances	-	-	-	-
Bank Bonds	-	-	-	-
Development Bank Securities	-	-	-	-
Bank Securities	733	6	-	739
Deposit Certificates	300	559	-	859
Structured Notes	180	127	-	307
Other Banking Securities	-	-	-	-
Promissory Notes	-	-	-	-
Restricted	**-**	**-**	**-**	**-**
Bank Acceptances	-	-	-	-
Bank Bonds	-	-	-	-
Development Bank Securities	-	-	-	-
Bank Securities	-	-	-	-
Deposit Certificates	-	-	-	-
Structured Notes	-	-	-	-
Other Banking Securities	-	-	-	-
Promissory Notes	-	-	-	-
	-	-	-	-
Private Securities	**4,008**	**606**	**-**	**4,614**
Unrestricted	**1,452**	**597**	**-**	**2,050**
Shares	-	-	-	-
Investment Company Shares	-	-	-	-
ADRs	-	-	-	-
Stock Certificates BORHIS	-	-	-	-
Corporate Stock Certificates	1,452	597	-	2,050
Trust Stock Certificates	-	-	-	-
Private Eurobonds	-	-	-	-
Infrastructure and Real Estate Trusts	-	-	-	-
Subordinated Debt	-	-	-	-
Other Banking Securities	-	-	-	-
CP	-	-	-	-
Restricted	**2,555**	**9**	**-**	**2,564**
Shares	-	-	-	-
Stock Certificates BORHIS	-	-	-	-
Corporate Stock Certificates	2,555	9	-	2,564
Trust Stock Certificates	-	-	-	-
Private Eurobonds	-	-	-	-
Other Banking Securities	-	-	-	-
Reasonable value adjustment Ixe Bank Acq	**(29)**	**-**	**-**	**(29)**
Total	**95,718**	**2,263**	**-**	**97,981**

REPURCHASE AGREEMENT OPERATIONS 1Q18

(Million Pesos)

	Repo Debtors				Repo Creditors
	MV Repo Debtors	VM Collateral received sold in Repo Trans	Debtor Balance	Creditor Balance	MV Repo Creditors
Goverment securities	98,778	98,184	595	1	278,800
Banking securities	7,087	7,087	0	0	28,169
Private Securities	500	500	0	-	4,860
Total	**106,365**	**105,772**	**595**	**1**	**311,829**

DERIVATES FINANCIAL INSTRUMENTS OPERATIONS 1Q18

(Million Pesos)

Creditor Balance	
Instrument	**Fair Value**
Futures	
TIIE 28 Futures	-
Forward	-
Fx Forward	29
Options	-
Rate options	659
Fx options	33
Warrants	10
Swaps	-
Rate swap	20,072
Fx swap	3,600
Negotiable Total	**24,404**
Options	
Rate Options	11
Fx options	-
Swaps	-
Rate swap	83
Fx swap	198
Hedging total	**293**
Position total	**24,697**

DERIVATES FINANCIAL INSTRUMENTS OPERATIONS 1Q18

(Million Pesos)

Debtor Balance	
Instrument	**Fair Value**
Futures	
TIIE 28 Futures	-
Forward	-
Fx Forward	21
Options	-
Rate options	546
Fx options	44
Swaps	-
Rate swap	17,384
Fx swap	3,200
Negotiable Total	**21,195**
Swaps	
Rate swap	504
Fx swap	7,676
Hedging total	**8,180**
Position total	**29,374**

NOTIONAL PRINCIPAL AMOUNT IN DERIVATIVE OPERATIONS 1Q18 - Banorte

(Million Pesos)

PRODUCT	TYPE	UNDERLYING	NOTIONAL	OPERATIONS
FX Forwards	Purchases	Exchange Rate (USD/MXN)	909	76
FX Forwards	Sales	Exchange Rate (USD/MXN)	888	79
FX Forwards	Purchases	Exchange Rate (CAD/MXN)	0	0
FX Forwards	Sales	Exchange Rate (CAD/MXN)	0	0
FX Forwards	Purchases	Exchange Rate (EUR/MXN)	0	0
FX Forwards	Sales	Exchange Rate (EUR/MXN)	0	0
FX Options	Purchases	Exchange Rate (Dollar)	2,204	13
FX Options	Sales	Exchange Rate (Dollar)	5,872	18
Interest Rate Options	Purchases	TIIE	69,467	139
Interest Rate Options	Sales	TIIE	69,550	570
Interest Rate Options	Purchases	LIBOR	6,524	26
Interest Rate Options	Sales	LIBOR	6,682	26
Interest Rate Swaps	USD LIBOR	LIBOR	399,685	3,849
Interest Rate Swaps	MXN TIIE	TIIE	1,827,725	4,580
Interest Rate and FX Swaps	CS USDMXN	FIX/VARIABLE	0	0
Interest Rate and FX Swaps	CS USDMXN	VARIABLE/VARIABLE	55,185	80
Interest Rate and FX Swaps	CS USDMXN	FIX/FIX	18,120	41
Interest Rate and FX Swaps	CS EURMXN	FALSO	8,251	64
Interest Rate and FX Swaps	CS GBPMXN	FALSO	2,900	12

LOAN PORTFOLIO

(Million Pesos)

	Local Currency		UDIS		Foreign Currency		Total	
	1Q17	1Q18	1Q17	1Q18	1Q17	1Q18	1Q17	1Q18
Performing Loans								
Commercial Loans	182,473	190,060	0	-	38,183	44,787	220,656	234,847
Financial Intermediaries´ Loans	5,237	5,575	0	-	0	1	5,237	5,576
Consumer Loans	92,394	108,477	0	-	0	-	92,394	108,477
Mortgage Loans	119,127	139,627	184	152	0	-	119,310	139,779
Government Entities´ Loans	131,362	127,302	0	2,966	189	3,748	131,551	134,017
Total	**530,592**	**571,041**	**184**	**3,119**	**38,372**	**48,536**	**569,147**	**622,695**
Past Due Loans								
Commercial Loans	5,828	5,419	0	0	64	1,494	5,893	6,913
Financial Intermediaries´ Loans	344	1	0	-	0	-	344	1
Consumer Loans	3,029	3,976	0	-	0	-	3,029	3,976
Mortgage Loans	1,005	1,300	14	15	0	0	1,019	1,315
Government Entities´ Loans	-	-	-	-	-	-	-	-
Total	**10,206**	**10,695**	**14**	**15**	**64**	**1,494**	**10,284**	**12,205**
Total Propietary Loans	**540,798**	**581,736**	**197**	**3,134**	**38,436**	**50,030**	**579,432**	**634,900**

COST OF BALANCES OF FINAPE, FOPYME, MORTGAGE UDIS AND MORTGAGE FOVI LOAN PORTFOLIOS AS OF 1Q18- GFNorte

(Million Pesos)

	TOTAL	
	PERIOD COST	BALANCE OF LOAN PORTFOLIO
FINAPE	-	-
FOPYME	-	-
Mortgage UDIS	1.6	0.0
Mortgage FOVI	-	-
	1.6	**0.0**

DEFERRED TAXES 1Q18

(Million Pesos)

ASSETS	INCOME TAX	NET
Global Loss Reserves Loan Portfolio	4,832	**4,832**
Non deductible provisions and cumulative income	946	**946**
Excess of accounting value over fiscal value on Reposessed Assets	1,129	**1,129**
Diminishable profit sharing	147	**147**
Fees received in advance	1,087	**1,087**
Effects from valuation of instruments	490	**490**
Tax losses pending amortization	1,064	**1,064**
Provisions for possible loss in loans	508	**508**
Loss on sale of foreclosed assets and credits	-	**-**
State Tax on Assets Deferred	-	**-**
Loss on sale of foreclosed assets and credits	-	**-**
Loss on sale of foreclosed assets and credits	2	**2**
Total Assets	10,206	**10,206**
LIABILITIES		
Pension Funds Contribution	(834)	**(834)**
Loan Portfolio Acquisitions	(256)	**(256)**
Projects to be capitalized	(3,785)	**(3,785)**
Intangibles' amortizations	(1)	**(1)**
Effects from valuation of instruments	(2,051)	**(2,051)**
Intangibles' amortizations	(597)	**(597)**
Unrealized Loss on Securities held for Sale	(52)	**(52)**
Total Liabilities	(7,576)	**(7,576)**
Assets (Liabilities) Accumulated Net	2,629	**2,629**

LONG TERM DEBT AS OF MAR 28, 2018 - BANCO MERCANTIL DEL NORTE

(Million Pesos)

TYPE OF DEBT	CURRENCY	DATE OF ISSUE	ORIGINAL AMOUNT	ORIGINAL AMOUNT (VALUED)	CURRENT AMOUNT	TERM	RATE	MATURITY	INTEREST PAYMENT
Non Convertible Subordinated Bonds Q Banorte 08U	UDIs	11-mar-08	447	1,749	2,691	20 years	4.950%	15-feb-28	E/ 182 days
Non-Preferred Non-Cumulative Subordinated Fixed Rate Notes due 2020 (IXEGB40 141020)	USD	14-oct-10	120	1,484	2,193	10 years	9.25%	14-oct-20	E/ 180 days
Non Convertible Subordinated Bonds 2016 (BANOC36 311004)	USD	04-oct-16	500	9,607	9,135	15 years	5.750%	04-oct-31	E/ 180 days
Perpetual 5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes (BANORT 6 7/8 PERP)	USD	06-jul-17	350	6,725	6,395	Perpetual	6.875%	NA	Quarterly
Perpetual 10-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes (BANORT 7 5/8 PERP)	USD	06-jul-17	550	10,568	10,049	Perpetual	7.625%	NA	Quarterly

BANK AND OTHER ENTITIES LOANS' AS OF 1Q18

(Million Pesos)

	LOCAL CURRENCY	FOREIGN CURRENCY	TOTAL
Loans from Foreign Banks generated from foreign country	-	83	83
Loans from Development Banks	8,408	6,820	15,228
Loans from Public Funds	9,819	790	10,609
Call Money & Loans from Banks	24,109	-	24,109
Loans from Fiduciary Funds	99	-	99
Provisions for Interest	326	-	326
	42,761	**7,693**	**50,454**
Eliminations			(19,917)
Total			**30,538**

CORE DEPOSITS AND DUE TO BANKS & CORRESPONDENTS - INTEREST RATES 1Q18	
CORE DEPOSITS (BANORTE)	
Demand Deposits	
Local Currency and UDIs	0.76%
Foreign Currency	0.02%
Time Deposits - Retail	
Local Currency and UDIs	5.66%
Foreign Currency	0.17%
Time Deposits - Money Market	
Local Currency and UDIs	6.82%
DUE TO BANKS & CORRESPONDENTS (BANORTE)	
Inmediate Redemption Loans	
Local Currency and UDIs	7.22%
Public Funds and Development Banks	
Local Currency and UDIs	13.70%
Foreign Currency	3.35%

MAIN CREDIT LINES RECEIVED 1Q18 (BANORTE)

Million pesos

	1Q17	4Q17	1Q18	Change vs. 1Q17	Change vs.1Q18
Banxico (Monetary Regulation Deposits)	33,449	33,441	33,449	0%	0%
Banxico (Repos with the System of Payments	51,623	56,874	57,349	11%	1%
Call Money	111,923	90,478	119,301	7%	32%
TOTAL	**196,995**	**180,794**	**210,099**	7%	16%

TRADING INCOME 1Q18
Million Pesos

Trading income	Consolidated
Securities - Unrealized gains	**140**
Negotiable instruments	**(59)**
Derivative instruments - Negotiation	**208**
Derivative instruments - Hedging	**(9)**
Impairment loss or revaluation increase	**0**
Result from foreign exchange valuation	**(121)**
Result from valuation of precious metals	**(2)**
Result from purchase/sale of securities and derivatives	**236**
Negotiable instruments	**223**
Securities held for sale	**(25)**
Securities held to maturity	**0**
Derivative instruments - Hedging	**39**
Result from purchase/sale of foreign exchange	**612**
Result from purchase/sale of precious metals	**1**
Total	**866**

Risk Management

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

1. OBJECTIVES, SCOPE AND RISK MANAGEMENT FUNCTIONS

GFNorte's Risk Management main objectives are:

- 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).
- Establish mechanisms to monitor risk-taking across GFNorte, through the use of robust systems and processes.
- Verify the observance of Risk Appetite.
- 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.
- Implement pricing models for different types of risks.
- Establish procedures for portfolio's optimization and credit portfolio management.
- Update and monitor Contingency Plan in order to restore capital and liquidity levels in case of adverse events.

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

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

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

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

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

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

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

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

1.1 Risk Management – Structure and Corporate Governance

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

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

The Board of Directors designates the CPR (Risk Policy Committee) 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 Managing Director and the Audit Managing Director, the latter participates with voice but no vote.

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

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

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

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

At 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 counterparts not fulfilling their payment obligations. Therefore, proper management is essential to maintain loan quality of the portfolio.

The objectives of Credit Risk Management at 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 Risk Management policies are:

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

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

2.1 Credit Risk Scope and Methodology

2.1.1 Individual Credit Risk

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 Objective Markets, Criteria for Risk Acceptance, Early Alerts and GFNorte's Internal Risk Rating (CIR Banorte).

The Objective Markets, Criteria for Risk Acceptance and Early Alerts 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, Enterprise's life cycle, Legal and Regulatory Risks, besides credit experience and management quality.

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

Banorte's CIR is a borrower's rating methodology which assesses quantitative and qualitative criteria in order to determine credit quality. CIR applies to commercial loans equal to or greater than the equivalent of four million investment units (UDIS) in Mexican pesos equivalent on the qualification date.

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 take action to improve diversification, which will maximize profitability with the lowest risk.

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

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

The results of this methodology, are risk measures such as the expected and unexpected loss at a one-year horizon. The expected loss is the average of credit portfolio's loss distribution, which is used to measure the following year's expected loss due to default or variations in debtors' credit quality. The unexpected loss is an indicator of the loss in extreme scenarios and is measured as the difference between the maximum losses given the distribution of losses, at a specific confidence level that for 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 verified and updated to in order to include the application of new techniques that may support or strengthen them.

2.1.3 Credit Risk of Financial Instruments

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

Origination policies define the types of eligible negotiable financial instruments, as well as the methodology for assessing Credit Risk of the different types of originators / issuers and counterparts. Credit Risk is allocated through: a risk rating obtained with an internal methodology, evaluations of external rating agencies or a combination of both. Maximum parameters of operation are also defined depending on the type of originator / issuer or counterpart, rating and type of operation.

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

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

The National Credit Committee holds the minimum faculty to approve credit lines for derivatives (in case of applying facilities, the UAIR will hold the faculty). For these transactions, the use of derivatives with margin calls shall be privileged in order to mitigate the risk of potential exposure to these transactions.

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

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

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

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

2) The loss given default that could be experienced with respect of the total of the operation in the event of 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 March 31, 2018 the total amount of the exposure subject to the Standard Method to estimate the Capital Ratio is the following:

Gross Exposures subject to the Standard Method *(Million pesos)*	Banorte	Arrendadora y Factor*	Sólida	Total Loans
Commercial	161,973	23,531	434	185,937
YoY Revenues or Sales < 14 MM UDIS	61,429	807	409	62,644
YoY Revenues or Sales >= 14 MM UDIS	100,544	22,724	25	123,293
States or Municipalities	83,998	132	0	84,129
Decentralized Federal Government Agencies and State Companies	47,016	2,871	0	49,887
Projects with own source of payment	55,829	0	0	55,829
Financial Institutions	24,844	650	0	25,494
Mortgage	141,094	0	0	141,094
Consumer	109,233	6	3,214	112,453
Credit Card	36,059	0	0	36,059
Non-revolving	73,175	6	3,214	76,394
Total Loans subject to the Standard Method	**623,988**	**27,189**	**3,647**	**654,824**
Eliminations				**(19,924)**
Total Loans				**634,900**

*Excludes operating leases

For transactions subject to Credit Risk, the Institution uses external ratings issued by the rating agencies S&P, Moody's, Fitch, HR Ratings and Verum. 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 March 2018 presented an exposure of Ps 634,900 million, higher in Ps6,820million or +1.1% QoQ and Ps 55,469 million or +9.6% YoY.

Variations per product of GFNorte's total portfolio are:

Product / Segment	Total Loan			Var. vs 4Q17		Var. vs 1Q17	
(Million pesos)	1Q17	4Q17	1Q18	$	%	$	%
Government	131,551	134,905	134,017	(888)	(0.7%)	2,466	1.9%
Commercial	127,214	140,740	143,107	2,366	1.7%	15,892	12.5%
Mortgage	120,329	136,728	141,094	4,366	3.2%	20,765	17.3%
Corporate	104,914	105,700	104,230	(1,471)	(1.4%)	(685)	(0.7%)
Payroll	48,180	54,490	55,479	988	1.8%	7,299	15.1%
Credit Card	31,176	36,093	36,059	(35)	(0.1%)	4,883	15.7%
Auto Loans	16,067	19,423	20,915	1,492	7.7%	4,849	30.2%
Total Loans	**579,432**	**628,080**	**634,900**	**6,820**	**1.1%**	**55,469**	**9.6%**

Subsidiary	Loans		Distressed Portfolio		Total	Total Reserves
(Million pesos)	Performing	Past-due	Performing	Past-due		
Banorte*	590,560	5,401	1,590	6,513	604,064	15,927
Arrendadora y Factoraje	27,007	2	18	163	27,189	299
Sólida	3,522	101	0	25	3,647	252
Accounting Records						195
Total Loans	**621,088**	**5,503**	**1,607**	**6,702**	**634,900**	**16,674**

* Banorte's total loans include eliminations for (Ps 19,924)

Total reserves of Ps 16,674 million, include rating reserves of Ps 16.48 billion and accounting records (to reserve 100% overdue interests, valuation, negative debts in the Credit Bureau and registered in recoveries) of Ps 195 million.

GFNorte's performing, past-due and distressed portfolios in 1Q18 grouped by sector and subsidiary are detailed in the two following tables:

Sector (Million pesos)	Loans		Distressed		Total Loans	Reserves		QoQ Charge offs	Days Past--Due**
	Performing	Past-Due	Performin g	Past-Due		1Q18	Var. vs 4Q17		
Government	134,017	-	-	-	134,017	701	(1)	-	-
Services*	54,438	32	232	545	55,246	792	28	55	250
Commerce	44,257	93	344	1,506	46,200	1,139	74	114	357
Construction	37,749	39	214	2,529	40,531	1,422	20	39	1,337
Manufacturing	38,401	20	189	1,824	40,434	1,176	636	34	177
Top 5 Sectors	**308,862**	**184**	**979**	**6,403**	**316,428**	**5,229**	**756**	**242**	
Other Sectors	63,970	28	629	299	64,926	953	29	15	
Mortgage	139,779	1,315	-	-	141,094	958	26	371	
Consumer	108,477	3,976	-	-	112,453	9,339	(249)	3,019	
Accounting Records						195			
Total Group	**621,088**	**5,503**	**1,607**	**6,702**	**634,900**	**16,674**	**562**	**3,648**	

* Includes Financial, Real Estate and Other Services
**Days past due from Non-Performing Loans.

Sector/Subsidiary *(Million pesos)*	Banorte*	AyF	Sólida	Total Loans
Government	131,014	3,003	0	134,017
Services**	51,085	4,161	0	55,246
Commerce	41,815	3,976	409	46,200
Construction	36,279	4,227	25	40,531
ConstructionManufacturing	31,393	9,040	0	40,434
Top 5 Sectors	**291,587**	**24,407**	**434**	**316,428**
Remaining	312,477	2,782	3,214	318,472
Total Loans	**604,064**	**27,189**	**3,647**	**634,900**

* Banorte's total loans include eliminations for (Ps 19,924)
** Includes Financial and Real Estate services

As of 1Q18, GFNorte's performing, past due and distressed portfolios grouped by federal entity and subsidiary are detailed in the following two tables:

	Federal Entities	Loans		Distressed		Total Loans	Total Reserves
	(Million pesos)	**Performing**	**Past-Due**	**Performing**	**Past-Due**		
1	Ciudad de México	175,371	1,363	932	3,115	180,781	5,230
2	Nuevo León	99,243	599	96	1,772	101,710	2,597
3	Estado de México	51,539	680	107	334	52,660	1,447
4	Jalisco	36,929	344	48	157	37,477	831
5	Tamaulipas	20,847	163	24	187	21,221	522
6	Sinaloa	17,191	138	23	97	17,449	352
7	Veracruz	15,897	245	52	169	16,363	500
8	Coahuila	15,935	119	29	75	16,158	328
9	Sonora	15,527	84	14	23	15,648	296
10	Chihuahua	15,305	128	10	68	15,511	343
	Top 10	**463,785**	**3,863**	**1,335**	**5,996**	**474,978**	**12,446**
	Other Federal Entities	157,303	1,640	273	706	159,922	4,033
	Accounting Records						195
	Total Loans	**621,088**	**5,503**	**1,607**	**6,702**	**634,900**	**16,674**

* Banorte's total loans include eliminations for (Ps 19,924)

As of 1Q18, GFNorte's performing, past due and distressed portfolios grouped by term are detailed below:

Remaining Term	**Portfolio**		**Distressed**		**Total Loans**	**Total Reserves**
(Million pesos)	**Performing**	**Past-Due**	**Performing**	**Past-Due**		
0 - 1 years	87,327	2,307	420	4,986	95,040	7,463
1 - 5 years	109,980	550	523	1,383	112,436	2,384
5 - 10 years	92,234	135	647	144	93,160	974
> 10 years	301,019	2,408	0	0	303,427	5,107
Banorte*	**590,560**	**5,401**	**1,590**	**6,513**	**604,064**	**15,927**
Factoring	14,343	0	9	86	14,439	144
Leasing	12,664	2	8	77	12,751	155
Sólida	3,522	101	0	25	3,647	252
Accounting Records						195
Total Loans	**621,088**	**5,503**	**1,607**	**6,702**	**634,900**	**16,674**

* Banorte's total loans include eliminations for (Ps 19,924)

The total distressed portfolio is Ps 8,309 million. Below is the quarterly balance of loan loss provisions for this portfolio:

Loan Loss Reserves for Distressed Portfolio	**1Q18**			
(Million pesos)	**Banorte**	**Arrendadora y Factor**	**Sólida**	**GFNorte**
Initial Loan Loss Provisions	**2,795**	**86**	**15**	**2,896**
Charged to results	1,032	9	0	1,041
Loans' write offs	62	0	0	62
FX changes	(2)	0	0	(2)
Adjustments in Credit Risk	972	9	0	981
Received in lieu of payment	0	0	0	0
Write-offs, charge-offs and discounts	(247)	0	0	(247)
Final Loan Loss Reserves	**3,580**	**94**	**15**	**3,689**
Loan Recoveries	**45**	**0**	**0**	**45**

2.2.2 Exposure to Financial Instruments

As of March 31, 2018, exposure to Credit Risk for Securities Investments of Banco Mercantil del Norte was Ps 240.54 billion, of which 99.3% is rated higher or similar 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 9% of the Tier 1 Capital as of December 2017. Additionally, the exposure of investments with the same counterparty other than the Federal Government that represents a higher or similar concentration to 5% of the Net Capital as of December 2017 has higher or similar rating to A(mex) and is comprised of (*average considered term, amount in million pesos and average return to annualized maturity*): market and bond certificates from Pemex to 5 years and 10 months totaling Ps 14.24 million at 4.3%; and debenture bond and stock certificates from Banco Interacciónes for 3 months totaling Ps 7.76 billion at 7.9%, and certificates of deposit and stock certificates from Scotiabank for 2 years, totaling Ps 7.33 billion at 8.0%.

For Derivatives operations, the exposure of the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 1% of the Tier 1 Capital as of December 2017

Exposure to Credit Risk for Securities Investments of Casa de Bolsa Banorte was Ps 168.25 billion, of which 100% is rated higher or similar 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 29% of the Capital as of December 2017. Additionally, the exposure of investments with the same counterparty other than the Federal Government that represents a higher or similar concentration to 5% of the Capital as of December 2017 has a higher or similar rating to A+(mex) and are comprised of (*average considered term, amount in million pesos and average return to annualized maturity*): market certificates of CFE for 1 year and 4 months totaling Ps 2.023 billion at 8.0%; market certificates of PEMEX for 1 year and 8 months totaling Ps 1.59 billion at 7.7%; market certificates and IOUs from Banobras, for 2 years and 3 months, totaling Ps 1.49 billion at 7.7%; market certificates of HSBC Mexico for 8 months for Ps 1.04 billion at 7.9%; ; bonds of Deutsche Bank for 5 years and 2 months totaling Ps 564 million at 10.6%; market certificates from Bancomext for 2 years and 3 months totaling Ps 405 million at 7.8%; market certificates of Banco Inbursa for 10 months for Ps 305 million at 7.9%; market certificates from Nafinsa for 2 years totaling $201 million at 7.8%;market certificates of Banco Interacciones for 1 year and 6 months totaling Ps 186 million at 8.8%; bonds of CABEI for 11 months totaling Ps 174 million at 7.8%;and market certificates of Banco Monex for 4 months for Ps 144 million at 8.7%. In the case of derivatives, there are no operations.

Arrendadora y Factor Banorte had an exposure to securities for Ps 62 thousand, 100% of them are shares. In derivatives, its exposure is Ps 8 thousand with private counterparties.

Sólida Administradora de Portafolios had an exposure to securities for Ps 236 million. 100.0% of them are shares. Its exposure to derivatives was Ps 5 million with private counterparties.

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 of guarantees related to transactions (includes operations with Banxico. Excludes settled transactions through central counterparties).

Position (Million Pesos)	1Q18	1Q18 Average
Forwards	3	(21)
FX Swaps	17	20
FX	2	1
Options	115	107
Swaps with Interest Rates IRS	3,823	3,870
Cross Currency Swap (CCIRS)	(7,035)	(8,269)
Total	(3,075)	(4,292)
Positive Fair Value *(Positive Fair Value)*	9,344	10,334
Netting Effect*	12,419	14,626
Delivered Guarantees(-) /Received(+)		
Cash	(2,300)	(2,625)

* Difference between the positive fair value (not considering the net positions) and the portfolio market value. Operations settled in *Camara de Compensación* are not included because they have no counterparty 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	1Q18	1Q18 Average	1Q18	1Q18 Average
FWD			4	(16)
FX SWAP	343	383	17	20
FX			2	1
OPTIONS	827	962	535	652
INTEREST RATE SWAP	12,293	13,811	4,212	5,008
CCS	1,350	1,174	(6,996)	(8,228)
Total	**4,218**	**4,314**	**(2,226)**	**(2,563)**
Clients (Non-Financial)	1T18	Promedio 1T18	1T18	Promedio 1T18
FWD	27	25	0	(5)
OPTIONS	41	35	(420)	(546)
INTEREST RATE SWAP	1,148	918	(390)	(1,138)
CCS	23	23	(39)	(40)
Total	**1,229**	**997**	**(849)**	**(1,729)**

Note.- The total for potential risk considers netting effects between the different types of products.

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)	1Q18	1Q18 Average
Cash Outflow with 1-notch Downgrade	0	0
Cash Outflow with 2-notch Downgrade	0	0
Cash Outflow with 3-notch Downgrade	0	0

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

Rating (Thousand pesos)	1Q18	1Q18 Average
AAA/AA-	0	0
A+/A-	(1,322)	(1,475)
BBB+/BBB-	(898)	(1,065)
BB+/BB-	(476)	(818)
B+/B-	0	0
CCC/C	(1)	(2)
SC	(378)	(931)
Total	(3,075)	(4,292)

2.3 Credit Collaterals

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

The main types of real collaterals are the following:

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

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

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

Collateral Type *(Million pesos)*	**1Q18**			
	Banorte	**Arrendadora y Factor****	**Sólida**	**GFNorte***
Total Loan Portfolio	**623,988**	**27,189**	**3,647**	**634,900**
Covered Loan Portfolio by type of collateral				
Real Financial Guarantees	17,359	0	0	17,359
Real Non-Financial Guarantees	335,353	5,556	25	340,934
Pari Passu	21,005	0	0	21,005
First Losses	32,051	0	0	32,051
Personal Guarantees	17,430	6,397	0	23,826
Total Loan Portfolio Covered	**423,197**	**11,953**	**25**	**435,175**

*Total Loans includes eliminations for (Ps 19,924).
** Excludes pure leasing

2.4 Expected Loss

As of March 31, 2018, Banco Mercantil del Norte's total portfolio was Ps 623,988. The expected loss represents 2.2% and the unexpected loss is 4.1% with respect to the total portfolio. The average expected loss is 2.2% during the period January– March 2018.

Regarding Casa de Bolsa Banorte-Ixe, the credit exposure of investments is Ps 168,254 billion and the expected loss represents 0.01% of the exposure. The average expected loss is 0.03% between January–March 2017.

The total portfolio of Arrendadora and Factor, including pure leasing is Ps 30,709 billion. The expected loss represents 0.8% and the unexpected loss is 4.5% of the total portfolio. The average expected loss represents 0.8% during the January – March 2017 period.

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The total portfolio of Sólida Administradora de Portafolios was Ps 3.64 billion. The expected loss of the portfolio represents 11.6% and the unexpected loss 11.6%, both with respect to the total portfolio. The average expected loss for the period of January – March 2017 was 11.0.5%.

2.5 Risk Diversification

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

In compliance with the risk diversification regulation in asset and liability operations, Banco Mercantil del Norte submits the following information (million pesos):

Tier 1 as of December 31, 2017	95,323
I. Financings whose individual amounts represent more than 10% of basic equity:	
Loan Operations	
Number of financings	0
Total amount of financings	0
% in relation to Tier 1	0%
Money Market Operations	
Number of financings	0
Total amount of financings	0
% in relation to Tier 1	0%
Overnight Operations	
Number of financings	0
Total amount of financings	0
% in relation to Tier 1	0%
II. Maximum amount of financing with the 3 largest debtors and common risk groups:	**43,332**

In compliance with the risk diversification regulation in asset and liability operations, Leasing and Factoring (Arrendadora y Factor Banorte) submits the following information (million pesos):

Equity as of December 31, 2017	5,145
I. Financings whose individual amounts represent more than 10% of equity(group level):	
Loan Operations	
Number of financings	4
Total amount of financings	5,748
% in relation to Equity	112%
Money Market Operations	
Number of financings	0
Total amount of financings	0
% in relation to Equity	0%
Overnight Operations	
Number of financings	0
Total amount of financings	0
% in relation to Equity	0%
II. Maximum amount of financing with the 3 largest debtors and common risk groups:	**6,957**

In compliance with the risk diversification regulation in asset and liability operations, Sólida Administradora de Portafolios submits the following information (million pesos):

Equity as of December 31, 2017	3,573
I. Financings whose individual amounts represent more than 10% of equity:	
Loan Operations	
Number of financings	1
Total amount of financings	409
% in relation to Equity	11%
Money Market Operations	
Number of financings	0
Total amount of financings	0
% in relation to Equity	0%
Overnight Operations	
Number of financings	0
Total amount of financings	0
% in relation to Equity	0%
II. Maximum amount of financing with the 3 largest debtors and common risk groups:	**632**

1. MARKET RISK (Bank and Brokerage House)

GFNorte's objectives regarding Market Risk are:

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

GFNorte's Market Risk Policies are:

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

3.1 Market Risk Methodology

Market Risk Management is controlled through a series of fundamental pillars, highlighting the use of models and methodologies such as Value at Risk (VaR), Back Testing and Stress Testing, which are used to measure the risk of traded products and portfolios in the financial markets.

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

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

3.2 Market Risk Exposure

Exposure of the Institution's financial portfolios to Market Risk is quantified using the standard methodology in the industry known as Value at Risk (VaR).

The VaR model considers a one day horizon base, and considers a non-parametric historical simulation with a 99% confidence level and 500 historical observations on risk factors. Furthermore, it considers all the positions (money market, treasury, equities, FX and derivatives for trading purposes) classified for accounting purposes as trading assets, both on and off the balance sheet.

The average VaR of the portfolio for 1Q18 was Ps 35.3 million (Ps 1.8 million lower than the average VaR from lasy quarter).

The result shows that the Bank's potential loss will be above Ps 35.3 million in one out of a hundred days.

VaR Million Pesos	Average 1Q18
VaR Total	35.3
Net Capital	110,650
VaR/Net Capital	0.03%

VaR by risk factor for Banorte's portfolio had the following behavior during the first quarter of the year:

Risk Factor Million Pesos	1Q18	Average 1Q18
Rates	32.4	36.2
FX	11.1	7.2
Equity	5.3	5.2
Diversification Effect	(15.7)	(13.4)
Bank's Total VaR	**33.0**	**35.3**

VaR for 1Q18 was Ps 33 million. The contribution to VaR for each risk factor is:

Risk Factor Million Pesos	1Q18	Average 1Q18
Rates	25.7	24.1
FX	3.7	0
Equity	4.0	11.0
Diversification Effect	0.1	2.1
Bank's Total VaR	**33.5**	**37.1**

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

Risk Factor	1Q18
Rates	66%
FX	23%
Equity	11%

3.2.1 Sensitivity Analysis and Stress Testing under extreme conditions

Since VaR indicates the potential losses under normal market conditions, Banorte complements its risk analysis enforcing tests under extreme conditions known as Stress Testing. This is presented to the Risk Policy Committee on monthly basis with the main objective of assessing the impact on the Institution's positions of extreme movements in risk factors.

3.2.2 Backtesting

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

3.2.3 Value at Risk Casa de Bolsa (VaR)

The average VaR of the portfolio for 1Q18 was Ps 10.9 million, +Ps 1.6 million lower vs. 4Q17.

The result shows that potential loss will be above Ps 10.9. million in one out of a hundred days.

VaR Million Pesos	Average 1Q18
Total VaR	10.9
Net Capital	2,512
VaR/Net Capital	**0.43%**

VaR by risk factor for Casa de Bolsa Banorte Ixe portfolio had the following behavior during the first quarter of the year:

Risk Factor *(Million Pesos)*	1Q18	Average 1Q18
Rates	17.6	10.9
FX	0	0
Equity	0	0
Diversification effect	0	0
Casa de Bolsa Total VaR	**17.6**	**10.9**

VaR at the end of 1Q18 was Ps 17.6 million.

The VaR 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 taken into account, excluding the held-to-maturity position and available for sale, were taken into account.

Concentration by Market Risk factor is in domestic interest rates

3.2.4 Sensitivity Analysis and Stress Testing under extreme conditions

Since VaR indicates the potential losses under normal market conditions, Casa de Bolsa Banorte-Ixe 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 VaR, a monthly Back testing analysis is presented to the Risk Policy Committee. Through this analysis it is possible to compare losses and gains observed with respect to the estimated Value at Risk and if necessary make the required adjustments to the parameter.

2. **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 the established limits and the Risk Appetite are reviewed through monthly reports to the CPR, weekly reports to the capital and liquidity management group and quarterly reports to the Board of Directors.

4.2 Profile and Funding Strategy

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

Funding Source (Million Pesos)	4Q17	1Q18	Change vs. 4Q17
Demand Deposits			
Local Currency (1)	345,650	339,175	(1.9%)
Foreign Currency (1)	51,142	51,850	1.4%
Demand Deposits	**396,792**	**391,025**	**(1.5%)**
Time Deposits – Retail			
Local Currency (2)	174,297	179,903	3.2%
Foreign Currency	19,320	18,999	(1.7%)
Core Deposits	**590,410**	**589,927**	**(0.1%)**
Money Market			
Local Currency (3)	55,394	59,340	7.2%
Banking Sector Deposits	**645,804**	**649,267**	**0.5%**

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 1Q18.

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	112,910
CASH DISBURSEMENTS			
2	Unsecured retail financing	349,343	23,899
3	Stable financing	220,698	11,035
4	Less stable financing	128,644	12,864
5	Unsecured wholesale financing	224,550	85,366
6	Operational Deposits	136,174	29,639
7	Non-Operational Deposits	83,166	50,517
8	Unsecured debt	5,210	5,210
9	Secured wholesale financing	258,564	17,992
10	Additional Requirements:	240,866	16,039
11	Disbursements related to derivatives and other guarantee requirements	49,222	5,368
12	Disbursements related to losses from debt financing	0	0
13	Lines of credit and liquidity	191,644	10,671
14	Other contractual financing obligations	0	0
15	Other contingent financing liabilities	0	0
16	**TOTAL CASH DISBURSEMENTS**	**NA**	**143,296**
CASH INFLOWS			
17	Cash Inflows for secured operations	18,468	617
18	Cash Inflows for unsecured operations	58,295	44,904
19	Other Cash Inflows	2,428	2,428
20	**TOTAL CASH INFLOWS**	**NA**	**47,950**
			Adjusted amount
21	**TOTAL COMPUTABLE LIQUID ASSETS**	**NA**	**112,910**
22	**TOTAL NET CASH DISBURSEMENTS**	**NA**	**95,346**
23	**LIQUID COVERAGE RATIO**	**NA**	**118.42%**

During 1Q18, the average LCR for the Bank and Sofomes was 118.42%, and at **the end of 1Q18 the LCR was 104.30%** 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 4Q17 and 1Q18 is presented in the following table:

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

LCR Component (Million Pesos)	4Q17	1Q18	Var. vs. 4Q17
Liquid Assets	121,972	112,632	(7.7%)
Cash Inflows	30,476	31,273	9.3%
Cash Outflows	143,171	139,264	(2.0%)

The Liquid Assets that compute in the LCRs for the Bank and Sofomes between 4Q17 and 1Q18 are distributed as follows:

Type of Asset (Million Pesos)	4Q17	1Q18	Var. vs. 4Q17
Total	**121,972**	**112,632**	**(7.7%)**
Level I	112,445	103,820	(7.7%)
Level II	9,527	8,812	(7.5%)
Level II A	7,762	7,166	(7.7%)
Level II B	1,765	1,646	(6.7%)

Liquid assets decreased in the quarter closing comparison in 4Q17 and 1Q18, due to the revaluation, of liquid assets in foreign currency and by the decrease in the exchange rate observed during the quarter

4.5 LCR Result's Main Causes

Variations in the LCR between 4Q17 and 1Q18 are mainly due to the decrease in the position of liquid assets in foreign currency, derived from the appreciation of the peso against the dollar. Additionally, there is a decrease in cash outflows due to guaranteed financing and an increase in current loan portfolio flows.

4.6 Liquidity Risk in foreign currency

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

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

4.7 Exposure to Derivatives and possible Margin calls

Banorte applies the regulatory methodology to determine cash outflows for derivatives. At the end of 1Q18, estimated outflows for derivatives were as follows:

Derivatives Cash Outflows (Million Pesos)	4Q17	1Q18	Var. vs. 4Q17
Net cash outflows at market value and for potential future exposure	4,351	4,379	0.7%
Cash outflows for a 3 notch credit rating downgrade.	0	0	0%

The former measurement shows that potential outflows for derivatives may represent a liquidity requirement up to Ps 4.379 billion, stable vs 4Q17 .

4.8 Liquidity Gaps

As part of the liquidity analysis for the Bank, 30 days liquidity gaps for the Institution's assets and liabilities (obligations) are analyzed. Results for the Bank at the end of 1Q18 are presented in the following table.

Concept *(Million Pesos)*	4Q17	1Q18	Var. vs. 4Q17
Cumulative 30 day Gap	(75,073)	(62,067)	9.0%
Liquid Assets	78,540	86,897	49.6%

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 1Q18:

Concept *(Million pesos)*	1 day	7 days	1 month	3 months	6 months	12 months
Natural Gap	(19,653)	(12,565)	(29,850)	(3,723)	(5,080)	(5,727)
Accumulated Gap	(19,653)	(32,217)	(62,067)	(65,790)	(70,870)	(76,597)

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 Balanced Risk

4.11 Balanced Risk

The structural risk in the balance sheet or interest rate is managed using tools such as the sensitivity analysis to changes in domestic, foreign and real rates, obtaining the impact thereof on the net interest margin. In the sensitivity analysis, it is included assumptions on deposits according to a model of stability

As part of the rate risk mitigation actions, the Institution has policies and limits for portfolio hedging at a fixed rate. The compliance of the above is reported to the CPR on a monthly basis.

In the table below, the effect on net interest income of a movement of 100 basis points over the rates is shown, which considers available for sale, that as of 1Q18 amounted to Ps 150.13 billion and in average during 1Q18 to Ps 148,6 billion.

(Million Pesos)	4Q17	1Q18	Var. vs. 4Q17
Margin Sensitivity	901	944	31.6%

4.12 Subsidiaries

Balance and Liquidity Risk Management processes for the Bank and its Sofomes are centralized in GFNorte's Credit and Risk Management General 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 1Q18.

Liquidity Ratio *(Million Pesos)*	Casa de Bolsa Banorte Ixe	Arrendadora y Factor	Sólida
Cumulative 30 days Gap	1,483	(1,586)	(3,992)
Liquid assets	1,976	12	74

5. OPERATIONAL RISK

GFNorte has a formal Operational Risk department headed by the "Deputy Managing Director of Financial and Operational Risk', reporting directly to the Chief Risk Officer.

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

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

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. Moreover, the Database will enable, in the future, to own enough information to estimate capital requirements as per Advances Models.

5.2.2 Legal and Fiscal Contingencies Database

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

As part of 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 the case ,defining 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 Basic 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 EXECUTED 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 accomplished the following securitizations:

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

- On December 13th, 2006, Banorte held the irrevocable trust for the issuance of market certificates No. 583, issuer code BNORCB, whose underlying assets are mortgages originated and transferred by Banorte.

- On November 5th, 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 federal entities, states and municipalities, 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 with respect to trust assets, its sole responsibility is the fulfilment 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 notify and replace or make the corresponding payment.

Particularly in Trust 477, operations with derivatives are carried out, specifically swaps, in order to reduce exposure to exchange rate and interest rate risks. The Institution assumes the counterparty risk generated by these operations, however these operations are only carried out with institutions of recognized solvency. The Trust's policy is to only carry out derivative instrument operations for the sole purpose of coverage, never for speculation.

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

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

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

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

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. By March 31, 2018 Grupo Financiero Banorte had the following position in securities and securitization amounts carried out by the same Institution:

Securitization *(Million pesos)*	**Banorte**		**Insurance**		**Total GFNorte**	
	Securities	**Amount**	**Securities**	**Amount**	**Securities**	**Amount**
91_BNTECB_07	50,763,776	1,986	500,000	20	51,263,776	2,006
91_BNTECB_07-2	563,059	19	-	-	563,059	19
97_FCASACB_06U	-	-	-	-	-	-

The following shows the proportion of securities held by Grupo Financiero Banorte, in relation to the total issued for each series:

Securitization *(Million pesos)*	**Issued Securities**	**Banorte**	**Insurance**	**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:

Securitization	Standard & Poor's		Fitch Ratings		Moody's		HR Ratings	
	Local	Global	Local	Global	Local	Global	Local	Global
91_BNTECB_07					Aa2.mx	Baa2	HR AAA	
91_BNTECB_07-2					A3.mx	Ba3	HR AA+	
97_FCASACB_06U	mxAA		A(mex)					

As of March 31, 2018 the amounts of the underlying assets of each securitization were:

Securitization *(Million pesos)*	Amount		
	Performing	Past-Due	Total
91_BNTECB_07	$2,744	$0	$2,744
91_BNTECB_07-2			
97_FCASACB_06U	$115	$138	$253

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%)	1,986	32
Securitizations with Risk Level 2 (weighted 50%)	19	1
Securitizations with Risk Level 3 (weighted 100%)	0	0
Securitizations with Risk Level 4 (weighted 350%)	0	0
Securitizations with Risk Level 4, 5, 6 or not rated (weighted 1250%)	0	0

*Excludes the position in Seguros Banorte

No securitization position is registered in memorandum accounts and no maintained securitization position is deducted from basic capital.

Securitizations trusts 563and 477 consider early amortization provisions. The institution has not made revolving securitizations or resecuritizations operations during the quarter.

There are no significant changes vs. figures in the prior 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 BORHIS and GEM Trusts issued certificates in favor of the institution, as holders of rights in last place under the trust agreement. These certificates provide the right to receive a percentage of the distributions and in general to the corresponding proportions of the remnant that may be in the trust after full payment of the bonds. Valuation of the certificates is based on the method of net present value of remaining cash flows expected over the lifespan of the securitization. Remaining cash flows, depending on the type of securitization, are determined as follows:

a) BORHIS: the sum of the cash flow to receive from the securitized loan portfolio, less the cash flow to pay off the market certificates, less the monthly administration expenses plus the income from sales of foreclosed properties, if the case.
b) GEM: the sum of the cash flow to receive from the securitized loan portfolio, less the cash flow to pay off the stock certificates, less expenses for Administration, plus or less the change in the reserve's interests.

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

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

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

7. POSITION IN SHARES:

At the end of March 2018, Banco Mercantil del Norte held shares amounting to Ps 4.238 billion, with gains of Ps 270 million.

During the first quarter, accumulated losses from sales and settlements were Ps 2 million.

For negotiable securities, the capital requirement for Market Risk was Ps 150 million. For securities available for sale, the capital requirement for Market Risk was Ps 32 million and for Credit Risk Ps 0.47 million.

Institution	Type of Trading	Accounting Classification	Capitalization Treatment	Market Value 1Q18	Gains / Losses 1Q18	Acumm.. Profit / Loss 4Q17-1Q18
Banorte	Public	Negotiable Securities	Subject to Market Risk Requirement	497	125	(2)
Banorte	Public	Securities Available for Sale	Subject to Market and Credit Risks Requirements	2	(13)	0
Banorte	w/o Public trading	Securities Available for Sale	Subject to Market and Credit Risks Requirements	3,739	157	4
			Total	**4,238**	**270**	**2**

In March 2018 it has a position of 657 million pesos in Casa de Bolsa Banorte
During the quarter,there were losses for 1 million pesos from sales and settlements.

For securities available for sale, the capital requirement for Market risk was Ps 3 million.

Institution	Type of Trading	Accounting Classification	Capitalization Treatment	Market Value 4Q17	Gains / Losses 4Q17	Acumm. Profit / Loss 3Q17-4Q17
Casa de Bolsa Banorte-Ixe	Public	Negotiable Securities	Subject to Market Risk Requirement	165	(4)	(1)
Casa de Bolsa Banorte-Ixe	Public	Securities Available for Sale	Subject to Market Risk Requirement	493	259	0
			Total	**657**	**254**	**(1)**

Internal Control

The companies comprising GFNorte have an Internal Control System (SCI) structured according to the guidelines set forth by their Board of Directors, which establishes a general internal control framework, as well as the environment in which it must operate in order to provide reasonable security regarding the effective and efficient performance of operations, reliability of financial statements and compliance of regulation and legal framework.

The SCI's mission is to help running an adequate internal control in the operations and in data generating and recording. The system is made up of various elements:

A. The Board of Directors with the support of the Advisory Board, Risk Policies Committee (CPR), Audit and Corporate Practices Committee (CAPS) and Human Resources Committee.
B. GFNorte’s CEO and the departments which support him: Risk Management Unit (RMU), Legal Department and the Comptroller, responsible for ensuring that adequate control levels, operational risks and compliance with regulation are maintained.
C. Internal Audit, External Audit and the Commissary (The Commissary applies only to GFNorte subsidiaries) as additional support structures to check how the Internal Control System functions and provide reasonable assurance regarding the reliability of the generated data. The Internal Audit Department reports to the Audit and Corporate Practices Committee (CAPS) and maintains full independence from the administrative areas.

D. The Executive Group as main responsible persons for SCI assurance according to the functions and responsibilities assigned to them. In addition to promoting the enforcement of the regulations established for the Institution and the strategies set forth by the GFNorte's CEO.
E. Documents that establish the general control criteria that should be followed in the operation and reporting of transactions; in optimizing human, material and technological resources; in the use, security, timeliness and reliability of the information; and in the due compliance with the external and internal regulations. Within these documents, the Code of Conduct stands out as it regulates the behavior that each Board member, officer or employee of the Group should maintain while performing their activities.
F. Policy and procedure manuals that regulate documentation, recording and liquidation of operations that the Institution carries out and establish the control points that should be observed, assuring the separation of functions, clear assigning of responsibilities, safekeeping of information and prevention of unlawful acts.

During the first quarter of 2018, activities related to strengthening control, risk evaluation and management, establishment and monitoring of controls, and assurance of quality information continued to be developed; highlighting the following:

A. The various Corporate Governance Committees have had the required financial, economic, accounting and/or legal information for proper decision-making.
B. The policies and procedure manuals have been updated as per changes in external regulations, new products, and changes in the Institution's processes or improvements to internal controls highlighting the issuance of the Anti-Corruption Policy, which compiles in a single document the various internal regulations that GFNorte observes in this regard.
C. There has been continuous follow-up of the improvement actions regarding the observations made by the different members of the SCI.
D. The Supervisory Authorities' requirements have been addressed and the information required by the external regulations has been submitted. Regular inspection visits were carried out.
E. The Code of Conduct was updated, with prior authorization from the Board of Directors at the request of the CAPS committee, incorporating the particular prohibition of engaging in trading strategies or price quotations with the intention of preventing the proper operation of the exchange and securities market or of compromising their integrity.
F. Requests regarding internal control subjects from diverse internal departments were handled, to the development of new institutional projects, as well as those derived from changes to the Regulation.
G. Effectiveness tests related to the Business Continuity Plan were executed.
H. The requests from different internal areas regarding internal control were met, both in support of the development of new institutional projects, as well as those that derive from changes to the Regulation.

FINANCIAL SITUATION AND LIQUIDITY

Internal and External Liquidity Sources

The internal liquidity sources, in local and foreign currency, come from the various deposit products that the institution offers to customers.

Regarding external sources of liquidity, it has diverse mechanisms to access the debt and capital markets. The Institution obtains resources through the issuance of debt securities, loans from other institutions - including the Central Bank and international organisms -, as well as from the issuance of subordinated debt. Also considered is the liquidity that the Institution obtains through its proprietary repos' securities that qualify for such transactions. It also has the alternative of obtaining resources through the issuance of shares representing equity.

Currently, the Institution has diverse sources of liquidity. Deposits, including interest bearing and non-interest bearing demand and time deposits, are the bank's main source of liquidity. Negotiable and short term instruments, such as government securities and deposits in the Central Bank and other banks, are liquid assets that generate interest. Liquid assets also include deposits in foreign banks, which are denominated mainly in US dollars.

Detailed information related to liquidity sources is reported in different headings of the GFNorte's Balance Sheet in this report

Dividend Policy

GFNorte's Ordinary General Shareholders' Meeting held on November 19th, 2015, approved to modify the Dividend Policy, which was effective since October 2011.

As of November 2015, the Policy establishes that the dividend payment can be between 16% and up to 40% of the net income of the prior year.

- For reference, the former Policy which decreed dividends established a payment between 16% and 20% of the recurring net income depending on its annual growth.

Related Parties Loans

According to Article 73 of the Law of Credit Institutions, loans granted to related parties of credit institutions cannot exceed the established limit of 35% of the basic portion of net capital.

In the case of GFNorte as of December 2017 and March 31, 2018, the amount of loans granted to third parties is as follows (billion pesos):

Lender	Mar-2018	% Basic Equity	Dec -2017	% Basic Equity
Banorte	Ps 21.90	23.0%	Ps 19.41	19.8%

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

Banorte

As of Marchr 31, 2018, total loans granted to related parties, under Article 73 of the Law of Credit Institutions, was Ps 21.90 billion (including Ps 4.99 billion in — Letters of Credit "CC", which are registered in memorandum accounts), representing 3.5% of Banorte's total loan portfolio (excluding the balance of CC). Of the total related loans balance, Ps 18.39 billion were loans granted to clients linked to members of the Board of Directors; Ps 2.42 billion were granted to clients linked to shareholders and Ps 1.08 billion were linked to companies related to GFNorte.

In accordance with Article 73 of the Law for Credit Institutions, the balance of GFNorte's loan portfolio for individuals and corporations at the end of March 2018 was 23.0% of the basic part of the equity.

Related party loans have been granted under market conditions and rated in accordance with the policies, procedures and rating systems applicable to the rest of GFNorte's loan portfolio based on the general dispositions applicable to credit institutions with regard to rating of loan portfolios issued by CNBV. 97% of the related party loans are rated in Category "A", and the majority of these loans were classified as commercial loans.

Banorte

As of December 31, 2017, total loans granted to related parties, under Article 73 of the Law of Credit Institutions, was Ps 19.410 billion (including Ps 5 billion in — Letters of Credit “CC”, which are registered in memorandum accounts), representing 3.2% of Banorte's total loan portfolio (excluding the balance of CC). Of the total related loans balance, Ps 16.769 billion were loans granted to clients linked to members of the Board of Directors; Ps 1.561 billion were granted to clients linked to shareholders and Ps 1.12 billion were linked to companies related to GFNorte.

In accordance with Article 73 of the Law for Credit Institutions, the balance of GFNorte‘s loan portfolio for individuals and corporations at the end of December 2017 was 19.8% of the basic part of the equity.

Related party loans have been granted under market conditions and rated in accordance with the policies, procedures and rating systems applicable to the rest of GFNorte‘s loan portfolio based on the general dispositions applicable to credit institutions with regard to rating of loan portfolios issued by CNBV. 97% of the related party loans are rated in Category "A", and the majority of these loans were classified as commercial loans.

Loan or tax liabilities

The tax credits listed below are currently in litigation:

	As of March 31, 2018
BANORTE	**$-**
IMSS fees INFONAVIT fees	-
AFORE XXI BANORTE	**$2**
Loan # 4429309391 Payroll Tax of the state of Coahuila	2
UNITELLER	**$6**
Philippines 2007 - 2008	6
CASA DE BOLSA	**$-**
–Financial year 2007 (document 900 06 05-2010-03968)	-
IXE BANCO	**$-**
Income Tax-Profit Sharing for the 2005 fiscal year – inflation adjustment	-

Million pesos

People in Charge

The undersigned represent under oath that, within the scope of our respective functions, we have drawn up the information relative to Grupo Financiero Banorte contained in this report, which, to the best of our knowledge, reasonably reflects its situation. Furthermore, we express that we are no aware that relevant information has been omitted or falsified in this quarterly report or that it contains information that may lead to errors to investors.

Act. Jose Marcos Ramirez Miguel
Chief Executive Officer of Grupo Financiero Banorte, S.A.B. de C.V.

Eng. Rafael Arana de la Garza
Chief Operating Officer & Chief Financial Officer

C.P. Isaias Velazquez Gonzalez
Managing Director of Internal Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director of Comptrollership

C.P.C. Mayra Nelly Lopez Lopez
Executive Director of Accounting

Basis for submitting and presenting Financial Statements

Grupo Financiero Banorte (GFNorte). Issues the financial statements in consolidated form with its Subsidiaries in accordance with the General Provisions Applicable to the Controlling Companies of Financial Groups that regulate the matters that correspond jointly to the National Supervisory Commissions (the Provisions) published in the Official Gazette of the Federation on January 9, 2015.

Sector Bancario (Banorte). Issues the financial statements in consolidated form with its Subsidiaries in accordance with the General Provisions Applicable to the financial information of the Credit Institutions (the Provisions) published in the Official Gazette of the Federation on December 2, 2005, modified by means of published Resolutions in the aforementioned Official Gazette on March 3 and 28, September 15, December 6 and 8, 2006, January 12, March 23, April 26, November 5, 2007, March 10, August 22, September 19, October 14, December 4, 2008, April 27, May 28, June 11, August 12, October 16, November 9, December 1 and 24, 2009, January 27, February 10, April 9 and 15, May 17, June 28, July 29, August 19, September 9 and 28, October 25, November 26 and December 20, 2010, June 24 and 27 January, March 4, April 21, July 5, August 3 and 12, September 30, October 5 and 27, and December 28, 201 1, June 19, July 5, October 23, November 28 and December 13, 2012, January 31, April 16, May 3, June 3 and 24, July 12, October 2 and December 24, 2013, January 7 and 31, March 26, May 12 and 19, July 3 and 31, September 24, October 30, December 8 and 31, 2014, January 9, 5 February, April 30, May 27 and June 23, 2015, August 27, September 21, October 29, November 9 and 13, December 16 and 31, 2015, April 7 and 28 and December 22, 2015 June 2016, July 7 and 29, August 1, September 19, September 28, 2016, and December 27, 2016, January 6, April 4 and 27, May 31, June 26, 4 and 24 July, August 29, October 6 and 25, December 18, 26 and 27, 2017, January 22 and March 14, 2018, respectively.

GFNorte and Banorte. The financial information contained in this document has been prepared in accordance with the regulation issued by the National Banking and Securities Commission (CNBV) for the holding company and the financial entities that make up the Financial Group and the NIF issued by the Mexican Board of Standards. of Financial Information, AC (CINF) The regulation of the CNBV and the aforementioned NIFs differ from each other due to the specialized operations of the Credit Institutions. They also differ from the accounting principles generally accepted in the United States of America (US GAAP) and the regulations and principles established by the North American authorities for this type of financial entities. In order to present the information contained in an international format, the format for the classification and presentation of certain financial information differs from the format used for the financial information published in Mexico.

The information contained in this document is based on unaudited financial information of each of the entities to which it refers**.**

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BANORTE