

# **Driving** the Mexico of the

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## **Future**

FINANCIAL STATEMENTS

**2018 ANNUAL REPORT** 

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## Annual Report of the Audit and Corporate Practices Committee

Mexico City, March 21, 2019

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

In accordance with the provisions of Articles 58 of the Law to Regulate Financial Groups, 43 of the Securities Market Law, and 34 of the Unified External Auditors' Bulletin, the following is the annual report by the Audit and Corporate Practices Committee (the Committee) for fiscal year 2018.

The contents of this report shall refer to Grupo Financiero Banorte (GFNorte) and the following relevant entities: Banco Mercantil del Norte, S.A., Casa de Bolsa Banorte, S.A. de C.V., Arrendadora y Factor Banorte, S.A. de C.V., SOFOM ER, Sólida Administradora de Portafolios, S.A. de C.V. SOFOM ER, Sólida Administradora de Portafolios, S.A. de C.V., Pensiones Banorte, S.A. de C.V. and Banorte Ahorro y Previsión, S.A. de C.V.

#### I. As regards our audit:

- a) Regarding the status of the Internal Control System (ICS) and Internal Audit of GFNorte and its relevant entities, and any deficiencies and deviations detected therein, we took into account the following elements:
  - 1. The annual reports on Internal Control activities by the relevant entities, prepared by their Managing Directors.
  - 2. The reports of the Internal Comptrollers of the relevant entities of GFNorte in Mexico, along with their opinion on the operation of the ICS.
  - 3. The opinion of Internal Auditor regarding the condition of the ICS at the relevant entities.
  - 4. The reports on relevant deficiencies and observations regarding GFNorte and its Subsidiaries presented by Internal Audit, and follow-up in the form of corrective measures.
  - 5. Auditor's opinion on the financial statements of GFNorte and its subsidiaries.
  - 6. The reports of the inspection visits by the competent authorities.
  - 7. The opinions of the Statutory Auditors of the relevant entities of GFNorte.
  - 8. The reports of other Audit Committees on any relevant events and the minutes of their meetings.
  - 9. Internal Audit management reports and report on compliance with the work program.

On the basis of these elements, we report that the ICS of GFNorte and its relevant entities functions appropriately, and that any deficiencies or deviations that were found have been remedied or are in process of being remedied.

With respect to the operation of the Internal Audit, the area has remained independent, and performed its work program reasonably according to best practices, and efficiently oversaw the implementation of actions to correct observations and areas of opportunity.

b) No significant breaches of operating or accounting criteria or policies by GFNorte and its relevant entities were observed. The parties responsible were informed of the areas of opportunity identified, and measures were taken to address them, using the corresponding monitoring system to ensure their proper implementation.

c) Concerning our assessment of the independence required of the legal entity that provides external audit services, we report that the external auditor meets the necessary requirement of independence to undertake these duties.

Additionally, the contents of its opinions, communications, and reports were found to be of good quality and useful in supporting the Committee, with special mention of the fact that these results and opinions do not reflect any differences with those of Management. During the audit exercise the independent auditor did not issue any relevant observations that required further action.

Concerning the evaluation of the performance of the external auditor, we report that in the development of its activities and in its relationship with Management and this Committee, the firm Galaz, Yamazaki, Ruiz Uriquiza, S.C. (a member of Deloitte Touche Tohmatsu) has proven its quality.

**d)** With regard to the description and assessment of any additional or supplementary services provided by the external auditor, during fiscal year 2018 the services of the firm were engaged for the purpose of reviewing the sustainability report and some local taxes, as well as transfer prices in intercompany transactions.

It was also engaged to carry out work relating to diagnosis and consulting on implementation of new accounting regulations contained in the Financial Reporting Standards and drafts of the new CNBV Accounting Criteria.

In tax matters, the firm was hired to identify the tax effects that legislation in the United States (US) would have on the eventual spinoff of Banorte USA.

In the area of technology, the same firm was engaged to contribute best practices in initiatives relating to establishment of the TRIAGE Protocol and Information Services Assessment Process, and participate as a possible supplier for conducting intrusion testing in those systems. Finally, its engagement was authorized for the purpose of analyzing and providing an opinion on the proposed payments by M&G Polímeros through administered credit in Recovery Banking.

With respect to the assessment of these additional services, this committee is of the opinion that they were supplied in accordance with the requested objectives and scope, the resources applied to carrying them out were sufficient, the participating teams possessed the professional skill and experience needed to execute them, that they were provided within the required time period, and that those responsible for carrying out these activities maintained effective communication.

- e) We reviewed the financial statements of GFNorte and Subsidiaries as of December 31, 2018, and accompanying External Auditor's opinion and confirmed that these were prepared, in all material aspects, in accordance with the applicable accounting criteria, and their approval was recommended to the Board of Directors. The Committee also reviewed on a quarterly basis the interim financial statements for the fiscal year.
- f) With respect to the main modifications to accounting policies and criteria applied during the fiscal year, these were made in keeping with changes in the applicable provisions described in Note 4 to the financial statements, "Main Accounting Policies," which includes a detailed explanation of these modifications and their effects.

During the fiscal year, the Board of Directors approved changes to the methodology for valuation of investment projects and obtained an official document from the CNBV authorizing it to apply a special book entry to recognize the result from mark-to-market valuation of housing development companies.

- g) No relevant observations were received during the fiscal year from shareholders, directors, senior officers, employees or any third party, with respect to accounting, internal controls or internal and external audit, or reports of any irregular event. Pursuant to best practices, there is an anonymous reporting system in the place, and the Committee monitors appropriate follow-up on all matters reported through that system.
- h) With respect to follow-up on of the resolutions of the Shareholders' Meeting and of the Board of Directors, these bodies did not request that the Committee monitor any resolution in particular.
- i) During the fiscal year, oversight visits were made by CNBV, CNSF, CONDUSEF, IPAB, Banco de México and the Mexican Stock Exchange (the latter to the Brokerage Firm); it should be noted that that the CNBV requested that the Board of Directors be informed of some aspects detected in its review.
  - In the months of December and January, the Authorities were presented with written responses on their observations, in some cases contributing additional information in order to address the issue, and in others indicating the corrective plan already being applied, and still other informing them that the corresponding analysis will be carried out to begin correction programs. The main findings were reported to the Board of Directors in its January 24, 2019 meeting.
- j) Other relevant activities conducted within the responsibilities of the Committee included following up on the progress of the merger with Grupo Financiero Interacciones and approval of modifications to the Internal Audit Work Program for the second half of 2018, which entailed new processes and companies that resulted from the merger.

The Committee approved the materiality criteria that the internal Auditor must use in reporting on the findings of its review of the financial statements of GFNorte and its subsidiaries, and the proposed policies and limits on the engagement of additional services by the External Auditor.

With regard to the Unified Bulletin on External Auditors, which took effect in August 2018, the Committee meet in extraordinary session with the External Auditor, Internal Comptroller, Internal Audit department and management in order to identify the responsibilities of each and identify the deliverables to be received and issued in order to comply with this Bulletin.

Regarding the Trust area, the Committee followed up on the results of the audit in fiscal year 2017, phase II, corresponding to the work plan for the SIFE Trust System, progress toward obtaining a legal opinion on the files, and finally, a review of progress in addressing the observations identified by the Internal Audit department.

In matters of Technology (IT), the Committee followed up on the incident involving a breach of the Interbank Electronic Payment System (SPEI) that occurred in April 2018, evaluating the corresponding remediation plan; reviewed the report on Data Security, which included an evaluation of GFNorte's level of maturity with respect to its competitors, and details of the Quantum 2020 program, whose purpose is to maximize the scope of GFNorte's data asset protection.

In the Credit area, the Committee verified the results of the fiscal year 2018 Loan Review applicable to Banco Mercantil del Norte and Arrendadora y Factor Banorte, as well as the internal credit models.

Additionally, the Committee reviewed actions to strength the segregation of application functions, and followed up on the results and corrective measures of the forensic analysis of the fraud that occurred at Casa de Bolsa Banorte in May 2017.

Before concluding this we report, we would like to recognize the past contributions of Manuel Aznar Nicolín and Robert Chandler Edwards, former members of this Committee and Board Members of GFNorte, who played an active role in making this strengthening our institution.

#### **II. Concerning Corporate Practices:**

- a) In relation to observations on the performance of relevant senior executives, the Secretary of the Human Resources Committee informed that no cases were registered of senior officers acting in breach of the established policies during the fiscal year.
- b) Transactions with related parties approved by the Board of Directors as of December 31, 2018, the credits extended by Banco Mercantil del Norte to related parties in the same fiscal year, totaled Ps. 17.13 billion, which is below the limit established by the corresponding regulations. Intercompany transactions were carried out at market prices; these were verified by the External Auditor, who reported no findings.
  - During 2018, the Committee monitored the implementation of GFNorte's Conflict of Interest Prevention System, relying upon the Internal Audit and Controllership management reports.
- c) Regarding the benefit packages of the CEO and relevant senior officers, there is a Compensation System approved by the Board of Directors, which divides their compensation into ordinary and extraordinary, and rules on deferral the latter, depending on established risk indicators and compliance with policies; this system was consistently applied during the fiscal year, taking into consideration the result of the review carried out by Internal Audit area and the reports of the Human Resources Committee and Risk Policy Committee to the Board of Directors.
- **d)** During the fiscal year, the Board of Directors did not grant any dispensation to any directors or relevant senior officers to take advantage of any business opportunities.

Sincerely,

#### **Héctor Reyes Retana y Dahl**

Chairman of the Audit and Corporate Practices Committee Of Grupo Financiero Banorte, S.A.B. de C.V.

### Independent Auditors' Report

to the Board of Directors and Stockholders of Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries

## Deloitte.

#### **Opinion**

We have audited the consolidated financial statements of Grupo Financiero Banorte, S.A.B. Of C.V. And Subsidiaries (the Holding), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated income statements, changes in stockholders' equity and cash flows for the years then ended, as well as the notes to the consolidated financial statements that include a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Holding Company as of December 31, 2018 and 2017, as well as its consolidated results of operations and cash flows for the years ended according to the accounting criteria established by the National Banking and Securities Commission (the Commission) through the "General Provisions applicable to Holding Companies of Financial Groups subject to the Supervision of the National Banking and Securities Commission "(the Accounting Criteria).

#### **Basis of opinion**

We have conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under these standards are further explained 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 Holding 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.

#### **Emphasis Paragraphs**

On July 10, 2018, Grupo Financiero Banorte, S.A.B. de C.V. (the Financial Group) and Grupo Financiero Interacciones S.A.B. de C.V. (Interacciones) obtained from the Ministry of Finance and Public Credit, the favorable opinion of the Bank of Mexico and the National Banking and Securities Commission and the National Insurance and Bonding Commission, respectively, the authorizations necessary to carry out the merger of: (i) Interacciones, as a merged company, with the Financial Group, as the merging company; (ii) Banco Interacciones, S.A., as a merged company, with Banco Mercantil del Norte, S.A., as a merging company; (iii) Interacciones Casa de Bolsa, S.A. de C.V., as a merged company, with Casa de Bolsa Banorte, S.A. of C.V., as a merging company; (iv) Aseguradora Interacciones, S.A. de C.V., as a merged company, with Seguros Banorte, S.A. of C.V., as a merged company; and (v) Interacciones Sociedad Operadora de Fondos de Inversión, S.A. de C.V., as a merged company, with Operadora de Fondos Banorte, S.A. of C.V., as a merging company (the "Mergers").

As mentioned in Note 2 b) to the consolidated balance sheets, as of July 13, 2018, the Mergers between the Financial Group and Interacciones as well as its subsidiaries had an effect in accordance with the merger agreements, as well as with the authorizations of the relevant authorities, being duly registered in the corresponding Public Registries of Commerce, and in terms of the applicable legislation.

As mentioned in Note 4 to the consolidated financial statements, in 2018 the Financial Group made a change in its internal policy of impairment of investment projects, so modified its valuation methodology of investment projects registered within other Accounts receivable. The initial effect of the application of the new methodology was Ps. 4,353 and was registered on the basis of NIF B-1 "Accounting changes and error corrections" against Retained earnings from prior years.

#### Convenience Translation of the Consolidated Financial Statements into English

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

#### **Key audit 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 allowance for Loan Losses 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 to determine and update each of the above credit risk factors in the calculation of that estimate.

Our audit procedures to cover this key audit issue included:

- a) Testing the design and operational effectiveness of the relevant controls regarding the valuation of the Allowance for Loan Losses of the Financial Group.
- b) Recalculating 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) Involving our team of Regulatory Compliance specialists.
- d) Validating the accurate 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, the valuation effects could be recorded in results or stockholders' equity in accordance with the Accounting Criteria issued by the Commission and (ii) the Holding Company does not recognize the effect of impairment even if there is objective evidence that a security is impaired.

Our audit evidence, with respect to the aforementioned in the previous paragraph, included the following:

- a) We reviewed the integrity by confirmation of the custodian (SD INDEVAL, Institución para el Depósito de Valores, S.A. de C.V. 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 the case of investments that show signs of deterioration and for which the Management of the Financial Group performed an impairment analysis, we verified that these calculations are carried out in accordance with the accounting regulations, additionally we prove the controls that the Financial Group has implemented for said procedure.
- d) For investments that show signs of deterioration and for which the Management of the Institution performed an impairment analysis, we verified that these calculations were carried out in accordance with the accounting regulations, in addition we prove the controls that the Institution has implemented for said procedure.

The results of our auditing procedures described above were reasonable and we noted no exceptions.

#### Merger with the Interacciones Financial Group (See Note 2 b)

As mentioned in Note 2b) to the consolidated financial statements, on July 13, 2018, the merger between the Institution and Interacciones, as well as its subsidiaries, took effect. It was considered a key issue in our audit since (i) the initial recognition and valuation of the acquisition was via merger with value of consideration with exchange of shares and (ii) the Overprice paid (goodwill) was generated because the value of the paid consideration was higher than the fair value of the net assets of the acquired business.

Our audit evidence, in respect of the preceding paragraph, included the following:

- a) We reviewed that the merger was part of the agreements of the General Stockholders' Meeting and that the Institution had the authorizations of the Ministry of Finance and Public Credit, Bank of Mexico and the National Banking and Securities Commission to carry this acquisition.
- b) We review that the value of the shares that were exchanged in the consideration were at market value.
- c) We review that the Overprice paid (goodwill) will be generated because the value of the paid consideration was greater than the fair value of the net assets of the acquired business.
- **d)** We reviewed that the Administration performed the accounting records of this transaction in accordance with the aforementioned subparagraphs

The results of our audit procedures described above were reasonable and we did not note 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 Management and Those Charged with Governance for 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 Holding Company's ability to continue operating, disclosing as appropriate, the issues related to the Operating Group and using the operating accounting principle, unless management intends to liquidate the Financial Group or to stop its operations, or there is no other realistic alternative.

Those responsible for the governance of the Holding Company are responsible for supervising the financial information process of the Holding Company.

#### Auditors' Responsibility 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:

- 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.
- Obtain knowledge of the material internal control to audit in order to design appropriate audit procedures for the circumstances and not in order to express an opinion on the effectiveness of the internal control of the Holding Company.
- Evaluate the adequacy of the accounting policies applied and the reasonableness of the accounting estimates and the corresponding information disclosed by the Management.
- Conclude on the adequacy of the use of the accounting standard of the operating company by its Management and, based on the audit evidence obtained, we conclude on whether there is a material uncertainty related to facts or conditions that may generate significant doubts about the ability of the Holding Company to continue operating. If we conclude that material uncertainty exists, it is required that we highlight this in our audit report to the corresponding information disclosed in the financial statements or, if such 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 operating.
- 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 such fashion these are considered reasonably presented.

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

We communicate to those responsible for the governance of the Holding 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 identified in the course of the audit.

We also provide to those responsible for the governance with a statement that we have met with the applicable ethics requirements regarding independence and communicate 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 Financial Group, we determine that these 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 exceed 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 26, 2019

## Consolidated Balance Sheet

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In millions of Mexican pesos)

CASH ROUVALENTS         Ps. 75,637         Ps. 76,289           MARGIN SECURITIES         1,986         1,986           INVESTMENT IN SECURITIES         257,904         239,019           Securities available for sale         214,164         168,540           Securities available for sale         214,164         168,540           Securities INANCIAL INSTRUMENTS         1,021         678           DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS         1,021         678           DERIVATIVES FINANCIAL INSTRUMENTS         28,083         25,520           For trading purposes         156         205           For trading purposes         28,083         25,520           For trading purposes         156         205           For trading purposes         302,845         205           For trading purposes         302,845         233,771           Full Loans acquired train Institution's loans         7,735         5,944           Government loans         197,373         134,905           Consumer loans         113,249         105,567           Medium and residential         152,271         13,156           Loans acquired from INFONAVIT or FOVISSSTE         3,511         3,61         6,719           PAST-DU	ASSETS	2018	2017
Trading securities   257,904   239,019   Securities available for sale   214,164   68,540   60,0106   502,869   60,0106   502,869   60,0106   502,869   60,0106   502,869   60,0106   502,869   60,0106   502,869   60,0106   60	CASH AND CASH EQUIVALENTS	Ps. 75,637	Ps. 76,269
Trading securities         257904         239,019           Securities held to maturity         128,038         95,310           DEBTOR BALLANCES UNDER REPURCHASE AND RESALE AGREEMENTS         1,021         680,066         502,869           DERIVATIVES FINANCIAL INSTRUMENTS         28,083         25,520         75,720         768           For Indiging purposes         28,083         25,520         725,220	MARGIN SECURITIES	1,458	1,986
Securities available for sale         214,164         168,540           Securities available for maturity         128,038         5,310           DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS         1,021         678           DERIVATIVES FINANCIAL INSTRUMENTS         1,021         678           For trading purposes         28,038         25,520           For trading purposes         28,339         25,520           VALUATION ADJUSTMENTS FOR ASSET HEDGING         84         99           PERFORMING LOAN PORTFOLIO         28,339         233,777           ERRORMING LOAN PORTFOLIO         302,845         233,777           Financial institution's loans         302,845         233,777           Financial institution's loans         302,845         233,777           Mortgage loans         113,441         105,567           Mortgage loans         115,271         131,563           Low-income housing         16         26           Low-income housing         16         26           Consumer loans         7,387         6,719           PSAT-DUE LOAN PORTFOLIO         77,371         6,719           Commercial loans         4         4         4           Business loans         7,387 <th< td=""><td>INVESTMENT IN SECURITIES</td><td></td><td></td></th<>	INVESTMENT IN SECURITIES		
Securities held to maturity	Trading securities	257,904	239,019
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	Securities available for sale	214,164	168,540
DEBTOR BALLANCES UNDER REPURCHASE AND RESALE AGREEMENTS         1,021         6.78           DERIVATIVES FINANCIAL INSTRUMENTS         28,033         25,520           For I radding purposes         156         205           For Hodging purposes         28,239         25,725           VALUATION ADJUSTMENTS FOR ASSET HEDGING         84         99           PERFORMING LOAN PORTFOLIO         77,755         5,344           Commercial loans         302,845         233,777           Financial institution's loans         302,845         233,777           Financial institution's loans         193,373         134,905           Consumer loans         193,373         134,905           Mortgage loans         16         26           Medium and residential         15,41         10,5567           Loans acquired from INFONAVIT or FOVISSSTE         3,511         3,816           TOTAL PERFORMING LOAN PORTFOLIO         77,192         615,598           PAST-DUE LOAN PORTFOLIO         77,387         6,719           Consumer loans         7,387         6,719           Business loans         7,387         6,719           Financial institutions' loans         7,387         6,719           Consumer loans         1,349	Securities held to maturity	128,038	95,310
DERIVATIVES FINANCIAL INSTRUMENTS         28,083         25,205           For hedging purposes         156         205           For hedging purposes         28,239         25,725           VALUATION ADJUSTMENTS FOR ASSET HEDGING         8         99           PERFORNING LOAN PORTFOLIO         8         99           Commercial loans         7,735         5,944           Business loans         7,735         5,944           Financial institution's loans         7,735         5,944           Government loans         113,441         105,567           Mortgage loans         113,441         105,567           Mortgage loans         16         22,271           Medium and residential         16         26           Loans acquired from INFONAVIT or FOVISSSTE         3,511         3,618           TOTAL PERFORMING LOAN PORTFOLIO         77,192         615,598           PAST-DUE LOAN PORTFOLIO         73,87         6,719           Commercial loans         4         6,719           Business loans         7         7,87         6,719           Financial institutions' loans         4         7,87         6,719           Business loans         7         4,72         1,72 </td <td></td> <td>600,106</td> <td>502,869</td>		600,106	502,869
For trading purposes         25,200           for hedging purposes         156         205           VALUATION ADJUSTMENTS FOR ASSET HEDGING         28,239         25,725           VALUATION ADJUSTMENTS FOR ASSET HEDGING         28,239         25,725           PERFORMING LOAN PORTFOLIO         302,845         233,777           Financial institution's loans         302,845         233,777           Financial institution's loans         197,373         134,905           Consumer loans         197,373         134,905           Mortgage loans         18,22,71         131,563           Mortgage loans         16         26           Loans acquired from INFONAVIT or FOVISSTE         3,511         3,816           TOTAL PERFORMING LOAN PORTFOLIO         77,397         6,719           Consumer loans         4         6           Business loans         7,367         6,719           Financial institutions' loans         4,08         4,40           Mortgage loans         4,08         4,40           Medium and residential         1,349         1,179           Loans acquired from INFONAVIT or FOVISSTE         113         643           Medium and residential         1,349         1,179           <	DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	1,021	678
For hedging purposes	DERIVATIVES FINANCIAL INSTRUMENTS		
VALUATION ADJUSTMENTS FOR ASSET HEDGING         28,239         25,725           PERFORMING LOAN PORTFOLIO         84         99           Commercial loans         302,845         233,777           Business loans         7,735         5,944           Financial institution's loans         197,373         134,905           Consumer loans         113,441         105,567           Mortgage loans         115,271         13,563           Medium and residential         152,271         3,511         3,816           Low-income housing         16         26         26           Loans acquired from INFONAVIT or FOVISSSTE         3,511         3,816         27         5,598           PAST-DUE LOAN PORTFOLIO         777,192         615,598           PAST-DUE LOAN PORTFOLIO         777,192         615,598           PAST-DUE LOAN PORTFOLIO         7,387         6,719           Consumer loans         4         -         -           Medium and residential         1,349         1,179         1,179           Low-income housing         2         1         1         1,449         1,179         1,000         1,000         1,000         1,000         1,179         1,000	For trading purposes	28,083	25,520
VALUATION ADJUSTMENTS FOR ASSET HEDGING   PERPORMING LOAN PORTFOLIO	For hedging purposes		
PERPORMING LOAN PORTFOLIO   Commercial loans   Business loans   302,845   233,777   Financial institution's loans   19,737   19,44   105,567   13,450   105,567   13,450   105,567   13,450   13,441   105,567   13,450   13,441   105,567   13,563   13,441   105,567   13,563   13,441   105,567   13,563   13,441   105,567   13,563   16,670   16,6		28,239	- /
Business loans		84	99
Business loans         302.845         233.777           Financial institution's loans         7,735         5,944           Government loans         197,373         134,905           Consumer loans         113,441         105,567           Mortgage Joans         115,2271         131,563           Low-income housing         16         26           Loans acquirred from INFONAVIT or FOVISSSTE         3,511         3,816           TOTAL PERFORMING LOAN PORTFOLIO         777,192         615,598           PAST-DUE LOAN PORTFOLIO           Commercial loans         7,387         6,719           Business loans         4         6           Financial institutions' loans         4         6           Consumer loans         4,408         4,400           Mortgage loans         1,349         1,179           Medium and residential         1,349         1,179           Low-income housing         2         1           Low-income housing			
Financial institution's loans	Commercial loans		
Government loans         197,373         134,905           Consumer loans         113,441         105,567           Mortgage loans         152,271         131,563           Medium and residential         152,271         131,563           Low-income housing         16         26           Loans acquired from INFONAVIT or FOVISSSTE         3,511         3,816           TOTAL PERFORMING LOAN PORTFOLIO         777,192         615,598           PAST-DUE LOAN PORTFOLIO           Commercial loans           Business loans         7,387         6,719           Financial institutions' loans         4         4         -           Mortgage loans         4,408         4,440         -           Mortgage loans         1,349         1,179         1           Low-income housing         2         1         1         1         1,99         1,179           Low-income housing         1         1,49         1,179         1         2         1         1         1,99         1,179         1         2         1         1         2         1         1         2         1         1         2         1         1         2         2			/
Consumer loans         113,441         105,567           Mortgage loans         152,271         131,563           Low-income housing         16         26           Loans acquired from INFONAVIT or FOVISSTE         3,511         3,816           TOTAL PERFORMING LOAN PORTFOLIO           PAST-DUE LOAN PORTFOLIO           Commercial loans           Business loans         7,387         6,719           Financial institutions' loans         4         6           Consumer loans         4         6         7           Medium and residential         1,349         1,179           Low-income housing         2         1         1           Low-income housing         2         1         1         3         1         1         3         1         1         1         3         1         1         3         2         1         1         2         1         1         3         2         1         1         4		•	
Mortgage loans         Medium and residential         152,271         131,563           Low-income housing         16         26           Loans acquired from INFONAVIT or FOVISSSTE         3,511         3,816           TOTAL PERFORMING LOAN PORTFOLIO         777,192         615,598           PAST-DUE LOAN PORTFOLIO           Commercial loans           Business loans         7,387         6,719           Financial institutions' loans         4         -           Consumer loans         4         -           Mortgage loans         -         -           Medium and residential         1,349         1,179           Loans acquired from INFONAVIT or FOVISSSTE         113         143           TOTAL PAST-DUE LOAN PORTFOLIO         13,263         12,482           LOAN PORTFOLIO, one         790,455         628,980           (Minus) Allowance for loan losses         (18,844)         (16,122)           LOAN PORTFOLIO, net         771,611         611,958           ACQUIRED COLLECTION RIGHTS         2,417         2,477           ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net         2,241         1,904           PREMIUM RECEIVABLES, net         8,956         8,717		197,373	
Medium and residential         152,271         131,563           Lown-income housing         16         26           Loans acquired from INFONAVIT or FOVISSTE         3,511         3,816           TOTAL PERFORMING LOAN PORTFOLIO           Commercial loans           Business loans         7,387         6,719           Financial institutions' loans         4         -           Consumer loans         4,408         4,440           Mortgage loans         4         -           Medium and residential         1,349         1,179           Low-income housing         2         1           Low-income housing         7         5           Low-income housing         9         2         1           Low-income housing         7         2         1           Low-income housing         7         4         4           Low-income housing         1         2         1           Low-income housing         1 </td <td></td> <td>113,441</td> <td>105,567</td>		113,441	105,567
Low-income housing         16         26           Loans acquired from INFONAVIT or FOVISSTE         3,511         3,816           TOTAL PERFORMING LOAN PORTFOLIO         777,192         615,598           PAST-DUE LOAN PORTFOLIO           Commercial loans           Business loans         7,387         6,719           Financial institutions' loans         4         4           Consumer loans         4,408         4,440           Mortgage loans         1,349         1,179           Low-income housing         2         1           Loans acquired from INFONAVIT or FOVISSSTE         113         143           TOTAL PAST-DUE LOAN PORTFOLIO         13,263         12,482           LOAN PORTFOLIO         790,455         628,080           (Minus) Allowance for loan losses         (18,844)         (16,122)           LOAN PORTFOLIO, net         771,611         611,958           ACQUIRED COLLECTION RIGHTS         2,417         2,477           TOTAL LOAN PORTFOLIO, net         774,028         614,435           ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net         2,241         1,904           PREMIUM RECEIVABLES, net         4,855         8,717           RECEIVABLES GENERATED BY SECURITI			
Description		· · · · · · · · · · · · · · · · · · ·	
TOTAL PERFORMING LOAN PORTFOLIO           PAST-DUE LOAN PORTFOLIO           Commercial loans           Business loans         7,387         6,719           Financial institutions' loans         4         -           Consumer loans         4,408         4,440           Mortgage loans         1,349         1,179           Low-income housing         2         1           Medium and residential         1,3265         12,482           LOAN PORTFOLIO         1         1,512           LO			
PAST-DUE LOAN PORTFOLIO Commercial loans Business loans Financial institutions' loans Financial institutions' loans Consumer loans Mortgage loans Medium and residential Low-income housing Loans acquired from INFONAVIT or FOVISSSTE TOTAL PAST-DUE LOAN PORTFOLIO 13,263 LOAN PORTFOLIO 790,455 628,080 (Minus) Allowance for loan losses (Minus) Allow	•	*	
Commercial loans         7,387         6,719           Business loans         7,387         6,719           Financial institutions' loans         4         -           Consumer loans         4,408         4,440           Mortgage loans         1,349         1,179           Low-income housing         2         1           Loans acquired from INFONAVIT or FOVISSSTE         113         143           TOTAL PAST-DUE LOAN PORTFOLIO         13,263         12,482           LOAN PORTFOLIO         790,455         628,080           (Minus) Allowance for loan losses         (18,844)         (16,122)           LOAN PORTFOLIO, net         771,611         611,958           ACQUIRED COLLECTION RIGHTS         2,417         2,477           TOTAL LOAN PORTFOLIO, net         774,028         614,435           ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net         2,241         1,904           PREMIUM RECEIVABLES, net         3,835         4,031           ACCOUNTS RECEIVABLE FROM REINSURANCE, net         8,956         8,717           RECEIVABLES GENERATED BY SECURITIZATIONS         61         141           OTHER ACCOUNTS RECEIVABLE, net         42,008         51,834           MERCHANDISE INVENTORY         961	TOTAL PERFORMING LOAN PORTFOLIO	777,192	615,598
Commercial loans         7,387         6,719           Business loans         7,387         6,719           Financial institutions' loans         4         -           Consumer loans         4,408         4,440           Mortgage loans         1,349         1,179           Low-income housing         2         1           Loans acquired from INFONAVIT or FOVISSSTE         113         143           TOTAL PAST-DUE LOAN PORTFOLIO         13,263         12,482           LOAN PORTFOLIO         790,455         628,080           (Minus) Allowance for loan losses         (18,844)         (16,122)           LOAN PORTFOLIO, net         771,611         611,958           ACQUIRED COLLECTION RIGHTS         2,417         2,477           TOTAL LOAN PORTFOLIO, net         774,028         614,435           ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net         2,241         1,904           PREMIUM RECEIVABLES, net         3,835         4,031           ACCOUNTS RECEIVABLE FROM REINSURANCE, net         8,956         8,717           RECEIVABLES GENERATED BY SECURITIZATIONS         61         141           OTHER ACCOUNTS RECEIVABLE, net         42,008         51,834           MERCHANDISE INVENTORY         961			
Business loans         7,387         6,719           Financial institutions' loans         4         -           Consumer loans         4,400         4           Mortgage loans			
Financial institutions' loans         4		7.707	0.710
Consumer loans         4,408         4,440           Mortgage loans         349         1,79           Medium and residential         1,349         1,179           Low-income housing         2         1           Loans acquired from INFONAVIT or FOVISSSTE         113         143           TOTAL PAST-DUE LOAN PORTFOLIO         13,263         12,482           LOAN PORTFOLIO         790,455         628,080           (Minus) Allowance for loan losses         (18,844)         (16,122)           LOAN PORTFOLIO, net         771,611         611,958           ACQUIRED COLLECTION RIGHTS         2,417         2,477           TOTAL LOAN PORTFOLIO, net         774,028         614,435           ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net         2,241         1,904           PREMIUM RECEIVABLES, net         3,835         4,031           ACCOUNTS RECEIVABLE FROM REINSURANCE, net         8,956         8,717           RECEIVABLES GENERATED BY SECURITIZATIONS         61         141           OTHER ACCOUNTS RECEIVABLE, net         42,008         51,834           MERCHANDISE INVENTORY         961         783           FORECLOSED ASSETS, net         895         1,100           PERMANENT STOCK INVESTMENTS         1		,	6,/19
Mortgage loans         Medium and residential         1,349         1,179           Low-income housing         2         1           Low-income housing         2         1           Loans acquired from INFONAVIT or FOVISSSTE         113         143           TOTAL PAST-DUE LOAN PORTFOLIO         13,263         12,482           LOAN PORTFOLIO         790,455         628,080           (Minus) Allowance for loan losses         (18,844)         (16,122)           LOAN PORTFOLIO, net         771,611         611,958           ACQUIRED COLLECTION RIGHTS         2,417         2,477           TOTAL LOAN PORTFOLIO, net         774,028         614,435           ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net         2,241         1,904           PREMIUM RECEIVABLE FROM REINSURANCE, net         8,956         8,717           RECEIVABLES GENERATED BY SECURITIZATIONS         61         141           OTHER ACCOUNTS RECEIVABLE, net         42,008         51,834           MERCHANDISE INVENTORY         961         783           FORECLOSED ASSETS, net         895         1,100           PROPERTY, PLANT AND EQUIPMENT, net         17,684         18,170           PERMANENT STOCK INVESTMENTS         14,038         13,771			4 4 4 0
Medium and residential         1,349         1,179           Low-income housing         2         1           Loans acquired from INFONAVIT or FOVISSSTE         113         143           TOTAL PAST-DUE LOAN PORTFOLIO         13,263         12,482           LOAN PORTFOLIO         790,455         628,080           (Minus) Allowance for loan losses         (18,844)         (16,122)           LOAN PORTFOLIO, net         771,611         611,958           ACQUIRED COLLECTION RIGHTS         2,417         2,477           TOTAL LOAN PORTFOLIO, net         774,028         614,435           ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net         2,241         1,904           PREMIUM RECEIVABLES, net         8,956         8,717           RECEIVABLES GENERATED BY SECURITIZATIONS         61         141           OTHER ACCOUNTS RECEIVABLE, net         42,008         51,834           MERCHANDISE INVENTORY         961         783           FORECLOSED ASSETS, net         895         1,100           PREMANENT STOCK INVESTMENTS         14,038         13,771           DEFERRED TAXES, net         4,318         2,949           OTHER ASSETS, net         4,318         2,949           Other short-term and long-term assets		4,408	4,440
Low-income housing		1740	1 170
Loans acquired from INFONAVIT or FOVISSSTE         113         143           TOTAL PAST-DUE LOAN PORTFOLIO         13,263         12,482           LOAN PORTFOLIO         790,455         628,080           (Minus) Allowance for loan losses         (18,844)         (16,122)           LOAN PORTFOLIO, net         771,611         611,958           ACQUIRED COLLECTION RIGHTS         2,417         2,477           TOTAL LOAN PORTFOLIO, net         774,028         614,435           ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net         2,241         1,904           PREMIUM RECEIVABLES, net         3,835         4,031           ACCOUNTS RECEIVABLE FROM REINSURANCE, net         8,956         8,717           RECEIVABLES GENERATED BY SECURITIZATIONS         61         141           OTHER ACCOUNTS RECEIVABLE, net         42,008         51,834           MERCHANDISE INVENTORY         961         783           FORECLOSED ASSETS, net         895         1,100           PROPERTY, PLANT AND EQUIPMENT, net         17,684         18,170           PERMANENT STOCK INVESTMENTS         14,038         13,771           DEFERRED TAXES, net         4,318         2,949           OTHER ASSETS, net         4,318         2,949           Ot		· · · · · · · · · · · · · · · · · · ·	
TOTAL PAST-DUE LOAN PORTFOLIO       13,263       12,482         LOAN PORTFOLIO       790,455       628,080         (Minus) Allowance for loan losses       (18,844)       (16,122)         LOAN PORTFOLIO, net       771,611       611,958         ACQUIRED COLLECTION RIGHTS       2,417       2,477         TOTAL LOAN PORTFOLIO, net       774,028       614,435         ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net       2,241       1,904         PREMIUM RECEIVABLES, net       3,835       4,031         ACCOUNTS RECEIVABLE FROM REINSURANCE, net       8,956       8,717         RECEIVABLES GENERATED BY SECURITIZATIONS       61       141         OTHER ACCOUNTS RECEIVABLE, net       42,008       51,834         MERCHANDISE INVENTORY       961       783         FORECLOSED ASSETS, net       895       1,100         PROPERTY, PLANT AND EQUIPMENT, net       17,684       18,170         PERMANENT STOCK INVESTMENTS       14,038       13,771         DEFERRED TAXES, net       4,318       2,949         OTHER ASSETS, net       4,318       2,949         Other short-term and long-term assets       350       448         TOTAL ASSETS       Ps. 1,620,470       Ps. 1,354,147			1
LOAN PORTFOLIO       790,455       628,080         (Minus) Allowance for loan losses       (18,844)       (16,122)         LOAN PORTFOLIO, net       771,611       611,958         ACQUIRED COLLECTION RIGHTS       2,417       2,477         TOTAL LOAN PORTFOLIO, net       774,028       614,435         ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net       2,241       1,904         PREMIUM RECEIVABLES, net       3,835       4,031         ACCOUNTS RECEIVABLE FROM REINSURANCE, net       8,956       8,717         RECEIVABLES GENERATED BY SECURITIZATIONS       61       141         OTHER ACCOUNTS RECEIVABLE, net       42,008       51,834         MERCHANDISE INVENTORY       961       783         FORECLOSED ASSETS, net       895       1,100         PROPERTY, PLANT AND EQUIPMENT, net       17,684       18,170         PERMANENT STOCK INVESTMENTS       14,038       13,771         DEFERRED TAXES, net       4,318       2,949         OTHER ASSETS, net       4,318       2,949         Other short-term and long-term assets       350       448         TOTAL ASSETS       Ps. 1,620,470       Ps. 1,354,147			
(Minus) Allowance for loan losses       (18,844)       (16,122)         LOAN PORTFOLIO, net       771,611       611,958         ACQUIRED COLLECTION RIGHTS       2,417       2,477         TOTAL LOAN PORTFOLIO, net       774,028       614,435         ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net       2,241       1,904         PREMIUM RECEIVABLES, net       3,835       4,031         ACCOUNTS RECEIVABLE FROM REINSURANCE, net       8,956       8,717         RECEIVABLES GENERATED BY SECURITIZATIONS       61       141         OTHER ACCOUNTS RECEIVABLE, net       42,008       51,834         MERCHANDISE INVENTORY       961       783         FORECLOSED ASSETS, net       895       1,100         PROPERTY, PLANT AND EQUIPMENT, net       17,684       18,170         PERMANENT STOCK INVESTMENTS       14,038       13,771         DEFERRED TAXES, net       4,318       2,949         OTHER ASSETS, net       4,318       2,949         Other short-term and long-term assets       350       448         TOTAL ASSETS       Ps. 1,620,470       Ps. 1,354,147			
LOAN PORTFOLIO, net       771,611       611,958         ACQUIRED COLLECTION RIGHTS       2,417       2,477         TOTAL LOAN PORTFOLIO, net       774,028       614,435         ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net       2,241       1,904         PREMIUM RECEIVABLES, net       3,835       4,031         ACCOUNTS RECEIVABLE FROM REINSURANCE, net       8,956       8,717         RECEIVABLES GENERATED BY SECURITIZATIONS       61       141         OTHER ACCOUNTS RECEIVABLE, net       42,008       51,834         MERCHANDISE INVENTORY       961       783         FORECLOSED ASSETS, net       895       1,100         PROPERTY, PLANT AND EQUIPMENT, net       17,684       18,170         PERMANENT STOCK INVESTMENTS       14,038       13,771         DEFERRED TAXES, net       4,318       2,949         OTHER ASSETS, net       4,318       2,949         Other short-term and long-term assets       350       448         TOTAL ASSETS       Ps. 1,620,470       Ps. 1,354,147			
ACQUIRED COLLECTION RIGHTS       2,417       2,477         TOTAL LOAN PORTFOLIO, net       774,028       614,435         ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net       2,241       1,904         PREMIUM RECEIVABLES, net       3,835       4,031         ACCOUNTS RECEIVABLE FROM REINSURANCE, net       8,956       8,717         RECEIVABLES GENERATED BY SECURITIZATIONS       61       141         OTHER ACCOUNTS RECEIVABLE, net       42,008       51,834         MERCHANDISE INVENTORY       961       783         FORECLOSED ASSETS, net       895       1,100         PROPERTY, PLANT AND EQUIPMENT, net       17,684       18,170         PERMANENT STOCK INVESTMENTS       14,038       13,771         DEFERRED TAXES, net       4,318       2,949         OTHER ASSETS, net       44,551       28,238         Other short-term and long-term assets       350       448         TOTAL ASSETS       Ps. 1,620,470       Ps. 1,354,147			· · /
TOTAL LOAN PORTFOLIO, net       774,028       614,435         ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net       2,241       1,904         PREMIUM RECEIVABLES, net       3,835       4,031         ACCOUNTS RECEIVABLE FROM REINSURANCE, net       8,956       8,717         RECEIVABLES GENERATED BY SECURITIZATIONS       61       141         OTHER ACCOUNTS RECEIVABLE, net       42,008       51,834         MERCHANDISE INVENTORY       961       783         FORECLOSED ASSETS, net       895       1,100         PROPERTY, PLANT AND EQUIPMENT, net       17,684       18,170         PERMANENT STOCK INVESTMENTS       14,038       13,771         DEFERRED TAXES, net       4,318       2,949         OTHER ASSETS, net       4,511       28,238         Other short-term and long-term assets       350       448         TOTAL ASSETS       Ps. 1,620,470       Ps. 1,354,147			
ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net PREMIUM RECEIVABLES, net ACCOUNTS RECEIVABLES, net ACCOUNTS RECEIVABLE FROM REINSURANCE, net RECEIVABLES GENERATED BY SECURITIZATIONS 61 141 OTHER ACCOUNTS RECEIVABLE, net MERCHANDISE INVENTORY 961 783 MERCHANDISE INVENTORY 961 784 PROPERTY, PLANT AND EQUIPMENT, net PROPERTY, PLANT AND EQUIPMENT, net PERMANENT STOCK INVESTMENTS 14,038 13,771 DEFERRED TAXES, net OTHER ASSETS, net Deferred charges, advance payments and intangibles Other short-term and long-term assets TOTAL ASSETS Ps. 1,620,470 Ps. 1,354,147		•	
PREMIUM RECEIVABLES, net       3,835       4,031         ACCOUNTS RECEIVABLE FROM REINSURANCE, net       8,956       8,717         RECEIVABLES GENERATED BY SECURITIZATIONS       61       141         OTHER ACCOUNTS RECEIVABLE, net       42,008       51,834         MERCHANDISE INVENTORY       961       783         FORECLOSED ASSETS, net       895       1,100         PROPERTY, PLANT AND EQUIPMENT, net       17,684       18,170         PERMANENT STOCK INVESTMENTS       14,038       13,771         DEFERRED TAXES, net       4,318       2,949         OTHER ASSETS, net       4,318       2,949         Other short-term and long-term assets       350       448         TOTAL ASSETS       Ps. 1,620,470       Ps. 1,354,147			
ACCOUNTS RECEIVABLE FROM REINSURANCE, net RECEIVABLES GENERATED BY SECURITIZATIONS 61 141 OTHER ACCOUNTS RECEIVABLE, net 42,008 51,834 MERCHANDISE INVENTORY 961 783 FORECLOSED ASSETS, net 895 1,100 PROPERTY, PLANT AND EQUIPMENT, net 17,684 18,170 PERMANENT STOCK INVESTMENTS 14,038 13,771 DEFERRED TAXES, net 4,318 2,949 OTHER ASSETS, net Deferred charges, advance payments and intangibles Other short-term and long-term assets 350 448 TOTAL ASSETS PS. 1,620,470 Ps. 1,354,147	·		,
RECEIVABLES GENERATED BY SECURITIZATIONS       61       141         OTHER ACCOUNTS RECEIVABLE, net       42,008       51,834         MERCHANDISE INVENTORY       961       783         FORECLOSED ASSETS, net       895       1,100         PROPERTY, PLANT AND EQUIPMENT, net       17,684       18,170         PERMANENT STOCK INVESTMENTS       14,038       13,771         DEFERRED TAXES, net       4,318       2,949         OTHER ASSETS, net       28,238         Other short-term and long-term assets       350       448         TOTAL ASSETS       Ps. 1,620,470       Ps. 1,354,147	,	•	
OTHER ACCOUNTS RECEIVABLE, net       42,008       51,834         MERCHANDISE INVENTORY       961       783         FORECLOSED ASSETS, net       895       1,100         PROPERTY, PLANT AND EQUIPMENT, net       17,684       18,170         PERMANENT STOCK INVESTMENTS       14,038       13,771         DEFERRED TAXES, net       4,318       2,949         OTHER ASSETS, net       50       44,551       28,238         Other short-term and long-term assets       350       448         TOTAL ASSETS       Ps. 1,620,470       Ps. 1,354,147	·		
MERCHANDISE INVENTORY       961       783         FORECLOSED ASSETS, net       895       1,100         PROPERTY, PLANT AND EQUIPMENT, net       17,684       18,170         PERMANENT STOCK INVESTMENTS       14,038       13,771         DEFERRED TAXES, net       4,318       2,949         OTHER ASSETS, net       28,238         Other short-term and long-term assets       350       448         TOTAL ASSETS       Ps. 1,620,470       Ps. 1,354,147			
FORECLOSED ASSETS, net         895         1,100           PROPERTY, PLANT AND EQUIPMENT, net         17,684         18,170           PERMANENT STOCK INVESTMENTS         14,038         13,771           DEFERRED TAXES, net         4,318         2,949           OTHER ASSETS, net         50         28,238           Other short-term and long-term assets         350         448           TOTAL ASSETS         Ps. 1,620,470         Ps. 1,354,147	·		
PROPERTY, PLANT AND EQUIPMENT, net       17,684       18,170         PERMANENT STOCK INVESTMENTS       14,038       13,771         DEFERRED TAXES, net       4,318       2,949         OTHER ASSETS, net       28,238         Other short-term and long-term assets       350       448         TOTAL ASSETS       Ps. 1,620,470       Ps. 1,354,147			
PERMANENT STOCK INVESTMENTS         14,038         13,771           DEFERRED TAXES, net         4,318         2,949           OTHER ASSETS, net         50         28,238           Deferred charges, advance payments and intangibles         44,551         28,238           Other short-term and long-term assets         350         448           TOTAL ASSETS         Ps. 1,620,470         Ps. 1,354,147	· · · · · · · · · · · · · · · · · · ·		
DEFERRED TAXES, net OTHER ASSETS, net Deferred charges, advance payments and intangibles Other short-term and long-term assets TOTAL ASSETS  4,318 2,949 44,551 28,238 44,551 350 448 TOTAL ASSETS Ps. 1,620,470 Ps. 1,354,147			. ,
OTHER ASSETS, netDeferred charges, advance payments and intangibles44,55128,238Other short-term and long-term assets350448TOTAL ASSETSPs. 1,620,470Ps. 1,354,147			
Deferred charges, advance payments and intangibles44,55128,238Other short-term and long-term assets350448TOTAL ASSETSPs. 1,620,470Ps. 1,354,147		1,516	2,343
Other short-term and long-term assets 350 448 TOTAL ASSETS Ps. 1,620,470 Ps. 1,354,147		44 551	28 238
TOTAL ASSETS Ps. 1,620,470 Ps. 1,354,147			
			1 1 1 1 1 1

MEMORANDUM ACCOUNTS (Note 36)

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

As of December 31, 2018, the stockholders' equity amounts to Ps. 10,006.

The accompanying Consolidated Balance Sheets have been approved by the Board of Directors in accordance with the responsibility assigned to them.

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

LIABILITIES AND SHAREHOLDERS' EQUITY	2018	2017
DEPOSITS		
Demand deposits	Ps. 410,375	Ps. 393,308
Time deposits		
General public	276,386	239,174
Money market	55,552	3,679
Senior debt issued	12,098	3,003
Global account of deposits without movements	1,891 <b>756,302</b>	1,657 <b>640,821</b>
INTERBANK AND OTHER LOANS	700,002	0.0,02.
Demand loans	-	-
Short-term loans	25,724	18,213
Long-term loans	33,035	15,730
	58,759	33,943
TECHNICAL RESERVES	140,879	107,794
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS COLLATERAL SOLD OR PLEDGED	369,457	301,665
Repurchase or resale agreements (creditor balance)	2	3
DERIVATIVE FINANCIAL INSTRUMENTS		
For trading purposes	23,605	24,608
For hedging purposes	10,963	12,401
	34,568	37,009
ACCOUNTS PAYABLE TO REINSURERS, net	1,325	1,255
OTHER ACCOUNTS PAYABLE		
Income tax	3,296	3,132
Employee profit sharing	485	405
Creditors from settlements of transactions	4,469	16,047
Creditors from collaterals received in cash	14,319	11,083
Sundry creditors and other payables	28,007	20,532
	50,576	51,199
SUBORDINATED DEBENTURES	33,560	32,445
DEFERRED CREDITS AND ADVANCE COLLECTIONS	578	429
TOTAL LIABILITIES	1,446,006	1,206,563
SHAREHOLDERS' EQUITY		
PAID-IN EQUITY		
Common stock	14,962	14,591
Additional paid-in equity	47,904	35,592
	62,866	50,183
OTHER CAPITAL		_ ,
Capital reserves	5,207	5,491
Retained earnings from prior years	76,550	71,294
Result from valuation of securities available for sale	(2,136)	(2,390)
Result from valuation of instruments for cash flow hedging	(3,369)	(3,588)
Result from valuation of reserve for unexpired risks variations in rates Result from Conversions	28 1,751	96 1,684
Defined remedies for employees benefits	(576)	(926)
Net income	31,958	23,908
recinconic	109,413	95.569
MINORITY INTEREST	2,185	1,832
TOTAL SHAREHOLDERS' EQUITY	174,464	147,584

José Marcos Ramírez Miguel

C.P. Isaías Velázquez González Managing Director - Audit

Lic. Jorge Eduardo Vega Camargo Deputy Managing Director - Controller Eng. Rafael Arana de la Garza

Managing Director - COO, Administration and Finance

C.P.C. Mayra Nelly López López

**Executive Director - Accounting** 

## Consolidated Income Statements

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In millions of Mexican pesos)

		2018		2017
Interest income	Ps.	137,583	Ps.	110,509
Premium revenue, net		29,067		25,043
Interest expense		(60,754)		(44,635)
Increase in technical reserves		(13,508)		(12,645)
Casualty rate, claims and other contractual obligations, net		(17,563)		(14,906)
NET INTEREST INCOME		74,825		63,366
Provisions for loan losses		(16,079)		(15,213)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES		58,746		48,153
Commission and fee income		22,567		19,542
Commission and fee expense		(9,526)		(7,558)
Brokerage revenues		4,228		2,657
Other operating income (expenses)		4,259		3,211
Non-interest expense		(37,609)		(34,061)
		(16,081)		(16,209)
OPERATING INCOME		42,665		31,944
Equity in earnings of unconsolidated subsidiaries and associated companies		1,385		1,264
INCOME BEFORE INCOME TAX		44,050		33,208
Current income tax		(10,768)		(8,469)
Deferred income tax, net		(868)		(579)
		(11,636)		(9,048)
INCOME BEFORE DISCONTINUED OPERATIONS		32,414		24,160
Discontinued operations		-		89
INCOME BEFORE NONCONTROLLING INTEREST		32,414		24,249
Minority Interest		(456)		(341)
NET INCOME	Ps.	31,958	Ps.	23,908

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

The accompanying Consolidated Income Statements have been approved by the Board of Directors in accordance with the responsibility assigned to them.

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

José Marcos Ramírez Miguel CEO

Eng. Rafael Arana de la Garza

Managing Director - COO,
Administration and Finance

**Lic. Jorge Eduardo Vega Camargo**Deputy Managing Director - Controller

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

## Consolidated Statements of Changes in Stockholders' Equity

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In millions of Mexican pesos)

in millions of Mexican pesos)		
	PAID-IN CAPITAL	

	Common Stock	Additional paid-in capital	Capital reserves	Retained earnings from prior years	Result from valuation of securities available for sale	Result from valuation of securities available for sale	Result in the valuation of unexpired ris reserves due to changes in rates		Defined remedies for employees benefits	Net income	Total majority interest	Total minority interest	Total stockholders' equity
Balances, January 1, 2017	Ps. 14,574	Ps. 36,427	Ps. 4,825	Ps. 68,492	Ps. (2,592)	Ps. (2,089)	Ps. 87	Ps. 2,084	Ps. (370)	Ps. 19,308	Ps. 140,746	Ps. 1,955	Ps. 142,701
TRANSACTIONS APPROVED BY STOCKHOLDERS:													
Share repurchase for executive shares' plan payable													
in equity instruments	17	(823)	211	-	(5)	-	-	-	-	-	(600)	-	(600)
Transfer of prior year's result	-	-	-	19,308	-	-	-	-	-	(19,308)	-	-	-
Dividends declared at the General Stockholders' meetings on:													
February 24 and June 20 2017	-	_	-	(14,645)	-	-	-	_	-	-	(14,645)	_	(14,645)
Special criterion of the Commission for sale of INB	_	_	-	(357)	_	-	-	_	_	_	(357)	_	(357)
Share-based payments payable in stock options	_	_	455	(455)	_	_	_	_	_	_	_	_	-
Total transactions approved by stockholders	17	(823)	666	3,851	(5)	-	-	-	-	(19,308)	(15,602)	-	(15,602)
COMPREHENSIVE INCOME:													
Net income	-	-	-	-	-	-	-	-	-	23,908	23,908	-	23,908
Result from valuation of securities available for sale	-	_	-		207	-	-	_	-	-	207	_	207
Effect of subsidiaries, affiliates and mutual funds	_	(12)	-	(23)	_	-	-	(400)	_	_	(435)	_	(435)
Result from valuation of instruments for cash flow hedging	_	`	_	-	_	(1,499)	_	=	_	_	(1,499)	_	
Result from valuation of reserve for unexpired risks											*****		(,,,
variations in rates	_	_	_	_	_	_	9	_	_	_	9	_	9
Defined remedies for employee benefits	_	_	_	_	_	_	-	_	(556)	_	(566)	_	(566)
Modification in consumer loan rating provisions	_	_	_	(725)	_	_	_	_	-	_	(725)	_	(725)
Interest on subordinated debentures	_	_	_	(301)			_	_	_	_	(301)	_	(301)
Total comprehensive income	-	(12)	-	(1,049)	207	(1,499)	9	(400)	(556)	23,908	20,608	-	
Minority interest	-	-	-		-	-	-		-	-	-	(123)	
Balance as of December 31, 2017	14,591	35,592	5,491	71,294	(2,390)	(3,588)	96	1,684	(926)	23,908	145,752	1,832	147,584
TRANSACTIONS APPROVED BY STOCKHOLDERS:													
Share repurchase for executive shares' plan payable													
in equity instruments	(13)	(300)	(284)	-	12	-	-	_	-	-	(585)	_	(585)
Transfer of prior year's result	-		· -	23,908	_	-	-	_	_	(23,908)	· -	_	
Dividends declared at the General Stockholders' meetings on:										(==,===)			
January 1 2018	_	_	_	(9,563)	_	_	_	_	_	_	(9,563)	_	(9,563)
Special criterion of the Commission for sale of INB	_	_	_	(179)	_	_	_	_	_	_	(179)	_	
Effect derived from the merger with GFInter	384	12,779	_	(173)			_	_	_	_	13.163	_	
Total transactions approved by stockholders	371	12,479	(284)	14,166	12		-		-	-	2,836	-	.,
COMPREHENSIVE INCOME		,		,							,		
Net income	_	_	_	_	_	_	_	_	_	31,958	31,958	_	31,958
Result from valuation of securities available for sale	_	_	_	_	(3,236)	_	_	_	_		(3,236)	_	(3,236)
Effect of subsidiaries, affiliates and mutual funds	_	(167)	_	125	-	_	_	67	_	_	25	_	25
Result from valuation of instruments for cash flow hedging	_	(107)	_	125		219	_	-	_	_	219	_	219
Result from valuation of material for cash now neaging						213					213		213
variations in rates							(68)				(68)		(68)
	-	-	-	-	-	-	(68)	·	350	-	350		350
Defined remedies for employees benefits  Change in accounting policy of investment projects	-	-		(1.005)	-	-	-	-	330				
Change in accounting policy of investment projects	-	-		(1,225)	-	-	-	-	_		(1,225)		(1,225)
Special accounting criteria of the commission	-	-	-	(4,332)	7.4==	-	-		-	-	(4,332)	-	(4,332)
Interest on subordinated debentures  Total comprehensive income	-	(167)	-	(3,478) ( <b>8,910</b> )	3,478 <b>242</b>	219	- (68)	67	350	31,958	23,691	-	23,691
	-	(107)		(0,510)	- 242	219	- (68		330	31,958	23,091	353	353
Minority interest	Do 14.000	Do 47.004		De 76 FFO		De (7.700)			Pe (576)		Do 170 070		
Balances, December 31, 2018	Ps. 14,962	Ps. 47,904	Ps. 5,207	Ps. 76,550	Ps. (2,136)	Ps. (3,369)	Ps. 28	Ps. 1,751	Ps. (576)	Ps. 31,958	Ps. 172,279	Ps. 2,185	Ps. 174,464

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

José Marcos Ramírez Miguel

OTHER CAPITAL

C.P. Isaías Velázquez González Managing Director - Audit **Lic. Jorge Eduardo Vega Camargo**Deputy Managing Director - Controller

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

C.P.C. Mayra Nelly López López

Executive Director - Accounting

## Consolidated Cash Flow Statements

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES, FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In millions of Mexican pesos)

	2018	2017
Net income	Ps. 31,958	Ps. 23,908
Items not requiring (generating) resources:		
Depreciation and amortization	2,217	1,688
Technical reserves	13,508	12,645
Other provisions	2,314	(260)
Current and deferred income tax	11,636	9,048
Discontinued operations	-	89
Equity in earnings of unconsolidated subsidiaries and associated companies	(929)	(923)
	60,704	46,195
OPERATING ACTIVITIES:		
Changes in margin accounts	528	200
Changes in investments in securities	(90.564)	(44.085)
Changes in debtor balances under repurchase and resale agreements	(343)	(679)
Changes in asset position of derivatives	(2,086)	15,628
Change in loan portfolio	(49.629)	(49,202)
Changes in acquired collection rights	60	(452)
Changes in accounts receivable from insurance and annuities, net	(335)	(432)
Changes in debtor premiums, (net)	209	214
Changes in deptor premiums, (net)  Changes in reinsurance and surety agencies (net) (asset)	45	(1.550)
Changes in receivables generated by securitizations	80	(1,550)
Change in foreclosed assets	205	510
Change in other operating assets	(2,768)	
		(3,828)
Change in deposits	20,524	66,262
Change in interbank and other loans	(1,212)	(4,691)
Change in creditor balances under repurchase and sale agreements	67,793	(7,112)
Collateral sold or pledged	(1)	3
Change in liability position of derivative financial instruments	(1,106)	(15,796)
Change in technical reserves (net)	19,041	4,780
Changes in reinsurance and surety agencies (net) (liability)	63	(492)
Change in subordinated debentures	115	10,952
Change in other operating liabilities	(12,703)	12,826
Change in hedging instruments related to operations	(1,390)	3,566
Assets for discontinued operations	-	(8,069)
Income tax	(11,774)	(184)
Net cash flows (used in) provided by operating activity	(4,544)	(25,016)
INVESTING ACTIVITIES:		
Proceeds on disposal of property, furniture and equipment	3.549	742
Payments for acquisition of property, furniture and equipment	(4,501)	(4.780)
Collections by disposal of subsidiaries and associates and agreements by joint control	-	3,195
Payment on acquisitions of subsidiaries and associated companies	(1)	-
Assets for discontinued operations	1,255	_
Charges for cash Dividends	15,254	2.364
Net cash flows used in investment activity	15,556	1,521
FINANCING ACTIVITIES:	(0.505)	(4.0.45)
Dividends paid	(9,563)	(14,645)
Repurchase of shares	(855)	(1,181)
Interest on subordinated debentures paid	(1,225)	(301)
Net cash flow (used in) provided by financing activity	(11,643)	(16,127)
Net decrease (increase) in cash and cash equivalents	(631)	10,410
	(1)	(27)
Trects from changes in the value of cash and cash equivalents		
Effects from changes in the value of cash and cash equivalents Cash and cash equivalents at the beginning of the year	76.269	65.886

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

José Marcos Ramírez Miguel

CEO

Eng. Rafael Arana de la Garza

Managing Director - COO, Administration and Finance

C.P.C. Mayra Nelly López López

### Notes to Consolidated Financial Statements

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In millions of Mexican pesos, except exchange rates and Note 33)

#### 1 - ACTIVITY AND REGULATORY ENVIRONMENT

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

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

The main regulating aspect compels the Financial Group to maintain a minimum capitalization ratio for market and loan risks, to meet certain acceptance limits for deposits, obligations and other types of funding that may be denominated in foreign currency, as well as to establish the minimum limits for paid-in capital and capital reserves. The Financial Group complies satisfactorily with all of the above as of December 31, 2018.

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

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

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

The Financial Group's consolidated financial statements have been approved by the Board of Directors at its January 24, 2019 meeting in accordance with the responsibility assigned to this Organ.

#### 2 - SIGNIFICANT EVENTS DURING THE YEAR

#### a) Extinction of the trust for the issuance of market certificates No. 583

During March 2018, the extinction of the Trust 583 was formalized, which had the ownership of the securitized mortgage portfolio of the Institution and on the basis of which it had issued mortgage securities certificates, which it liquidated in advance of according to the initial issue leaflet last January. Once the trust was extinguished, the reversal of its patrimony was carried out in favor of the Financial Group, recognizing net assets by \$172 which was recorded in the results of the exercise. Subsequently the portfolio required loan reserves by \$85.

#### b) Merger with Interacciones Financial Group

On July 10, 2018, the Financial Group and Interacciones obtained from the Ministry of Finance and Public Credit, the favorable opinion of the Bank of Mexico and the National Banking and Securities Commission and the National Insurance and Bonding Commission, respectively, the authorizations necessary to carry out the merger of: (i) Interacciones, as a merged company, with the Financial Group, as the merging company; (ii) Banco Interacciones, S.A., as a merged company, with Banco Mercantil del Norte, S.A., as a merging company; (iii) Interacciones Casa de Bolsa, S.A. de C.V., as a merged company, with Casa de Bolsa Banorte, S.A. of C.V., as a merging company; (iv) Aseguradora Interacciones, S.A. de C.V., as a merged company, with Seguros Banorte, S.A. of C.V., as a merging company; and (v) Interacciones Sociedad Operadora de Fondos de Inversión, S.A. de C.V., as a merged company, with Operadora de Fondos Banorte, S.A. of C.V., as a merging company (the "Mergers").

The Mergers between of the Financial Group and Interacciones and its subsidiaries, was effective on July 13, 2018, in accordance with the merger agreements, as well as with the authorizations of the relevant authorities, being duly registered in the corresponding Public Registries of Commerce, and in terms of the applicable legislation.

The purchase of Interacciones and subsidiaries was registered in accordance with the NIF B-7 "acquisition of Business", registering an initial goodwill for \$9.593. As of December 31, 2018, the Financial Group has not concluded with the process of identifying intangible assets derived from this acquisition.

The results of the application of the purchase method are described below:

	Fa	Fair Value	
Shares issued (109,727,031 x 119.96)	\$	13,163	
Value of compensation		13,163	
Merged assets		3,687	
Merged liabilities		117	
Merged net assets		3,570	
Goodwill resultant from the merger	\$	9,593	

As of December 31, 2018 the balance of goodwill amounts to \$11.809, resulting from the Financial Group continuing with the valuation of the assets and liabilities fused at fair value, having a period of up to one year to conclude, in accordance with the provisions of the NIF B-7.

The book value of the companies acquired at the date of acquisition (Banco Interacciones) is as follows:

Concept	Book value
Cash and cash equivalents	\$ 15,254
Investment in securities	6,673
Derivative financial instruments	462
Net loans	109,994
Other assets	3,883
Assets acquired	136,266
Deposits	94,956
Interbank and other loans	26,000
Derivative financial instruments	103
Subordinated debentures	1,001
Other accounts payable	10,634
Liabilities acquired	132,694
Net assets acquired	\$ 3,572

As of July 13, 2018, the noncontrolling interest of Interacciones amounted to \$2

This operation did not affect cash flows since the settlement was via share exchange.

#### c) Pre-payment of BInter safety certificates

In August 2018, the Financial Group in its capacity as successor of Interacciones, based on the relevant provisions of the debt securities with references BINTER15 and BINTER16-2, BINTER14-4, BINTER14-5, BINTER16 and BINTER17U, issued on March 26, 2015, June 16, 2016, September 26, 2014, November 27, 2014, March 17, 2016 and March 30, 2017, respectively, reported the pre-payment of the debt securities for the following amounts: BINTER15 (\$ 1,500) and BINTER16-2 (\$ 1,500); BINTER14-4 (\$ 2,500); BINTER14-5 (\$ 1,500); BINTER16 (\$ 1,500); BINTER17U (492 UDIS).

#### d) Real estate sales

At the end of November 2018, the Financial Group carried out the sale of three buildings ("real estate") at market value, which implied the transfer of all their rights and obligations.

This transaction resulted in a gain of \$ 2,511, based on the difference between the sales price at market value and the net book value of the property as follows:

Property	Book Value	Sales Price	Gain
Torre Santa Fe	\$ 472	\$ 1,338	\$ 866
Torre KOI	771	1,506	735
Torre Sur	393	1,303	910
	\$ 1,636	\$ 4,147	\$ 2,511

#### e) Split of Banorte USA

The Board of Directors of the Financial Group at its meeting held on January 25, 2018, approved the spin-off of Banorte USA as spinnor and the consequent investment in Banorte Financial Services as a new company spinnee in order to transfer, among other assets, shares representing the common stock of INB Financial Corp; and the shares representing the common stock of Uniteller Financial Services.

Banorte Financial Services' main purpose is to acquire and administer shares of financial entities.

By virtue of the spin-off, in December 2018, Banorte USA transferred an asset of USD 39.6 million corresponding to the investment in shares and an account receivable associated with the investment Banorte USA had in INB Financial Corp and Uniteller Financial Service, USD 0.7 million as liabilities and USD 38.9 million as stockholders' equity to Banorte Financial Services. Banorte Financial Services assumed all the obligations deriving from the equity transferred to it as a result of the spin-off.

This transaction had no effect on the figures presented in the consolidated financial statements, since the Financial Group consolidates both companies as of December 31, 2018.

#### f) Liquidation of Banorte USA

The Board of Directors of the Financial Group in the assignment held on January 25, 2018 approved the liquidation of Banorte USA to be enhanced once the split of Banorte USA was completed, the settlement was finalized on January 14, 2019 upon receipt of the certificate of dissolution of the state of Delaware, United States of America.

On the occasion of the liquidation of Banorte USA, the Financial Group was given the amount of US \$ 131,346.00 dollars equivalent to \$ 2.5 million pesos at an exchange rate of \$ 18.90 pesos for each dollar, with which Financial Group's permanent investment in Banorte USA was written off. Likewise, the cumulative amount of the conversion effect in the stockholders' equity of the Financial Group was recognized in the income for the year in the amount of \$ 1,661 million pesos as part of the gain derived from the settlement of BUSA pursuant to NIF B -15 "Conversion of Foreign Operations".

#### **3 - BASIS OF PRESENTATION**

#### **Explanation for translation into English**

The accompanying consolidated financial statements have been translated from Spanish to English for use outside of Mexico. These financial statements are presented on the basis of Mexican Financial Reporting Standards.

#### Monetary unit of the consolidated financial statements

The consolidated financial statements and notes for the years ended as of December 31, 2018 and 2017 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 Grupo Financiero Banorte, S.A.B. de C.V. and its subsidiaries mentioned below. All significant intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2018 and 2017, the Grupo Financiero Banorte S.A.B. de C.V.'s consolidated subsidiaries and its equity ownership is as follows:

	2018	2017
Banco Mercantil del Norte, S.A. y Subsidiarias (Banorte)	98.26%	98.22%
Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, ER y Subsidiaria (AyF)	99.99%	99.99%
Almacenadora Banorte, S.A. de C.V. y Subsidiaria	99.99%	99.99%
Banorte Ahorro y Previsión, S.A. de C.V. y Subsidiarias	99.99%	99.99%
Casa de Bolsa Banorte, S.A. de C.V. y Subsidiaria	99.99%	99.99%
Operadora de Fondos Banorte, S.A. de C.V.	88.84%	99.99%
Ixe Servicios, S.A. de C.V.	99.99%	99.99%
Sólida Administradora de Portafolios, S.A. de C.V., SOFOM, ER y Subsidiarias (Sólida)	99.50%	99.46%

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, whose recording and functional currency is the American dollar, 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 monetary assets and liabilities (19.65 for 2018), 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 (19.24 for 2018). The conversion effects are presented in the Financial Group's stockholders' equity.

#### **Application of Special Accounting Criteria**

In view of the fact that the Institution is carrying out a process of corporate restructuring, the Commission, based on Article 175 of the "General provisions applicable to credit institutions" and in accordance with the Article 72 of the "General provisions applicable to credit auxiliary entities" authorized to Banorte, Sólida and AyF a special accounting criteria through the official letter 320-1/15576/2018.

Those criteria authorized the Institution to recognize the result from valuation of Corporación, S.A.B. de C.V. (GEO), URBI Desarrollos Urbanos S.A.B. de C.V. (URBI) y Desarrolladora Homex, S.A.B. de C.V. (HOMEX) shares, classified as available for sale which previously was recognized in the stockholder's equity at the date of issuance of the aforementioned official letter, directly against the heading "Retained earnings from prior years" and not against the "Net income" as established in paragraph 46 of the NIF B-2, "Investments in securities"

If the authorized Special Accounting Criteria were not applied, the amounts that would have been recognized and presented in the Balance Sheet and Income Statement as of December 31, 2018 in the items affected would be:

Balance Sheet		Figures Without Special Accounting Criteria		Figures with ial Accounting Criteria	Variation
Retained earnings from prior years	\$	80,028	\$	76,550	\$ (3,478)
Net income		28,480		31,958	3,478
Total stockholders' equity		174,464		174,464	-
Total liabilities and stockholders' equity	\$	1,620,470	\$	1,620,470	\$ -
	Fic	gures Without		Figures with	

	Figures Wit Special Accour		Figures with I Accounting	
Income Statement	Cri	teria	Criteria	Variation
Brokerage revenues	\$	750	\$ 4,228	\$ 3,478
Operating income	39	,187	42,665	3,478
Net income	\$ 28,4	480	\$ 31,958	\$ 3,478

#### **Comprehensive Income**

This is the change in stockholders' equity during the year, for items other than distributions and activity in contributed common stock, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity and do not affect the Consolidated Income Statements, in accordance with the accounting practices established by the Commission. In 2018 and 2017, comprehensive income includes the net income of the year, the result from valuation of securities available for sale; the effect of subsidiaries, affiliates and mutual funds; the effect of subsidiaries, remedies for employee benefits, modification of provisions on consumer loans rating, affiliates and mutual funds; the cumulative conversion effect, Interest on subordinated debentures, Commission special accounting criteria and the result from valuation of cash flow hedging instruments.

#### 4 - SIGNIFICANT ACCOUNTING POLICIES

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

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

#### Changes in accounting policies

#### A. Improvements to NIFs

Improvements to NIFs 2018 - The following improvements were issued with effect starting on January 1, 2018 which affected the accounting policies of the Financial Group.

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 operates qualifies as non-inflationary in the reporting period. 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 derecognition of financial assets - indicates that the recognition of the change to this NIF must be made retrospectively for all the financial statements that are presented in comparative form with those of the current period. 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 transfers of assets made by the Financial Group before the year 2008, under the requirements of criterion C-1 "transfer of financial assets" issued by the Commission, did not require evaluating the continuous involvement with respect to the transferred asset.

In September 2008 the Commission adopted the new criterion C-1, which converges with international standards, that criterion was applied in a prospective manner. By transitory articles, the Commission indicated that transfers made previously were not re-evaluated.

Improvements to NIFs 2018 - The following improvements were issued with effect starting on January 1, 2018 which not affected the accounting policies of the Institution.

NIF B-7, Business acquisitions – indicates that 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.

During the process of merger with Interacciones are not recognized contingencies to be recognized as a liability at fair value. All liabilities were previously recognized by Interacciones prior to the merger.

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.

As of December 31, 2018, these improvements did not generate accounting changes to the consolidated financial information of the Institution.

#### B. Changes in the accounting criteria B-6 Loan portfolio

In the resolution published on December 27, 2017, 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 recording them within "other operating income (expenses)":

- excess of loan losses,
- recoveries of loans write-off

These amendments become effective beginning January 1, 2019, establishing the option that credit institutions will be able to apply them in advance as of the day following their publication. The Financial Group has decided to adopt them in advance, on February 13, 2018, it sent the CNBV the early adoption notice as of January 31, 2018.

As of December 31, 2018, the Financial Group has recognized \$502 and \$1,853 related to surplus credit reserves and recoveries of write-off loans, respectively, in the "Allowance for Loan Losses" category, which, up to December 2017, were recorded in the caption of "Other income (expenses) of the operation".

#### C. Change in internal policy of investment projects impairment.

In the month of November 2018 was adopted the new policy to identify and evaluate the impairment that present the investment projects.

The net present value methodology applied according to the new policy, applies at the project or portfolio level as appropriate and reflects the recovery of the position at a current date, estimating the expected flow of the sale of the potential inventory of Housing that corresponds to Sólida and discounting it at present value by means of a discount rate

The inputs to determine the flows in the new methodology consider among other information: a) own market studies, B) adjustments in the percentages of participation in the projects "land share", c) information according to the business plan of each partner, D) Parametric analysis for uninitiated projects, e) Number of potential dwellings to be developed, F) Average price of housing, g) calculation of sales speed according to the market, and

The initial effect of the application of the new methodology for impairment of investment projects was \$4,332 and was applied on the basis of NIF B-1 "Accounting changes and error corrections" against the category of retained earnings. The foregoing, derived from that it is a change in accounting policy

The accounting record of the initial application of this new methodology is reflected in an increase to the reserve by impairment of investment projects (supplementary of assets) and a decrease in the heading "Results of previous years" (Stockholders 'equity).

#### Recognition of the effects of inflation in financial information

Inflation recognition is done pursuant to NIF 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 2018 and 2017 was 12.60% and 9.97%, respectively. Therefore, the Mexican economy is considered as non-inflationary. However, assets, liabilities and stockholders' equity as of December 31, 2018 and 2017 include the restatement effects recorded up until December 31, 2007.

The Mexican inflation rates for the years ended December 31, 2018 and 2017 were 4.92% and 6.68%, 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.

#### **Trading securities**

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

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

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

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

#### Securities available for sale

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

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

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

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

#### Securities held to maturity

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

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

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

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

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

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

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

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

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

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

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

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

The events considered by the model are divided into:

- a) Information that the Financial Group has about the securities (breach of contract covenants, financial, economic or legal problems).
- b) Information that the Financial Group has about the issuer (issuer's probability of bankruptcy, financial reorganization and financial difficulties).
- c) Information that the market has about the securities (rating assigned by Commission-approved agencies).
- d) Information that the market has about the issuer (rating assigned by Commission-approved agencies).

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

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

#### **Customer repurchase agreements (repos)**

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

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

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

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

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

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

#### **Derivatives financial instruments**

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

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

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

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

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

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

#### Forward and futures contracts

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

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

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

#### **Option contracts**

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

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

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

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

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

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

The Financial Group records the option premium as an asset or liability at the transaction date. The fluctuations resulting from market valuation of the option's premium are recorded by affecting the Consolidated Income Statement in the account "Trading results" and the corresponding Consolidated Balance Sheet account.

#### **Swaps**

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

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

Management's risk policy regarding hedging contracts is to protect the Financial Group's Consolidated Balance Sheets and to anticipate interest and exchange rate fluctuations, thereby protecting the stockholders' equity.

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

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

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

- a. The effective portion of the hedging instrument's gain or loss is recorded as a component of other comprehensive income in stockholders' equity using an asset or liability account called derivatives financial instruments" with an offsetting account in liquid assets or liabilities. The portion determined as ineffective is measured through retrospective testing, and when it results in over-hedging, it is immediately recognized in the period's results under "Trading results".
- b. The effective hedging component recognized in stockholders' equity associated with the hedged item is adjusted to equal the lowest (in absolute terms) of:
  - i. The accumulated gain or loss of the hedging instrument from its inception.
  - ii. The accumulated change in fair value (present value) of the hedged expected future cash flows from the beginning of the transaction.

#### Valuation techniques

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

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

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

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

#### Cancellation of hedging accounting

A cash flow hedging relation is cancelled when:

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

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

A fair value hedging relation is canceled when:

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

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

#### **Operation strategies**

#### **Trading**

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

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

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

#### Hedging

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

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

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

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

#### Contingencies

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

At present, no such contingency situations have arisen.

#### **Embedded derivatives**

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

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

#### Loan portfolio

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Allowance for loan losses

#### Modification in consumer not revolving and mortgage loans rating provisions

On January 6, 2017 the Commission published a resolution amending the provisions which correspond to the methodologies for the rating of the portfolios of consumption but not for revolving and mortgage, which remain a focus of expected loss and incorporate the 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, it also contemplates 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.

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

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

#### General description of rules established by the Commission

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

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

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

#### Probability of breach of contract

- Non-revolving consumer loan takes into account the current delay, the payments made on the past due balances, how many times the original value is paid, the type of loan, the remaining terms, among others.
- Revolving consumer loan considers the current situation and historical behavior regarding the number of
  outstanding payments, how old the accounts are, the payments on the balance, as well as what percentage of
  the authorized line of credit has been used.
- Mortgage loan considers the current delay, maximum number of delays over the last four periods, willingness
  to pay and the value of the property with respect to the loan balance.
- Commercial loans consider the type of debtor, payment experience, INFONAVIT payment history, rating agencies' evaluation, financial risk, social-economical risk, financial soundness, country and industry risk, market positioning, transparency, standards and corporate governance.

#### Severity of the loss

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

#### **Exposure to non-compliance**

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

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

#### **Acquired collection rights**

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

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

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

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

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

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

#### **Premium receivables**

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

Based on the internal policy approved by the CEO, the administration authorized excluding the cancellation process for certain policies with a premium over 45 days old and that has not been collected totally or partially. These accounts are indeed collectible and negotiations with the insured are currently underway. On December 31, 2018 and 2017, the premiums over 45 days old that have not been cancelled amounted to Ps. 50 and Ps. 111, excluding debts under federal public administration's and entities' charge. The non-accrued net premium, fees and reinsurance should be subtracted from such amount to determine its net effect on earnings. This amount was not computed for the coverage of technical reserves.

#### Reinsurance

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

#### Securitization involving transfer of ownership

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

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

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

#### Other accounts receivable and payable

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

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

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

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

Investment project value impairment is determined based on the time they are not under development. To be considered under development, an investment project shall have proof of any of the following:

- · Infrastructure, urbanization or new housing construction works in progress as per the business plan, or
- Available bridge loan for the investment project, or
- An investment agreement with a third party, who has the required operating and financial capability, other than the
  developer contemplated on its investment date.

#### **Merchandise inventory**

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

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

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

#### Foreclosed assets, net

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

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

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

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

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

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

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

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

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

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

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

#### Real estate property reserves

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

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the awarded value of the property based on the accounting criteria. Furthermore, when problems are identified regarding the realization of the value of the foreclosed property, the Financial Group records additional reserves based on management's best estimates. On December 31, 2018, there were no reserves other than those created by the percentage applied based on the accounting criteria that could indicate realization problems with the values of the foreclosed properties.

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

#### Property, furniture and equipment

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

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

#### **Permanent stock investments**

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

#### **Income taxes**

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

The net effect of the aforementioned items is presented in the Consolidated Balance Sheet under the "Deferred Income taxes, net" line.

#### **Intangible assets**

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

#### Goodwill

The Financial Group records goodwill when the total fair value of the acquisition cost and the Minority Interest is greater than the fair value of the net assets of the acquired business, pursuant to NIF B-7, "Business acquisitions." As goodwill is considered an intangible asset with an indefinite life, it is subject to impairment tests at least annually according to NIF C-15, "Impairment in the value of long-lasting assets and their disposal." No indicators of impairment of goodwill have been identified as of December 31, 2018 and 2017.

#### **Deposits**

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

#### Interbank and other loans

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

#### **Technical reserves**

According to the Commission, all technical reserves must be audited by independent actuaries on a yearly basis. On February 7 2018 and January 31, 2017, the actuaries have confirmed that in their opinion, the amounts of the reserves recorded by the Financial Group as of December 31, 2017 and 2016, respectively, are reasonably acceptable based on its liabilities, and are within the parameters that the actuarial practice indicates and comply with the criteria considered by the authorities in the matter.

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

#### 1) Unexpired risk reserve:

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

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

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

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

- I. The amount of the unexpired risk reserve shall be equal to the sum of the best estimate and a risk margin, which shall be calculated separately.
- II. The best estimate will be equal to the expected value of the future flows of liabilities, understood as the weighted average probability of these flows, considering the time value of t money based on the risk-free market interest rate curves for each currency or monetary unit provided by the price provider with which they maintain a contract.
- III. The calculation of the best estimate shall be based on timely, reliable, homogeneous and sufficient information as well as realistic assumptions and shall be made using actuarial methods and statistical techniques based on the application of the actuarial practice standards referred to in Chapter 5.17 of the CUSF. For these purposes, when an Insurance Institution or Mutual Society does not have reliable, homogeneous and sufficient information of its own, it must use the corresponding market information.
- IV. The projection of future flows used in the calculation of the best estimate will consider the total of gross revenues and expenses (without deducting Reinsurance Recoveries), which are necessary to meet the obligations of the insurance and reinsurance contracts throughout their period of validity, as well as other liabilities that the Insurance Institution or Sociedad Mutualista assumes in relation to them.
- V. The future income flows will be determined as the best estimate of the expected value of the future income that the Insurance Institution or *Sociedad Mutualista* will have for premiums that, according to the payment method established in the contracts that are in force at the time of valuation, will mature in the future time of validity of such contracts, as well as recoveries and adjustments of less than the estimates of claims. Future premiums for these effects will not be considered as premiums due and unpaid at the time of valuation, or the fractional payments that are accounted for under the concept of debtor for the premium.
- VI. Future outflows will be determined as the best estimate of the expected value of future payments and expenses to be incurred by the Insurance Institution or *Sociedad Mutualista* as a result of claims and adjustments of having more derivatives vs. the risks covered, dividend payments, redemptions, administrative and acquisition costs for contracts in force at the time of valuation. Future outflows must also consider all other payments to the insured and beneficiaries, as well as the expenses that the Insurance Institution or *Sociedad Mutualista* will incur in order to meet the obligations of the insurance and reinsurance contracts, as well as the effect of the exchange rate and inflation, including that relating to expenses and claims.
- VII. In the constitution and valuation of the unexpired risk reserve, the amount of the guaranteed assets, as well as the possible options for the insured or beneficiary included in the insurance contracts, should be considered. Any hypothesis used by the Insurance Institution or *Sociedad Mutualista* with respect to the likelihood that the insured or beneficiaries will exercise the contractual options, including those related to resolution, termination and redemption, must be realistic and based on timely, reliable, homogeneous and sufficient information. The assumptions must consider, explicitly or implicitly, the consequences that future changes in financial and other conditions may have on the exercise of such options;
- VIII. The risk margin will be calculated in accordance with the provisions of Chapter 5.4 of the CUSF.
- IX. In the valuation and constitution of unexpired risk reserves, the liabilities should be segmented into homogeneous risk groups.
- X. The short-term and long-term liabilities should be segmented in the valuation and constitution of the unexpired risk reserve so that the Institutions maintain an adequate balance in the investments of resources in the short and long term, and these hold are coherent with the nature of the liabilities to which they are related, and

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

### 2) Contractual obligations:

- a) Claims and expirations Claims for life, accidents, health and damage are recorded as soon as they are reported. Life insurance claims are based on the insured sums. Accident, illness and damage claims are adjusted based on the estimate of the amount of the obligations, and, at the same time, the pay back is recorded in the ceded reinsurance. Expirations are payments for expired endowments set forth in the insurance contract.
- b) Unreported claims This reserve is intended for recognizing the amount of actual claims not yet reported to the Financial Group. The estimate is based on prior years' casualty rate, adjusting the actuarial calculations on a quarterly basis, pursuant to the methodology approved by the cap.5.4 CNSF.
- c) Dividends on policies This reserve is determined based on actuarial studies, considering the casualty rate. The dividends are established in the insurance contract.
- d) Insurance funds under management These are the dividends on policies earned by the insured and withheld by the Financial Group to manage, as established in the insurance contract.
- e) Security premiums They are the amounts of segmented collections on the policies.

#### 3) Catastrophic reserve:

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

#### **Provisions**

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

#### **Employee retirement obligations**

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

#### Defined benefit plan

The Financial Group records a liability for seniority premiums, pensions and post-retirement medical services as incurred based on calculations by independent actuaries using the projected unit credit method, using nominal interest rates. Accordingly, this recognizes the liability whose present value will cover the obligation from benefits projected to the estimated retirement date of the Financial Group'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 that are generated, as specified by the NIF D-3, "Employee benefits".

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

## **Defined contribution plan**

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

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

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

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

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

#### Foreign currency conversion

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

#### Interest from outstanding subordinated debentures

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

## **Transfer of financial assets**

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

## **Share-based payments**

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

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

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

#### **Memorandum accounts**

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

• Contingent assets and liabilities (unaudited):

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

Loan commitments (unaudited):

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

Assets in trust or mandate (unaudited):

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

• Assets in custody or under management (unaudited):

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

· Collateral received:

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

Collateral received and sold or given as a pledge:

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

#### Main subsidiaries' income recognition

#### **Banco Mercantil del Norte**

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

#### Casa de Bolsa Banorte Ixe

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

## **Arrendadora y Factor Banorte**

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

#### Banorte Ahorro y Previsión (Seguros y Pensiones)

Income from premiums - Recognized as follows:

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

Premium income is recorded at the time premiums are settled

#### Sólida Administradora de Portafolios

- a. The revenues from loan asset recovery are recorded: a) as collected, simultaneously recording the associated collection costs; b) the amount product of multiplying the outstanding balance times the estimated yield rate, thereby affecting the account receivable by the difference between the revenue and the collected amount; and c) the amount product of multiplying the estimated yield rate times the amount actually collected the difference between the result and the collected amount affects the account receivable.
- b. Loan interest is recognized as accrued.
- c. Moreover the Financial Group recognizes an income from the trust's return on equity based on fulfilling the construction project's progress and/or sale, and suspends recording such income when the progress is not as expected in the plan included in the trust's contract. Impairment of investment projects is determined based on time for those projects not in development.

## 5 - CASH AND CASH EQUIVALENTS

As of December 31, 2018 and 2017, cash and cash equivalents are as follows:

	2018	2017
Cash	Ps. 23,553	Ps. 23,350
Banks	52,020	52,826
Other deposits and available funds	64	93
	Ps. 75,637	Ps. 76,269

"Banks" is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de México of Ps. 19.6512 and Ps. 19.6629 for 2018 and 2017, respectively, and is made up as follows:

		Mexican pesos				USD			Total			
		2018		2017		2018		2017		2018		2017
Call money	Ps.	162	Ps.	6,137	Ps.	-	Ps.	-	Ps.	162	Ps.	6,137
Deposits with foreign												
credit institutions		-		-		4,383		11,952		4,383		11,952
Domestic banks		2,343		32		-		-		2,343		32
Banco de México		43,942		33,730		1,190		975		45,132		34,705
	Ps.	46,447	Ps.	39,899	Ps.	5,573	Ps.	12,927	Ps.	52,020	Ps.	52,826

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, 2018 and 2017, the Financial Group had made monetary regulation deposits of Ps. 29,707 and Ps. 25,687, respectively.

As of December 31, 2018 and 2017, the total sum of restricted cash and cash equivalents is Ps. 32,493 and Ps. 43,198, 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, 2018 and 2017, the balance with Banco de México are Ps. 21,715 and Ps. 9,018, respectively, related to the deposit auctions.

As of December 31, 2018 and 2017, "Other deposits and available funds" includes:

		2018		2017
Minted metals in gold and silver	Ps.	25	Ps.	43
Cashable checks received, pending payment at a 3-day term		31		44
Remittances		8		6
	Ps.	64	Ps.	93

The exchange rates used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 618.17 and Ps. 359.52, per unit, respectively, in 2018; and Ps. 624.35 and Ps. 370.94, per unit, respectively, in 2017.

## **6 - INVESTMENTS IN SECURITIES**

## a. Trading securities

As of December 31, 2018 and 2017, trading securities are as follows:

		20	018			2017
	Acquisition cost	Accrued interest		Valuation increase (decrease)	Book value	Book value
Government securities	\$ 213,887	\$ 2,426	\$	93	\$ 216,406	\$ 197,706
Not restricted	14,023	384		44	14,451	11,288
D Bonds	-	-		-	-	12
M Bonds	(318)	1		(14)	(331)	(363)
BPA	-	-		-	-	1
CEBUR - Government	105	-		1	106	154
CEBUR - Municipality	-	-		-	-	1
CETES	11,084	377		(25)	11,436	9,738
Eurobonds	11	-		-	11	31
UDIBONOS	3,141	6		82	3,229	1,714
Restricted	199,864	2,042		49	201,955	186,418
D Bonds	23,629	92		1	23,722	28,294
M Bonds	1,121	1		2	1,124	981
BPA	161,499	1,911		76	163,486	152,615
CEBUR - Government	7,438	29		(15)	7,452	2,494
CETES	123	5		-	128	1.798
UDIBONOS	2,919	-		_	2,919	236
Bank securities	37,148	84		(1)	37,231	39,156
Not restricted	9,703	-		-	9,703	3,319
CEBUR - development bank	4	_		_	4	3,313
CEBUR - bank	(6)	_		_	(6)	42
CEDES	23	_		_	23	16
Other bank securities	152				152	59
Promissory Notes	262				262	3,199
Restricted	202 <b>27,445</b>	84		(1)	27,528	35,837
CEBUR - development bank	3,268	10		(1)	3,277	1,881
CEBUR - development bank	,	41		(1)	13,653	12,952
CEDES	13,612			-		,
	10,151	31		-	10,182	14,008
Other bank securities	414	2		-	416	731
Promissory Notes	7.000	-		-	-	6,265
Private securities	3,809	7		451	4,267	2,157
Not restricted	3,384	5		451	3,840	2,002
Shares	408	-		320	728	739
Investment funds	1,602	-		33	1,635	795
CEBUR - corporate	1,323	5		101	1,429	476
CEBUR - fiduciary	-	-		-	-	(11)
Eurobonds	51	-		(3)	48	3
Restricted	425	2		-	427	155
CEBUR - corporate	9	-		-	9	128
CEBUR - fiduciary	416	2		<u>-</u>	418	27
	\$ 254,844	\$ 2,517	\$	543	\$ 257,904	\$ 239,019

During 2018 and 2017, the Financial Group recognized under "Brokerage revenues" a loss of Ps. 1,931 and Ps. 761, respectively, for the fair value valuation of these instruments.

As of December 31, 2018 and 2017, there are Ps. 229,910 and Ps. 222,410, respectively, in restricted trading securities associated mainly with repurchase operations.

#### b. Securities available for sale

As of December 31, 2018 and 2017, securities available for sale are as follows:

		20	017			2016
	Acquisition cost	Accrued interest		Valuation increase (decrease)	Book value	Book value
Government securities	\$ 184,472	\$ 2,452	\$	(2,145)	\$ 184,779	\$ 135,736
Not restricted	33,785	459		(744)	33,500	49,409
D Bonds	_	-		-	-	100
M Bonds	369	1		(39)	331	337
BPA	_	-		-	-	(4,409)
BREMs	7,778	7		-	7,785	7,784
CEBUR - Government	623	4		10	637	286
CEBUR - Municipality	263	5		36	304	398
CEBUR - UDI	_	-		-	-	20
CETES	1,607	_		-	1,607	1,820
Eurobonds - Government	23,145	442		(751)	22,836	43,073
Restricted	150,687	1,993		(1,401)	151,279	86,327
D Bonds	26,096	142		-	26,238	11,431
BPA	89,867	1,432		(16)	91,283	65,644
CEBUR - Government	5,319	26		(6)	5,339	5,973
CEBUR - Municipal	2,429	3		(2)	2,430	96
CETES	15	-		-	15	96
Eurobonds - Government	26,961	390		(1,377)	25,974	3,183
Bank securities	4,349	16		(22)	4,343	6,523
Not restricted	4,349	16		(22)	4,343	6,523
CEBUR - development	538	2		-	540	289
CEBUR - bank	1,294	5		32	1,331	289
CEDES	2,060	9		(11)	2,058	5,841
Structured notes	457	-		(43)	414	393
Private securities	25,735	397		(1,090)	25,042	26,281
Not restricted	24,117	355		(920)	23,552	24,497
Shares	287	-		238	525	590
Investment funds	3,643	-		325	3,968	3,672
CEBUR - BORHIS	109	-		(81)	28	41
CEBUR - corporate	7,074	38		(566)	6,546	4,901
Eurobonds - private	13,004	317		(836)	12,485	15,293
Subordinated debentures	-	-		-	-	-
Restricted	1,618	42		(170)	1,490	1,784
Eurobonds - private	1,618	42		(170)	1,490	1,784
	\$ 214,556	\$ 2,865	\$	(3,257)	\$ 214,164	\$ 168,540

As of December 31, 2018 and 2017, there are Ps. 152,769 and Ps. 88,111, respectively, in restricted securities available for sale, mainly associated with securities repurchasing transactions.

As of December 31, 2018 and 2017, the balance of BREMSR amounted to 77,783,110 securities, acquired in May 2016, these BREMSRs were initially classified as securities available due to the legal impossibility to classify them as trading securities since they did not have a secondary market, ie they are not subject to trading operations. They could not be classified as securities held to maturity because this category was restricted in accordance with paragraph 13 of criterion B-2. In addition, it is contemplated to hedge these securities through cash flow hedging operations on TIIE28 interest rate, which is feasible only in the category of securities available for-sale in accordance with paragraph 60 of the Criterion B-5.

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 2018 the developers did not receive shares of the developers.

The shares and optional securities to subscribe shares received as payment 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 Holding Company reclassified shares and optional securities to subscribe shares to Investments in Securities (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, 2018, the impairment on market value of these shares was (Ps. 524). As of December 31, 2018, the Financial Group recognized (\$3,478) of impairment related to such shares, which was accounted in equity, in under "Retained earnings from prior years,", in accordance with the Commission special accounting criteria. (see Note 3).

#### c. Securities held to maturity

As of December 31, 2018 and 2017, securities held to maturity are as follows:

		2018			2017		
	_	Acquisition cost		Accrued interest	Book value		Book value
Government securities	\$	120,292	\$	295	\$ 120,587	\$	88,857
Not restricted		116,789		279	117,068		86,063
CEBUR - Government		1,709		23	1,732		1,758
CEBUR - Municipality		2,128		43	2,171		2,921
CEBUR - UDI		230		2	232		243
CETES specials		545		-	545		523
UDIBONOS		112,177		211	112,388		80,618
Restricted		3,503		16	3,519		2,794
CEBUR - Municipality		3,358		16	3,374		2,595
UDIBONOS		145		-	145		199
Bank securities		1,238		769	2,007		1,877
Not restricted		1,238		769	2,007		1,877
CEBUR - bank		758		15	773		736
CEDES		300		611	911		839
Structured notes		180		143	323		302
Private securities		4,811		662	5,473		4,605
Not restricted		2,784		655	3,439		2,004
CEBUR - BORHIS		2		-	2		-
CEBUR - corporate		1,406		655	2,061		2,004
Other		1,376		-	1,376		2,004
Restricted		2,027		7	2,034		2,601
CEBUR - BORHIS		-		-	-		1
CEBUR - corporate		2,027		7	2,034		2,600
Other securities		(29)		-	(29)		(29)
	\$	126,312	\$	1,726	\$ 128,038	\$	95,310

As of December 31, 2018 and 2017, there are Ps. 5,553 and Ps. 5,395, respectively, in restricted trading securities associated mainly with repurchasing operations.

As of December 31, 2018, the maturities of the securities (expressed at their acquisition cost), are as follows:

	More than one and up to 5 years	-	fore and 5 d up to 10 years	More than 10 years	Total
CETES specials	\$ 162	\$	383	\$ -	\$ 545
Certificados bursátiles	454		1,363	10,563	12,380
Certificados de Depósito	911		-	-	911
Notas Estructuradas	323		-	-	323
Udibonos	1,352		-	111,181	112,533
Other securities	-		-	1,346	1,346
	\$ 3,202	\$	1,746	\$ 123,090	\$ 128,038

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

#### d. Collateral

The fair value of the collateral given in derivative transactions as of December 31, 2018 and 2017 is as follows:

Type of collateral:			20 Fair value	)18 in millions
	Instrument category		Pesos	USD
Cash	-	Ps.	7	880
		Ps.	7	880

Type of collateral:			2017 Fair value in millions		
	Instrument category		Pesos	USD	
Cash	-	Ps.	9	16,002	
		Ps.	9	16,002	

As of December 31, 2018 and 2017, the Financial Group had no instruments received as collateral.

As of December 2018 and 2017, interest income is as follows:

Concept	2018	2017
Trading securities	Ps. 24,353	Ps. 19,966
Securities available for sale	11,929	8,502
Securities held to maturity	602	505
	Ps. 36,884	Ps. 28,973

#### e. Impaired negotiable instruments

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

- a) considerable financial difficulties of the instrument's issuer;
- b) the issuer may be declared bankrupt or in some other financial reorganization;
- c) breach of contractual clauses, such as failure to pay interest or the principal;
- d) unavailability of an active market for the instrument in question due to financial difficulties; or

- e) a measurable reduction in future estimated cash flows of a group of instruments from the initial recording of such assets, although the reduction cannot be identified with individual instruments of the group, including:
  - i. adverse changes in the payment status of the issuers in the group, or
  - ii. local or national economic conditions that are correlated with the groups defaults.

As of December 31, 2018 the amount recorder for the impairment of securities held to maturity was Ps. 3,565 (\$87 in Brokerage revenues and \$3,478 in Retained earnings from prior years, See Note 3) and \$927, respectively, are as follows:

Instruents	2018	2017
Shares	\$ 3,558	\$ 664
CEBUR private	7	263
	\$ 3,565	\$ 927

During 2018 and 2017, no interest income was recorded related to the impairment securities.

# 7 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

As of December 31, 2018 and 2017, creditor balances under repurchase and resale agreements are as follows:

## Acting as seller of securities

Instruents	2018	2017
CETES	Ps. 1,466	Ps. 1,797
CEBUR- bank	12,899	-
Eurobonds	17,524	-
Development Bonds	47,732	32,391
Bonds IPAB	9,884	19,220
Quarterly IPAB bonds	189,742	148,524
Semi-annual IPAB bonds	51,583	49,589
20-year bonds	279	876
UDIBONOS	2,842	11
Government securities	333,951	252,408
Promissory Notes	-	6,264
CEDES	10,185	14,008
CEBUR Bank	13,655	12,950
Financial Institution Negotiable Instruments	417	731
Bank securities	24,257	33,953
Short-term CEBUR	11,249	15,303
Mortgage certificates	-	1
Private securities	11,249	15,304
	Ps. 369,457	Ps.301,655

With the Financial Group acting as the vendor, accrued premiums were charged to the results of operations as of December 31, 2018 and 2017 for Ps. 27,714 and Ps.20,757, respectively, which are presented in the "Interest Expenses heading."

During 2018, the period of repurchase transactions carried out by the Financial Group in its capacity as vendor ranged in term from 1 to 364 days.

## Acting as securities purchaser

		20	)18		2017					
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		
Cetes	Ps. 2,263	Ps. 2,263	Ps	Ps	Ps. 2,501	Ps. 2,498	Ps. 3	Ps		
Development Bonds	22,131	21,517	616	2	373	-	373	-		
Bonds IPAB	6,694	6,694	-	-	1,502	1,502	-	-		
Quarterly IPAB bonds	89,089	88,684	405	-	48,218	48,216	2	-		
Semi-annual IPAB bonds	23,316	23,316	-	-	5,002	5,002	-	-		
Udibonos	11,145	11,145	-	-	-	-	-	-		
20-year bonds	123	123	-	-	2,301	2,001	300	-		
Government securities	154,761	153,742	1,021	2	59,897	59,219	678	-		
CEDES	3,145	3,145	-	-	3,408	3,408	-	-		
Bank bonds	267	267	-	-	188	188	-	-		
Securitized bank										
certificates	500	500	-	-	389	389	-	-		
Bank securities	7,666	7,666	-	-	3,985	3,985	-	-		
Short-term CEBUR	1,458	1,458	-	-	2,628	2,631	-	-		
Private securities	1,458	1,458	-	-	2,628	2,631	-	-		
	Ps.163,885	Ps.162,866	Ps. 1,021	Ps. 2	Ps.66,510	Ps.65,835	Ps. 678	Ps		

With the Financial Group acting as the purchaser, accrued premiums charged to the results of operations as of December 31, 2018 and 2017 were Ps. 816 and Ps. 235, respectively, which are presented in the "Interest Income" Heading.

During 2018, repurchase transactions carried out by the Financial Group in its capacity as purchaser ranged in term from 1 to 365 days

By December 31, 2018, the amount of securities corresponding to guarantees granted and received in repurchase transactions that involved the transfer of property totaled Ps. 245,892 and Ps. 372,881, respectively, and by December 31, 2017, the totals were Ps. 145,077 in guarantees granted and Ps. 184,011 in guarantees received.

## 8 - DERIVATIVE FINANCIAL INSTRUMENTS

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

As of December 31, 2018, the Financial Group has evaluated the effectiveness of derivatives' transactions for hedging purposes and has concluded that they are highly effective.

As of December 31, 2018 and 2017, positions in derivatives financial instruments are as follows:

Asset position	2018	2017
Forwards		
Foreign currency forwards	Ps. 87	Ps. 120
Options		
Interest rate options	961	849
Stock options	-	13
Currency	518	111
Swaps		
Interest rate swaps	22,439	20,921
Exchange rate swaps	4,078	3,506
Total trading	Ps. 28,083	Ps. 25,520
Options		
Rate options	3	25
Swaps		
Interest rate swaps	153	180
Total hedging	156	205
Total position	Ps. 28,239	Ps. 25,725

Liability position		2018	201	17
Forwards				
Foreign currency forwards	Ps.	416	Ps. 5	55
Options				
Interest rate options		796	78	34
Currency options		284	17	77
Swaps				
Interest rate swaps		18,132	18,32	22
Exchange rate swaps		3,977	5,27	O'
Total trading		23,605	24,60	8(
Swaps				
Interest rate swaps		253	49	<del>)</del> 2
Exchange rate swaps		10,710	11,90	)9
Total hedging		10,963	12,40	21
Total position	Ps.	34,568	Ps. 37,00	9

The following are notional bonds in different currencies, depending on the type of product, by December 31, 2018:

#### Trading instruments:

Instrument	MXN	USD	EUR		CHF
Foreign currency forwards	Ps. 28,608	Ps. 1,430	Ps	Ps.	-
Interest rate options	104,037	591	-		-
Stock options	812	-	-		-
Foreign currency options	812	-	-		-
Foreign currency swaps (receiving leg)	40,682	2,204	-		100
Foreign currency swaps (paying leg)	48,038	1,910	-		-
Interest rate swaps (receiving leg)	1,568,659	16,569	-		-
Interest rate swaps (paying leg)	1,568,659	16,569	-		-

## Hedging instruments

Instrument	MXN	USD	EUR	GBP
Interest rate options	Ps. 2,900 -			
Foreign currency swaps (receiving leg)	28,854	-	-	-
Foreign currency swaps (paying leg)	-	992	462	128
Interest rate swaps (receiving leg)	58,473	-	-	-
Interest rate swaps (paying leg)	48,473	-	-	-

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

Forwards	Options	Swaps	ccs
Fx-USD	Fx-USD	TIIE 28	TIIE 28
Fx-EUR	TIIE 28	TIIE 91	TIIE 91
Fx-CAD	TIIE 91	CETES 91	LIBOR
Fx-CHF	LIBOR	LIBOR	EURIBOR
			UDI

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

Transactions carried out for hedging purposes have maturities from 2019 to 2031 and are intended to mitigate the financial risk derived from long-term loans offered by the Financial Group at fixed nominal rates, as well as the exchange rate risk generated by market instruments in the Financial Group's portfolio.

As of December 31, 2018 and 2017, the collateral was comprised mainly of cash. Their fair value is shown in Note 6 d).

During 2018 and 2017, the net earnings from the valuation and realization of derivative financial instruments were Ps. 1,908 and Ps. 1,223, respectively.

The net amount of estimated gains or losses originated by transactions or events recorded in "Comprehensive income" to date in the consolidated financial statements and that are expected to be reclassified to earnings within the next 12 months total Ps. 107.

As of December 31, 2018 and 2017, the main positions hedged by the Financial Group 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 100%, well within the range established by the accounting standards in effect (80% to 125%). Furthermore, there is no over hedging on any of the derivatives; therefore as of December 31, 2018, there are no ineffective portions that are recorded at the market value that the Financial Group has to record in earnings.

The following are the Financial Group's hedged cash flows as of December 31, 2018, expected to occur and affect earnings:

Concept		Up to 3 months		ore than 3 ths and up to 1 year		ore than 1 nd up to 5 years	Мо	ore than 5 years
Forecast funding	Ps.	755	Ps.	2,236	Ps.	6,592	Ps.	1,945
Monetary regulation deposits		417		1,156		2,782		1,620
Assets denominated in USD		154		456		1,865		855
Assets denominated in Euros		50		164		663		78
Assets denominated in GBP		389		1,103		4,820		2,198
	Ps.	1,765	Ps.	5,115	Ps.	16,722	Ps.	6,696

The fair value of the instruments designated as cash flows hedging, recognized in overall earnings in stockholders' equity as of December 31, 2018 and 2017 totaled (Ps. 5,001) and (Ps. 5,214), respectively. Furthermore, Ps.107 and Ps.184, respectively, were reclassified from stockholders' equity to results.

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

The following table shows the cash flows hedging valuation balance:

Balance	Valuation of cash flows hedging instruments	Net change in period	Reclassified to income
Balance, January 1, 2007	Ps. (58)	Ps	Ps
Balance, December 31, 2007	(308)	(250)	-
Balance, December 31, 2008	(1,567)	(1,259)	18
Balance, December 31, 2009	(1,394)	173	47
Balance, December 31, 2010	(2,114)	(720)	42
Balance, December 31, 2011	(2,935)	(793)	15
Balance, December 31, 2012	(2,785)	122	75
Balance, December 31, 2013	(1,541)	1,244	75
Balance, December 31, 2014	(1,284)	257	(18)
Balance, December 31, 2015	(1,398)	(114)	16
Balance, December 31, 2016	(2,131)	(773)	63
Balance, December 31, 2017	(5,214)	(3,083)	184
Balance, December 31, 2018	(5,001)	223	107

## 9 - LOAN PORTFOLIO

As of December 31, 2018 and 2017, the loan portfolio by loan type is as follows:

		Perform	ing lo	an portfolio		Past-due loan portfolio				Tot	al	
		2018		2017		2018		2017		2018		2017
Commercial loans												
Denominated in												
domestic currency												
Commercial	Ps.	239,625	Ps.	186,520	Ps.	5,281	Ps.	5,281	Ps.	191,523	Ps.	191,523
Rediscounted portfolio		8,713		8,212		1		264		8,714		8,319
Denominated in USD												
Commercial		51,062		35,196		1,627		127		52,689		36,805
Rediscounted portfolio		3,445		3,849		-		-		3,445		3,849
Total commercial loans		302,845		233,777		7,387		5,672		310,232		240,496
Loans to financial institutions		7,735		5,944		-		344		5,944		5,944
Consumer loans												
Credit card		36,657		33,906		177		1,624		36,093		36,093
Other consumer loans		76,784		71,661		4,231		2,253		73,914		73,914
Mortgage loans												
Denominated in												
domestic currency		155,671		135,250		1,448		1,303		136,553		136,553
Denominated in UDIS		127		155		16		20		175		175
Government loans		197,373		134,905		4		-		134,905		134,905
		474,347		381,821		5,876		5,763		387,584		387,584
Total loan portfolio	Ps.	777,192	Ps.	615,598	Ps.	13,263	Ps.	12,482	Ps.	790,455	Ps.	628,080

#### **Restructured loans**

The restructured loans on December 31, 2018 and 2017 that modified their terms and rates are shown below:

		2018					2017	
	P	erforming		Past-due	Pe	rforming		Past-due
Commercial loans								
Business loans	Ps.	18,906	Ps.	1,513	Ps.	13,114	Ps.	1,131
Consumer loans		190		75		35		67
Mortgage loans		39		403		32		279
	Ps.	19,135	Ps.	1,991	Ps.	13,181	Ps.	1,477

As of December 31, 2018, past-due loans showed the following periods of delinquency:

		From 1 to 180 days	Fi	om 181 to 365 days		From 366 days to 2 years	Мо	re than 2 years		Total
Commercial loans										
Business loans	Ps.	1,615	Ps.	1,176	Ps.	4,591	Ps.	9	Ps.	7,391
Consumer loans		4,217		183		1		7		4,408
Mortgage loans		1,030		434		-		-		1,464
	Ps.	6,862	Ps.	1,793	Ps.	4,592	Ps.	16	Ps.	13,263

As of December 31, 2017, past-due loans showed the following periods of delinquency:

		From 1 to 180 days	Fr	om 181 to 365 days		From 366 days to 2 years	Мо	ore than 2 years		Total
Commercial loans										
Business loans	Ps.	2,383	Ps.	1,297	Ps.	701	Ps.	2,338	Ps.	6,719
Consumer loans		4,186		247		2		5		4,440
Mortgage loans		959		364		-		-		1,323
	Ps.	7,528	Ps.	1,908	Ps.	703	Ps.	2,343	Ps.	12,482

Past due loan movements for the years ended on December 31, 2018 and 2017 are shown below:

	2018	2017
Balance at the beginning of the year	Ps. 12,482	Ps. 10,312
Liquidations	(2,939)	(2,725)
Write-offs*	(15,025)	(12,068)
Renewals	(484)	(442)
Discounts	(587)	(652)
Foreclosures	(104)	(148)
Consumer loans	(7,088)	(5,797)
Mortgage loans	27,009	23,970
Fluctuation from foreign exchange rate	(1)	32
Year-end balance	Ps. 13,263	Ps. 12,482

<sup>\*</sup> Corresponds to 100% hedged loans.

As of December 31, 2018, the balance of deferred loan origination fees was Ps. 3,050 and the amount recorded in results was Ps. 1,283. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 3,792, and the amount recorded in results was Ps. 1,052. As of December 31, 2017, the balance of deferred loan origination fees was Ps. 2,612, and the amount recorded in results was Ps. 1,171. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 2,668, and the amount recorded in results was Ps. 695. 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 credits and advance collections" within the Consolidated Balance Sheets as well as in Interest Income and Interest Expenses, respectively, in the Consolidated income statements.

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

During the years ended December 31, 2018 and 2017, the balance of written off loans that had been fully reserved as past due was Ps. 15,096 and Ps. 12,370, respectively.

On December 31, 2018 and 2017, revenues from recoveries of previously written-off loan portfolios were Ps. 1,853 and Ps. 1,749, respectively.

The loans granted per economic sectors as of December 31, 2018 and 2017, are shown below:

			2017		
	Concentration pe				
		Amount	Amount		
Private (companies and individuals)	Ps.	391,247	49.50%	Ps. 240,496	38.29%
Financial institutions		7,735	0.98%	5,944	0.95%
Credit card and consumer		36,834	4.66%	110,007	17.51%
Mortgage		157,262	19.90%	136,728	21.77%
Government loans		197,377	24.97%	134,905	21.48%
	Ps.	790,455	100.00%	Ps. 628,080	100.00%

## Policies and procedures for granting Loans

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

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

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

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

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

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

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

	2018	2017
Distressed commercial loans	Ps. 8,681	Ps. 6,545
Performing	1,550	1,495
Past-due	7,131	5,050
Commercial loans	548,707	414,032
Performing	548,441	412,363
Past-due	261	1,669
Total rated commercial loans	557,388	420,577
Total portfolio	Ps. 830,271	Ps.667,136
Distressed commercial loans/total portfolio	1.05%	1.19%

The Financial Group'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, 2018 and 2017, the Financial Group 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 Financial Group absorbed its part of the early discount granted to mortgage loan debtors participating in the program.

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

As of December 31, 2018, the remaining balance of SPECIAL CETES not repurchased by the Federal Government is Ps. 545 with maturities between 2022 and 2027.

## 11 - ALLOWANCE FOR LOAN LOSSES

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

				2018					
Risk category		Required allowances for losses							
	Loan portfolio	Companies	Government	Financial institutions' loans	Consumer portfolio	Mortgage portfolio	Total		
Risk A1	Ps. 645,066	Ps. 1,280	Ps. 664	Ps. 104	Ps. 740	Ps. 192	Ps. 2,980		
Risk A2	66,442	371	210	6	331	30	948		
Risk B1	32,289	114	23	4	802	19	962		
Risk B2	14,387	83	64	5	278	27	457		
Risk B3	25,555	158	433	10	520	20	1,141		
Risk C1	21,195	120	724	-	458	72	1,374		
Risk C2	8,311	78	-	-	1,090	135	1,303		
Risk D	13,298	2,956	-	-	1,559	398	4,913		
Risk E	5,954	790	-	-	3,300	65	4,155		
Unclassified	(2,225)	-	-	-	-	-	-		
	Ps. 830,272	Ps.5,950	Ps. 2,118	Ps. 129	Ps. 9,078	Ps. 958	Ps.18,233		
Less: Recorded allowance	-	_	-	_	_	-	18,844		
Reserve supplement*						Ps.	611		

								2017					
Risk category		Required allowances for losses											
		Loan portfolio	Comp	oanies	Gover	nment		nancial utions' loans		sumer rtfolio		rtgage ortfolio	Tota
Risk A1	Ps.	518,671	Ps.	964	Ps.	488	Ps.	94	Ps.	856	Ps.	205	Ps. 2,60
Risk A2		53,964		269		161		6		501		37	974
Risk B1		34,213		99		24		11		903		23	1,060
Risk B2		14,639		99		-		-		389		35	523
Risk B3		13,671		138		21		2		497		21	679
Risk C1		8,730		110		6		7		470		76	669
Risk C2		6,178		64		-		3		662		130	859
Risk D		10,660		1,952		-		-		1,801		351	4,104
Risk E		6,589		880		-		-		3,507		55	4,442
Unclassified		179		-		-		-		-		-	
	Ps.	667,494	Ps. 4	,575	Ps.	700	Ps.	123	Ps.S	,586	Ps.	933	Ps. 15,917
Less: Recorded allowance		_		_		_		-		-		_	16,122
Reserve supplement*												Ps.	20

<sup>\*</sup> 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 31, 2018 and 2017, the provisions to cover 100% of the rating base for loan portfolios includes Ps. 25,598 and Ps.21,438, respectively, for Granted Guarantors and Loan Acquisitions, which were recorded in memorandum accounts. Ps. 13,940 and Ps.17,588 were also added for loans to related parties.

As of December 31, 2018 and 2017, the estimated allowance for loan losses is determined based on portfolio balances at those dates.

As of December 31, 2018 and 2017, the allowance for loan losses represents 142% and 129%, 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, 2018 and 2017.

According to the current regulation, as of December 31, 2018, the Institution rated under the regulatory methodologies based on expected losses the commercial portfolios (except credits destined to investment projects with own payment source), Mortgage portfolio and non-revolving consumer portfolio. In the case of the revolving consumption portfolio, beginning January 2018, the Institution uses an internal methodology authorized by the Commission.

Below are shown for each type of portfolio, the exposure to default, probability of breach of contract, and severity of the loss as of December 31, 2018.

Type of portfolio Weighted Severity of Loss	Exposur	Exposure to DefaultWeighted Probability of Non-compliance					
Commercial*	Ps.	439,517	5.9%	28.2%			
Mortgage		157,262	3.3%	18.2%			
Non-revolving consumer		79,044	8.9%	69.7%			
Revolving Consumer loan		58,295	8.1%	87.5%			

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

#### Movements in allowance for loan losses

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

	2018	2017
Balance at the beginning of the year	Ps. 16,122	Ps. 14,384
Increase charged to results	17,896	14,859
Discounts and write-offs	(16,801)	(13,966)
Rebates granted to housing debtors	(7)	(9)
Recognized against results of previous years	-	1,054
Merger of Companies	1,508	-
Sale of loan portfolio	-	(187)
Others	126	13
Year-end balance	Ps. 18,844	Ps. 16,122

As of December 31, 2018, the net amount of preventive loan losses reserves charged to the consolidated income statement totals Ps.16,079 and is presented net of Ps. 1,853 which is recorded in "Other income (expenses,)", and due to the variation of the USD (Ps. 90) and variations on exchange rate Ps. 54; such amounts are offset against results and comprised of Ps. 17,896 credited directly to the estimate. As of December 31, 2017, the net amount of preventive loan loss reserves charged to the consolidated income statement totals Ps. 16,079, and is presented net of Ps. 1,853 paid to which is recorded in "Other income or (expenses,)", and due to the variation of the USD Ps. 54 exchange rate; such amounts are offset against results and comprised of Ps. 17,896 credited directly to the provision.

## 12 - ACQUIRED COLLECTION RIGHTS

The acquired collection rights are comprised as follows:

Valuation Method		2018		2017
Cash basis method	Ps.	1,539	Ps.	1,378
Cost recovery method		869		1,078
Interest method		9		21
	Ps.	2,417	Ps.	2,477

As of December 31, 2018, derived from applying the valuation methods (described in Note 4), the Financial Group recognized income from credit asset portfolios of Ps. 623, coupled with the corresponding amortization of Ps. 439, the effects of which were recognized under the "Other income (expense)" heading in the consolidated income statement. For the year ended December 31, 2017, the Financial Group recognized income of Ps. 529, together with the respective amortization of Ps. 358.

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

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

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

## 13 - PREMIUM RECEIVABLES, NET

This item is made up as follows:

	2018	2017
Maritime and transportation	Ps. 25	Ps. 96
Automobile	1,340	1,280
Various	736	855
Accidents and health	683	735
Life	687	723
Pensions	257	114
	3,728	3,803
Federal public administration agencies' indebtedness	107	228
	Ps. 3,835	Ps. 4,031

## 14 - ACCOUNTS RECEIVABLE FROM REINSURANCE

This item is made up as follows:

	20	18	2017
Insurance and annuities	Ps. 2,0	24 Ps	. 1,259
Reinsurers' participation for pending claims	5,9	941	6,740
Reinsurers' participation for current risk	7	33	713
Other participations	2	67	300
Preemptive credit risk assessment of Foreign Reinsurers			
Foreing		(2)	(2)
Estimate for punishments		(7)	(293)
	Ps. 8,9	59 Ps	. 8,717

## 15 - OTHER ACCOUNTS RECEIVABLE, NET

This item is made up as follows:

	2018	2017
Loans to officers and employees	Ps. 2,728	Ps. 2,595
Debtors from liquidation settlements	10,602	17,231
Debtors from cash collateral	17,293	17,663
Real estate property portfolios	1,892	2,024
Fiduciary rights*	4,512	8,589
Sundry debtors in Mexican pesos	5,492	3,433
Sundry debtors in foreign currency	357	366
Others	483	392
	43,359	52,293
Allowance for doubtful accounts	(1,352)	(459)
	Ps. 51,007	Ps. 51,834

<sup>\*</sup> The Financial Group has participation in trusts jointly with GEO, URBI and Homex. Such trusts were constituted for housing developments construction. Moreover the Financial Group recognizes an income from the trust's return on its participation based on fulfilling the construction project's progress and/or sale, and suspends recording such income when the progress is not as expected in the plan included in the trust's contract, as described in Note 4.

As of December 31, 2018 and 2017, the Financial Group recorded impairments in investing projects for Ps. 173 and Ps. 409, respectively.

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

## 16 - FORECLOSED ASSETS, NET

As of December 31, 2018 and 2017, the foreclosed assets balance is as follows:

	2018	2017
Moveable property	Ps. 299	Ps. 95
Real estate property	3,140	3,081
Goods pledged for sale	253	12
	3,692	3,188
Allowance for losses on foreclosed assets	(289)	(47)
Allowance for losses on foreclosed real estate assets	(2,297)	(2,037)
Allowance for losses on assets pledged for sale	(211)	(4)
	(2,797)	(2,088)
	Ps. 1,100	Ps. 1,100

As of December 31, 2018, aging of the reserves for foreclosed assets is made up as follows:

Concept / Months	18 to	24	M than	lore 124	То	tal							
Moveable property	Ps.	-	Ps. 2	.89	Ps. 2	89							
Concept / Months	12	to 24	24	to 30	30	to 36	3(	5 to 42	42	to 48	More	than 48	Total
Real estate property	\$	23	\$	12	\$	20	\$	23	\$	9	\$	2,210	\$ 2,297
Goods pledged for sale		17		-		-		-		4		190	211
	\$	40	\$	12	\$	20	\$	23	\$	13	\$	2,400	\$2,508

As of December 31, 2017 the antiquity of the reserves for foreclosed assets is as follows:

Concept / Months	18 1	0 24 M	ore th	an 24	 otai						
Moveable property	\$	25	\$	22	\$ 47						
Concept / Months		12 a 24		24 a 30	30 a 36	3	36 a 42	42 a 48	More	than 48	Total
Real estate property	\$	19	9 \$	15	\$ 12	\$	8	\$ 106	\$	1,877	\$2,037
Goods pledged for sale		-	-	-	-		-	-		4	4
	\$	19	) \$	15	\$ 12	\$	8	\$ 106	\$	1,881	\$ 2,041

## 17 - PROPERTY, FURNITURE AND EQUIPMENT, NET

This item is made up as follows:

	2018	2017
Furniture and equipment	Ps. 16,237	Ps. 15,561
Property intended for offices	9,081	9,973
Installation costs	7,395	5,916
	32,450	31,450
Less - Accumulated depreciation and amortization	(15,029)	(13,280)
	Ps. 17,684	Ps. 18,170

Depreciation recorded in the results of 2018 and 2017 was Ps. 2,217 and Ps. 1,688, respectively.

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

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

## **18 - PERMANENT STOCK INVESTMENTS**

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

	Share %	2018	2017
Afore XXI-Banorte, S.A. de C.V.	50% \$	13,597 \$	13,493
Capital I CI-3, S.A.P.I. de C.V.	50%	28	35
Maxcom Telecomunicaciones, S.A.B. de C.V.	7.07%	61	83
Controladora PROSA, S.A. de C.V.	19.73%	109	64
Sociedades de Inversión Ixe Fondos	Various	169	105
Fondo Chiapas, S.A. de C.V.	11.11%	16	17
Fideicomiso de Coinversión F/2504 (CKD)	Various	32	-
Fideicomiso 73789-Banco Monex	4.88%	5	-
Fideicomiso 11769-Carretera Lerma	4.88%	18	-
Fideicomiso 12040-La Gloria	4.88%	8	-
Fideicomiso Actinver 3650	4.88%	2	-
Otras	Various	(7)	(26)
	Ps	. 14,038 Ps.	13,771

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

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

# 19 - DEFERRED TAXES, NET

The tax reported by the Financial Group is calculated based on the current taxable result of the year and enacted tax regulations. However, due to temporary differences between how income and expenses are recognized for accounting and tax purposes, as well as the differences between the accounting and tax balance sheet accounts, the Financial Group has recognized a recoverable net deferred tax asset of Ps. 4,318 and Ps. 2,949 as of December 31, 2018 and 2017, respectively, as detailed below:

	2018						2017	
		emporary fferences		Deferred Effect		emporary ifferences		Deferred Effect
Temporary Differences - Assets								
Allowance for loan losses	Ps.	2,064	Ps.	619	Ps.	1,676	Ps.	503
Tax loss carryforwards		3,711		1,113		3,711		1,113
Tax losses in foreclosure sales		-		-		-		-
Tax losses in stock sales		-		-		-		-
Surplus allowances for credit risks over the net tax limit		18,264		5,479		15,551		4,665
Excess of tax over book value of foreclosed and fixed assets		4,201		1,258		3,472		1,040
PTU		470		141		386		116
Fees collected in advance		3,724		1,117		3,474		1,042
Accounting provisions		4,563		1,369		3,369		1,011
Financial instruments valuation		3,871		1,161		2,617		785
Other assets		59		18		26		8
Total assets	Ps.	41,156	Ps.	12,344	Ps.	34,282	Ps.	10,283

		2	018				2017	
		emporary ifferences		Deferred Effect		Temporary Differences		Deferred Effect
Temporary Differences - Liabilities								
Excess of tax over book value of foreclosed								
and fixed assets and expected payments	Ps.	1,376	Ps.	413	Ps.	852	Ps.	256
Capitalizable projects' expenses		15,276		4,583		11,738		3,521
Provisions		7,449		2,234		6,686		2,006
Financial instruments valuation		749		225		2,901		870
Intangible assets		1,292		387		2,033		609
Deferred from the IXE purchase method		595		178		-		-
Other		20		6		244		72
Total Liabilities	Ps.	26,757	Ps.	8,026	Ps.	24,454	Ps.	7,334
Deferred tax, net			Ps.	4,318			Ps.	2,949

As explained in Note 29, the applicable income tax rate is 30% for 2018, 2017 and later years.

At December 31, 2018, the tax loss carry forwards prescription is as follows:

Due date	Amount
2023	Ps. 1,278
2024	1,681
2025	3
2026	36
2027	45
2028	897
	\$ 3,940

Banorte USA's deferred tax assets and liabilities are determined using the liability method. According to this method, the net asset or liability of deferred taxes is determined based on the tax effects of temporary differences between the book and tax base of assets and liabilities. Due to the consolidation of Banorte USA, as of December 31, 2018 and 2017, a net amount of Ps. 18 and 2, respectively, was added to deferred taxes determined at a rate of 21% as per the tax law of the USA.

## **20 - OTHER ASSETS, NET**

This item is made up as follows:

	2018	2017
Net asset forecast from labor obligations and savings fund	Ps. 350	Ps. 448
Payments to amortize	24,059	18,470
Accumulated payment amortization	(3,961)	(2,876)
Goodwill	24,453	12,644
	Ps. 44,901	Ps. 28,686

As of December 31, 2018 and 2017, goodwill is as follows:

	2018	2017
Ixe Grupo Financiero, S.A.B. de C.V.	Ps. 11,537	Ps. 11,537
Banorte-Ixe Tarjetas, S.A. de C.V., SOFOM, ER	727	727
Uniteller Financial Services	380	380
Grupo Financiero Interacciones, S.A.B. de C.V	11,809	-
	Ps. 24,453	Ps. 12,644

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, 2018 and 2017.

## 21 - DEPOSITS

#### **Liquidity coefficient**

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

In accordance with such regime, during 2018 and 2017, the Financial Group generated a liquidity requirement of USD 1,330,153 thousand and USD 981,294 thousand, respectively, and held investments in liquid assets of USD 1,645,364 thousand and USD 1,525,564 thousand, representing a surplus of USD 322,511 thousand and USD 544,270 thousand, respectively.

## **Deposits**

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

	2018	2017
Demand deposits		
Non-interest bearing checking accounts:		
Cash deposits	Ps. 277,304	Ps.215,800
Checking accounts in US dollars for individual residents on the Mexican border	2,908	3,093
Demand deposits accounts	19,494	18,677
Interest bearing checking accounts:		
Other bank checking deposit	95,144	82,625
Checking accounts in US dollars for individual residents on the Mexican border	2,035	1,909
Demand deposits accounts	13,490	71,204
<del></del>	410,375	393,308
Time deposits	·	-
General public:		
Fixed-term deposits	27,913	15,542
Retail time deposits	237,517	213,473
Promissory note with interest payable at maturity PRLV primary market for individuals	504	794
Promissory note with interest payable at maturity PRLV primary market for institutions	9,040	8,273
Foreign residents deposits	6	12
Provision for interest	1,406	1,080
	276,386	239,174
Money market:	,	,
Over the counter promissory notes	55.294	3.678
Provision for interest	258	1
	55,552	3,679
	331,938	242,853
Senior debt	12,098	3,003
Global account of deposits without movement	1,891	1,657
<u>.</u>	Ps. 756,302	Ps.640,821

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

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

## Immediately due and payable deposits:

_		2018				2017					
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
Mexican pesos and UDIS	0.76%	0.92%	1.33%	1.13%	0.52%	0.66%	0.80%	0.76%			
Foreign currency	0.02%	0.03%	0.16%	0.07%	0.02%	0.02%	0.02%	0.02%			

## Time deposits:

_		2018					2017			
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
General public										
Mexican pesos and UDIS	5.66%	5.94%	6.16%	6.42%	4.85%	5.50%	5.86%	5.57%		
Foreign currency	0.17%	0.23%	0.25%	0.29%	0.18%	0.18%	0.19%	0.20%		
Money market	6.82%	6.25%	7.62%	7.87%	4.31%	6.64%	7.40%	7.27%		

As of December 31, 2018 and 2017, the terms set for these deposits are as follows:

	2018							
		From 1 to 179 days		From 6 to 12 months		More than 1 year		Total
General public								
Fixed-term deposits	Ps.	25,499	Ps.	1,720	Ps.	694	Ps.	27,913
Demand deposits		236,423		9,694		440		246,557
Promissory note with interest payable								
at maturity PRLV primary market for individuals		475		17		12		504
Foreign residents deposits		6		-		-		6
Provision for interest		1,200		193		13		1,406
		263,603		11,624		1,159		276,386
Money market:								
Promissory notes		-		-		55,294		55,294
Provision for interest		-		-		258		258
		-		-		55,552		55,552
Senior debt issued		12,098		-		-		12,098
Global account of deposits without movements		1,891		-		-		1,891
	Ps.	277,592	Ps.	11,624	Ps.	56,711	Ps.	345,927

	2017							
		From 1 to 179 days		From 6 to 12 months		More than 1 year		Total
General public								
Fixed-term deposits	Ps.	13,179	Ps.	1,863	Ps.	500	Ps.	15,542
Demand 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
		226,061		12,147		966		239,174
Money market:								
Promissory notes		-		-		3,678		3,678
Provision for interest		-		-		1		1
		-		-		3,679		3,679
Senior debt issued		3,003		-		-		3,003
Global account of deposits without movements		1,657		-		-		1,657
	Ps.	230,721	Ps.	12,147	Ps.	4,645	Ps.	247,513

## 22 - INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2018 and 2017 are as follows:

		Mexican pesos			Denominated in USD				Total			
		2018		2017		2018		2017		2018		2017
Short-term:												
Bank of Mexico	Ps.	101	Ps.	-	Ps.	-	Ps.	-	Ps.	101	Ps.	-
Commercial banking		4,599		4,157		7,637		5,719		12,236		9,876
Development banking		5,167		251		622		39		5,789		290
Public trusts		7,181		7,487		417		536		7,598		8,023
Provision for interest		-		17		-		7		-		24
		17,048		11,912		8,676		6,301		25,724		18,213
Long-term:												
Commercial banking		9,968		8,085		16,589		848		26,557		8,933
Development banking		-		-		1,952		2,804		1,952		2,804
Public trusts		3,971		3,530		555		463		4,526		3,993
		13,939		11,615		19,096		4,115		33,035		15,730
	Ps.	30,987	Ps.	23,527	Ps.	27,772	Ps.	10,416	Ps.	58,759	Ps.	33,943

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

The average interest rates are shown below:

		2018					2017				
Foreign exchange	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
Call money											
Mexican pesos and UDIS	7.22%	7.92%	8.60%	9.63%	5.82%	6.80%	6.79%	6.89%			
Other bank loans											
Mexican pesos and UDIS	13.70%	11.11%	11.17%	11.04%	11.31%	10.66%	9.17%	10.50%			
Foreign currency	3.35%	3.77%	0.98%	0.69%	2.35%	2.53%	2.96%	3.37%			

## **23 - TECHNICAL RESERVES**

	2018	2017
Current risk:		
Life	Ps. 118,044	Ps. 86,527
Accidents and health	1,673	1,663
Damages	3,660	3,315
	123,377	91,505
Contractual obligations:		
Claims and expirations	8,540	8,739
Unreported claims	3,744	3,247
Dividends on policies	70	84
Insurance funds under management	89	3
Security premiums	203	588
	12,646	12,661
Contingency:		
Catastrophic risk	1,458	1,207
Contingencies	2,269	1,667
Special	1,129	754
	4,856	3,628
	Ps. 140,879	Ps.107,794

## **24 - SUNDRY CREDITORS AND OTHER PAYABLES**

This item is made up as follows:

	2018	2017
Cashier and certified checks and other negotiable instruments	Ps. 7,277	Ps. 2,803
Provision for employee retirement obligations and saving fund	725	612
Provisions for other obligations	9,335	7,535
Others	10,670	9,582
	Ps. 28,007	Ps. 20,532

## 25 - EMPLOYEE RETIREMENT OBLIGATIONS

The Financial Group 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, 2018 and 2017, related to the Defined Benefit Pension Plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

		2018							
		Pension plan		Seniority premiums		Medical services		Total	
Projected benefit obligation (PBO)	Ps.	(1,222)	Ps.	(247)	Ps.	(2,877)	Ps.	(4,346)	
Fund market value		638		211		2,432		3,281	
Funded status		(584)		(36)		(445)		(1,065)	
Unrecognized prior service cost		-		-		73		73	
Unrecognized actuarial losses		268		5		536		809	
Net projected asset	Ps.	(316)	Ps.	(31)	Ps.	164	Ps.	(183)	

		2017							
		Pension plan		Seniority premiums		Medical services		Total	
Projected benefit obligation (PBO)	Ps.	(1,353)	Ps.	(255)	Ps.	(3,571)	Ps.	(5,179)	
Fund market value		847		236		2,581		3,601	
Funded status		(506)		(19)		(1,053)		(1,578)	
Unrecognized prior service cost		-		-		110		110	
Unrecognized actuarial losses		461		11		944		1,416	
Net projected asset	Ps.	(45)	Ps.	(8)	Ps.	1	Ps.	(52)	

Moreover, as of December 31, 2018, a separate fund amounting to Ps. 3,243, (Ps. 3,566 in 2017) has been set aside to meet the above-mentioned obligations, in accordance with NIF D-3 and is recorded under "Other assets".

The net periodic pension cost is as follows:

		2018		2017
Service cost	Ps.	29	Ps.	108
Interest cost		466		434
Expected return on plan assets		(337)		(489)
Amortizations of unrecognized items:				
Profits (actuarial losses)		92		136
Cost of the advance reduction/liquidation of obligations		-		4
Net periodic pension cost	Ps.	250	Ps.	193

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2018 and 2017, are shown below:

Concept	2018 Nominal	2017 Nominal
Discount rate	11.50%	9.25%
Rate of wage increase	4.5%	4.50%
Long-term inflation rate	3.50%	3.50%
Expected long-term rate of return on plan assets	3.50%	3.50%

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

Concept		2018		2017
Defined and projected benefit obligations	Ps.	(314)	Ps.	(277)
Net projected liability	Ps.	(314)	Ps.	(277)

The net periodic pension cost is as follows:

Concept	20	018 2	2017
Service cost	Ps.	94 Ps.	26
Interest cost	8	9	
Net periodic pension cost	Ps.	102 Ps.	35

Pursuant to the law, the Financial Group makes payments equivalent to 2% of its workers' salary to the contribution plan defined for the retirement saving fund established by law. The expense for this concept was Ps.141 in 2018 and Ps. 130 in 2017.

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

The labor obligations derived from the Defined Contribution Pension Plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan's participants. This pension plan is invested in a fund as of December 31, 2018 and 2017, equivalent to Ps. 3,017 and Ps. 2,846, respectively, which is recorded under "Other assets" and is equivalent to the recorded plan liability.

As of December 31, 2018 and 2017, the PTU provision was Ps. 485 and Ps. 405, respectively.

## **26 - SUBORDINATED DEBENTURES**

As of December 31, 2018 and 2017, the subordinated debentures in circulation are as follows:

	2017	2016
Non-preferred subordinated obligations, non-preferent, perpetual, non-cumulative 5 years callable BANOD19 999999 denominated in USD, with an interest rate of 6.875%.**	Ps. 6,878	Ps. 6,882
Non-preferred subordinated obligations, non preferent, perpetual, non-cumulative 10 years callable BANOE91 999999 denominated in USD, with an interest rate of 7.625%.**	10,809	10,815
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.	9,825	9,831
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, interest at a 4.95% annual rate.	2,784	2,653
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.	2,358	2,360
Nonpreferred subordinated nonconvertible debentures Q BINTER 15 maturing in February 2025 and interests at an annual interest rate of TIIE to 28 days plus 2.5 points.	1.000	_
Accrued interest	232	229
Issuance and placement expenses	(326)	(325)
	Ps. 33,560	Ps. 21,917

The costs related to these debentures are amortized using the straight-line method over the term of the debt. The amortization charged to results were Ps. 30 and Ps. 18 in 2018 and 2017, respectively.

# 27 - TRANSACTIONS AND BALANCES WITH NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

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

For the years ended December 31, 2018 and 2017, the amount of the loans granted to related parties were as follows:

			% over the			% over the	
Institution granting the loan		2018	limit		2017	limit	
Banco Mercantil del Norte, S.A.	Ps.	17,133	15.7%	Ps.	19,410	19.8%	

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

## Loan portfolio sales

### Sale of loan portfolio packages between related parties (nominal values)

In February 2003 Banorte sold Ps. 1,925 of its proprietary portfolio (with interest) to its subsidiary Sólida at a price of Ps. 378. Of this transaction, Ps. 1,861 was related to past due amounts and Ps. 64 to the performing loan portfolio. The transaction was recorded based on figures as of August 2002, therefore the final amount affecting the February 2003 balance sheet was Ps. 1,856, considering the collections made since August 2002. Coupled with the sold loan portfolio, Ps. 1,577 of the associated allowance for loan losses was transferred as well.

<sup>\*\*</sup> 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.

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 Financial Group 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 2018 and 2017:

	F	oreign Curr	Total						
Type of portfolio	Aug 02	Dec 17	Dec 18	Aug 02	Dec 17	Dec 18	Aug 02	Dec 17	Dec 18
Performing loan portfolio									
Commercial	Ps. 5	Ps	Ps	Ps. 5	Ps	Ps	Ps. 10	Ps	Ps
Mortgage	54	19	4	-	-	-	54	19	4
Total	59	19	4	5	-	-	64	19	4
Past-due Ioan portfoli	0								
Commercial	405	184	184	293	1	1	698	185	185
Consumer	81	71	71	-	-	-	81	71	71
Mortgage	1,112	205	202	-	-	-	1,112	205	202
Total	1,598	460	457	293	1	1	1,891	461	458
Total portfolio	1,657	479	461	298	1	1	1,955	480	463
Allowance for loan losses (1)									
Commercial	326	184	184	246	1	1	572	185	185
Consumer	77	71	71	-	-	-	77	71	71
Mortgage	669	205	202	-	-	-	669	205	202
Total allowance for									
loan loss	1,072	460	457	246	-	1	1,318	461	458
Net portfolio	Ps. 585	Ps. 19	Ps. 4	Ps. 52	Ps	Ps	Ps. 637	Ps. 19	Ps. 4

<sup>(1)</sup> Allowances required based on the classification methodology applied in the Financial Group that maintained a 98.83% equity interest in Sólida during 2018 and 2017.

		Me	xican	pesos		For	eign C	urrency			Tot	al
Type of portfolio		Dec 18		Dec 17		Dec 18		Dec 17		Dec 18		Dec 17
Commercial loans	Ps.	427,274	Ps.	321,767	Ps.	62,283	Ps.	44,384	Ps.	489,557	Ps.	366,151
Consumer loans		111,237		101,995		-		-		111,237		101,995
Mortgage loans		155,803		135,425		-		-		155,803		135,425
Performing loan portfolio		694,314		559,187		62,283		44,384		756,597		603,571
Commercial loans		5,602		5,115		1,628		1,610		7,230		6,725
Consumer loans		4,402		4,400		-		-		4,402		4,400
Mortgage loans		1,666		1,528		-		-		1,666		1,528
Past-due Ioan portfolio		11,670		11,043		1,628		1,610		13,298		12,653
Total portfolio		705,984		570,230		63,911		45,994		769,895		616,224
Allowance for loan losses		17,592		15,685		1,130		327		18,722		16,012
Net portfolio	Ps.	688,832	Ps.	554,545	Ps.	62,781	Ps.	45,667	Ps.	751,173	Ps.	600,212
Allowance for loan losses										140.79%		126.55%
% of past-due portfolio										1.73%		2.05%

As of December 31, 2018 and 2017, the composition of the Financial Group's loan portfolio excluding its subsidiaries is as follows:

# **28 - INFORMATION BY SEGMENT**

The main operations and balances per concept and/or business segment in the General Balance Sheet and the Income Statement are comprised as follows:

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

	2018							
		Interest MXP		Fees MXP		Total MXP		
Cash and cash equivalents	Ps.	3,741	Ps.	-	Ps.	3,741		
Margin securities		276		-		276		
Investment in securities		36,884		-		36,884		
Securities repurchasing and loans		816		-		816		
Hedging transactions		6,668		-		6,668		
Commercial loans		41,453		418		41,871		
Mortgage loans		14,399		587		14,986		
Consumer loans		26,572		277		26,849		
Others		5,492		-		5,492		
	Ps.	109,340	Ps.	1,169	Ps.	110,509		

	2017							
		Interest MXP		Fees MXP		Total MXP		
Cash and cash equivalents	Ps.	2,400	Ps.	-	Ps.	2,400		
Margin securities		111		-		111		
Investment in securities		28,973		-		28,973		
Securities repurchasing and loans		235		-		235		
Hedging transactions		5,073		-		5,073		
Commercial loans		32,463		439		32,902		
Mortgage loans		12,284		514		12,798		
Consumer loans		23,085		216		23,301		
Others		4,716		-		4,716		
	Ps. 10	9,340	Ps.	1,169	Ps.	110,509		

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

	2018	2017
Banking sector:		
Net income	Ps. 24,834	Ps. 18,339
Stockholders' equity	108,403	86,062
Total portfolio	769,176	615,714
Past-due loan portfolio	12,840	12,192
Allowance for loan losses	(18,264)	(15,551)
Total net assets	1,180,492	1,056,423
Brokerage sector:		
Net income	1,198	972
Stockholders' equity	3,884	3,060
Portfolio balance	878,033	824,291
Total net assets	214,131	121,833
Long term saving sector*		
Net income	5,697	6,271
Stockholders' equity	27,246	25,996
Total net assets	174,804	139,625
Other finance companies sector:		
Net income	80	(158)
Stockholders' equity	8,516	9,087
Total portfolio**	35,218	34,052
Past-due loan portfolio	422	291
Allowance for loan losses	(580)	(572)
Total net assets	47,023	46,915
Grupo Financiero Banorte (Financial Group)		
Net income	31,837	23,889
Stockholders' equity	170,376	143,701
Total assets	170,378	143,701

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

c. The trading results for the years ended December 31, 2018 and 2017 are as follows:

	2018		2017
Ps.	(119)	Ps.	(153)
	1,979		492
	(135)		(709)
	1,725		(370)
\$	2,113	\$	1,729
	(71)		137
	461		1,161
	2,503		3,027
Ps.	4,228	Ps.	2,657
	\$	Ps. (119) 1,979 (135) 1,725  \$ 2,113 (71) 461 2,503	Ps. (119) Ps. 1,979 (135) 1,725 \$ 2,113 \$ (71) 461 2,503

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

Economic sector		2018	%	2017
Agriculture	Ps.	8,803	1.1%	Ps. 8,128
Commerce		69,233	8.9%	63,984
Construction		42,131	5.4%	33,050
Manufacturing		39,032	5.0%	31,258
Mining		2,402	0.3%	2,800
Services		34,968	4.5%	7,764
Financial and real estate services		52,024	6.7%	49,111
Transportation		34,921	4.5%	20,129
Government		197,373	25.5%	134,905
Vivienda		155,798	20.0%	135,405
Mortgage		36,657	4.7%	33,906
Credit card		76,784	9.9%	71,660
Other consumer loans		14,052	1.8%	12,478
Leasing		12,992	1.7%	11,020
Factoring		22	0.0%	63,984
	Ps.	777,192	100%	Ps. 615,598

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

Economic sector		2018	%		2017
Agriculture	Ps.	162	1.2%	Ps.	119
Commerce		1,702	12.8%		1,451
Construction		2,182	16.5%		2,453
Manufacturing		2,005	15.1%		1,915
Mining		5	0.0%		3
Services		449	3.4%		452
Financial and real estate services		49	0.4%		73
Transportation		517	3.9%		99
Vivienda		4	0.0%		1,323
Mortgage		1,464	11.0%		2,187
Credit card		2,151	16.2%		2,253
Other consumer loans		2,256	17.0%		85
Leasing		207	1.6%		69
Factoring		110	0.9%		119
	Ps.	13,263	100%	Ps.	12,482

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

						2018						
		Geographical location										
Product		Monterrey Me		Mexico City West		Northwest	Northwest Southeast		Treasury and other		Total	
Non-interest bearing												
checking accounts	Ps.	62,646	Ps.	105,212	Ps. 28,849	Ps. 33,361	Ps. 37,669	Ps.	1,036	Ps.	268,373	
Interest-bearing checking accounts	;	8,515		49,643	6,082	5,219	14,013		620		84,092	
Current account Ps. and												
pre-established		2,558		4,444	1,027	863	1,126		2		10,020	
Non-interest bearing demand												
deposits, USD		6,975		10,827	2,236	8,826	2,462		4		31,330	
Interest bearing demand												
deposits, USD		7,641		6,117	915	3,284	975		20		18,952	
Retail time deposits		41,856		90,883	21,192	19,056	28,845		1,698		203,530	
Time deposits, USD		3,790		6,877	1,504	2,218	748		3,015		18,152	
Customers money market		22,227		25,111	6,286	1,751	2,148		-		57,523	
Financial intermediaries		-		1,884	-	-	-		62,446		64,330	
Total deposits	Ps.	155,808	Ps.	300,998	Ps. 68,091	Ps. 74,578	Ps. 87,986	Ps.	68,841	Ps.	756,302	

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			Geographi	cal location			
Product	Monterrey	Mexico City	West	Northwest	Southeast	Treasury and other	Total
Non-interest bearing							
checking accounts	Ps. 46,539	Ps. 74,998	Ps. 23,016	Ps. 23,001	Ps. 27,536	Ps. 644	Ps. 195,734
Interest-bearing checking accounts	12,564	55,125	7,672	9,322	22,711	558	107,952
Current account Ps. and							
pre-established	8,026	13,918	3,688	3,730	5,472	4	34,818
Non-interest bearing demand							
deposits, USD	7,176	14,735	1,648	8,827	2,472	593	35,451
Interest bearing demand							
deposits, USD	6,785	3,722	1,056	3,346	780	1	15,690
Retail time deposits	37,255	78,331	17,176	15,142	24,698	1,083	173,686
Time deposits, USD	6,822	10,963	1,605	2,146	755	27	22,318
Customers money market	17,651	19,539	4,297	1,465	2,475	6,074	51,501
Financial intermediaries	-	-	-	-	-	3,672	3,672
Total deposits	Ps. 139,815	Ps. 272,710	Ps. 60,138	Ps. 66,979	Ps. 86,899	Ps. 12,656	Ps. 640,821

## 29 - INCOME TAXES

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

#### ISR

Pursuant to the ISR Law the rate for 2018 and 2017 was 30% and will continue at the same rate for subsequent years.

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

	2018	2017
Legal rate	30%	30%
Tax inflation	(1%)	(3%)
Non-tax accounting write-offs	1%	-%
Other entries	(3%)	1%
Effective rate	27%	28%

## **30 - STOCKHOLDERS' EQUITY**

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

	Number of shares with a r	ominal value of Ps. 3.50
Paid-in Capital	2017	2016
"O" Series	2,858,986,922	2,753,002,382

	Historical Amounts			
Paid-in Capital	2018			2017
"O" Series	Ps.	10,006	Ps.	9,636
Restatement in Mexican pesos through December 2007		4,956		4,955
	Ps.	14,962	Ps.	14,591

#### **Restrictions on profits**

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

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

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

Year	Amount that may be subject to withholding	Amount not subject to withholding	
Profits accumulated up to December 31, 2013	Ps	Ps. 39,303	
Profit of the year 2014	50,407	-	
Profit of the year 2015	62,860	-	
Profit of the year 2016	68,492	-	
Profit of the year 2017	71,294	-	
Profit of the year 2018	76,650	-	

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

	2018	2017
Capital contribution account	Ps. 79,813	Ps. 72,479
Net tax profit account at the end of 2013 (CUFIN)	11,450	20,381
CUFIN as of 2014	13,149	5,777
Total	Ps. 104,412	Ps. 98,637

The Financial Group's net profit is subject to the requirement of transferring at least 5% of each year's net income to the legal reserve until the reserve equals 20% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Financial Group, except in the form of a stock dividend. As of December 31, 2018 and 2017, the legal reserve is Ps. 2,933 and represents 20% of paid-in capital.

## **Share-based payments**

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

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

During 2018 and 2017, the Institution recorded Ps. 537 and Ps. 576, respectively in Non-interest expense compensation for share-based payments against the paid-in capital.

As of December 31, 2018 and 2017, the Institution has 17,061,525 and 19,290,000 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. 104.64 and Ps. 86.04.

During 2018 and 2017, 5,391,579 and 15,848,409 shares were operated, respectively.

#### **Capitalization ratio (Banorte) (not audited)**

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, 2018 sent to Banco de México to review is shown below.

Banorte's capitalization ratio as of December 31, 2018 was 17.17% of total risk (market, credit and operational), and 20.46% of credit risk, which in both cases exceed the current regulatory requirements.

# I. Integration of Equity

Table I.1

Format of disclosure of the integration of capital without considering transitory requirements in the application of regulatory adjustments

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	19,979
2	Retained earnings from prior years	53,133
3	Other elements of comprehensive income (and other allowances)	33,629
4	Equity subject to gradual elimination of the common equity of level 1	,
·	(only applicable for companies that are not linked to shares)	N.A.
5	Ordinary shares issued by subsidiaries in third-party ownership (amount allowed in the	
Ü	common equity of level 1	N.A.
6	Common equity level 1 before regulatory adjustments	106,741
	Common equity level 1: regulatory adjustment	100,711
7	Adjustments for prudential valuation	NI A
7 8	Goodwill	N.A.
8		1.005
	(net of deferred taxes to charge)	1,005
9	Other intangibles different to servicing asset of mortgage loans	0.000
10	(net of deferred taxes to charge)	9,898
10	Recoverable deferred income taxes that depend on future earnings excluding those	
(conservative)	that derive from temporary differences (net of payable deferred income tax)	- (7.470)
11	Result from valuation of instruments for cash flow hedging	(3,430)
12	Reserves pending to constitute	-
13	Receivables generated by securitizations	61
14	Profits and losses caused by changes in the own credit rating on liabilities valued	
	at fair value	N.A.
15	Defined benefit pension plan	(628)
16	Investments in own shares	-
17	Reciprocal Investments in the ordinary capital	-
18	Investments in ordinary shares of banks, financial institutions and insurance companies	
	outside the scope of regulatory consolidation, net of the short positions eligible,	
	where the Institution does not holds more than 10% of the issued share capital	
	(amount that exceeds the threshold of 10%)	-
19	Significant investments in ordinary shares of banks, financial institutions and insurance	
(conservative)	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%)	807
20	Mortgage service rights (amount that exceeds the 10% threshold)	-
21	Recoverable deferred income taxes from temporary differences (amount that exceeds	
	the 10% threshold, net deferred tax payable)	_
22	Amount exceeding 15% threshold	N.A.
23	Of which: significant investments where the institution has more than 10% in common	
20	shares of financial institutions	N.A.
24	Of which: mortgage service rights	N.A.
25	Of which: mortgage service rights  Of which: recoverable deferred income taxes from temporary differences	N.A.
26		
	Before regulatory national adjustments	1,659
A	of which: Other elements of comprehensive income (and other allowance)	1,659
28	Total regulatory adjustments to common equity level 1	11,771
29	Common equity level 1 (CET1)	94,970
	Additional equity level 1: securities	
30	Instruments issued directly that qualify as additional equity of level 1, plus premium	17,686
31	Of which: classified as equity under applicable accounting criteria	-
32	Of which: classified as liability under applicable accounting criteria	N.A.
33	Instruments issued directly subject to gradual elimination of additional equity level 1	1,179
34	Instruments issued of Tier 1 additional capital and Tier 1 common equity instruments	., •
<b>.</b>	not included in item 5 that were issued by subsidiaries in third party	N.A.
35	Of which: Instruments issued by subsidiaries subject to gradual elimination	N.A.
36	Additional equity level 1 before regulatory adjustments	18,865

#### Additional equity: regulatory adjustments 37 Investments in additional equity instruments of Level 1 (amount allowed in the additional level 1) N.A. 38 Equity investments in Tier 1 additional capital instruments N.A. 39 Investments in the equity of banks, financial institutions and insurers beyond the scope of regulatory consolidation, net of eligible short positions, where the Institution has no more than 10% of the share capital issued (amount exceeding the threshold of 10%) N.A. 40 Significant Investments in the equity of banks, financial institutions and insurers beyond the scope of regulatory consolidation, net of eligible short positions, where the N.A. Institution owns more than 10% of the share capital issued 41 National regulatory adjustments N.A. 42 Regulatory Adjustments applied to Tier-1 additional capital due to inadequacy of Tier 2 capital to cover deductions N.A. 43 Total Adjustment to additional capital of level 1 18,865 44 Additional Capital of Level 1 (AT1) 45 Equity level 1 (T1 = CET1 + AT1) 113,835 Equity level 2: instruments and allowances Instruments issued directly that qualify as equity of level 2, plus premium 46 10,826 47 Instruments issued directly subject to gradual elimination of additional equity level 2 2,784 48 Tier 2 equity instruments and Tier 1 equity instruments and Tier 1 additional capital that have not been included in lines 5 or 34, which have been issued by subsidiaries in third-party ownership (amount allowed in the supplementary capital D E Level 2) N.A. 49 of which: Instruments issued by subsidiaries subject to gradual elimination N.A. 50 Allowances 862 14,472 51 Equity level 2 before regulatory adjustments Equity level 2: regulatory adjustments 52 Investments in additional equity instruments of Level 2 (amount allowed in the additional level 2) N.A. 53 Equity Investments in Tier 2 additional capital instruments N.A. 54 Investments in the equity of banks, financial institutions and insurers beyond the scope of regulatory consolidation, net of eligible short positions, where the Institution has no more than 10% of the share capital issued (amount exceeding

Significant Investments in the equity of banks, financial institutions and insurers

beyond the scope of regulatory consolidation, net of eligible short positions,

where the Institution owns more than 10% of the share capital issued

the threshold of 10%)

Equity level 2 (T2)

National regulatory adjustments

Total equity (TC = T1 + T2)

Weighted assets for total risk

Regulatory adjustments applied to Tier-2

55

56

57

58

59

60

N.A.

N.A.

N.A.

N.A. 14,472

128,307

747,352

## **Equity ratios and supplements**

61	Common equity level 1	
	(as a percentage of weighted assets for total risk)	12.71%
62	Equity level 1	
	(as a percentage of weighted assets for total risk)	15.23%
63	Total equity	
	(as a percentage of weighted assets for total risk)	17.13%
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	2.50%
66	of which: Supplement specific countercyclical banking supplement	0.0005
67	of which: Supplement of global banks systemically important (G-SIB)	0.45%
68	Common equity level 1 available to cover supplements (as a percentage of weighted	0.107
	assets for total risk)	5.03%
	ussets for total fisky	3.037
	National Minimums (if different from Basel 3)	
69	National minimum reason for CET1	
	(if it differs from the minimum established by Basel 3)	N.A.
70	National minimum reason for T1	
	(if it differs from the minimum established by Basel 3)	N.A.
71	National minimum Reason for TC	
	(if it differs from the minimum established by Basel 3)	N.A.
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financial institutions	N.A.
73	Significant investments in common shares of financial institutions	N.A.
74	Rights for mortgage services (net of tax deferred earnings in charge)	N.A.
75	Deferred tax asset due to temporary differences (net of deferred tax liability)	1 067
		4,007
	Limits applicable to the inclusion of reserves in the capital of Level 2	4,007
76	Limits applicable to the inclusion of reserves in the capital of Level 2  Reserves eligible for inclusion in level 2 capital with respect to exposures subject to	4,007
76		862
77	Reserves eligible for inclusion in level 2 capital with respect to exposures subject to standardized methodology (prior to the application of the limit)  Limit on the inclusion of provisions in Level 2 capital under standardized methodology	862
	Reserves eligible for inclusion in level 2 capital with respect to exposures subject to standardized methodology (prior to the application of the limit)  Limit on the inclusion of provisions in Level 2 capital under standardized methodology  Reserves eligible for inclusion in Level 2 capital with respect to exposures subject	862 6,881
77 78	Reserves eligible for inclusion in level 2 capital with respect to exposures subject to standardized methodology (prior to the application of the limit)  Limit on the inclusion of provisions in Level 2 capital under standardized methodology  Reserves eligible for inclusion in Level 2 capital with respect to exposures subject to internal qualifications methodology (prior to the application of the limit)	862
77	Reserves eligible for inclusion in level 2 capital with respect to exposures subject to standardized methodology (prior to the application of the limit)  Limit on the inclusion of provisions in Level 2 capital under standardized methodology Reserves eligible for inclusion in Level 2 capital with respect to exposures subject to internal qualifications methodology (prior to the application of the limit)  Limit on the inclusion of reserves in the capital of level 2 under the methodology	862 6,881 N.A.
77 78	Reserves eligible for inclusion in level 2 capital with respect to exposures subject to standardized methodology (prior to the application of the limit)  Limit on the inclusion of provisions in Level 2 capital under standardized methodology  Reserves eligible for inclusion in Level 2 capital with respect to exposures subject to internal qualifications methodology (prior to the application of the limit)	862 6,881
77 78 79	Reserves eligible for inclusion in level 2 capital with respect to exposures subject to standardized methodology (prior to the application of the limit)  Limit on the inclusion of provisions in Level 2 capital under standardized methodology Reserves eligible for inclusion in Level 2 capital with respect to exposures subject to internal qualifications methodology (prior to the application of the limit)  Limit on the inclusion of reserves in the capital of level 2 under the methodology	862 6,881 N.A.
77 78 79 <b>Eq</b>	Reserves eligible for inclusion in level 2 capital with respect to exposures subject to standardized methodology (prior to the application of the limit)  Limit on the inclusion of provisions in Level 2 capital under standardized methodology  Reserves eligible for inclusion in Level 2 capital with respect to exposures subject to internal qualifications methodology (prior to the application of the limit)  Limit on the inclusion of reserves in the capital of level 2 under the methodology of internal qualifications  uity instruments subject to gradual elimination (applicable only between 1 January 2018 and 1 January 2022)  Current limit of CET1 instruments subject to gradual elimination	862 6,881 N.A.
77 78 79	Reserves eligible for inclusion in level 2 capital with respect to exposures subject to standardized methodology (prior to the application of the limit)  Limit on the inclusion of provisions in Level 2 capital under standardized methodology  Reserves eligible for inclusion in Level 2 capital with respect to exposures subject to internal qualifications methodology (prior to the application of the limit)  Limit on the inclusion of reserves in the capital of level 2 under the methodology of internal qualifications  uity instruments subject to gradual elimination (applicable only between 1 January 2018 and 1 January 2022)  Current limit of CET1 instruments subject to gradual elimination  Amount excluded from the CET1 due to the limit (excess over the limit after amortizations	6,881 N.A. N.A.
77 78 79 <b>Eq</b> 1 80 81	Reserves eligible for inclusion in level 2 capital with respect to exposures subject to standardized methodology (prior to the application of the limit)  Limit on the inclusion of provisions in Level 2 capital under standardized methodology  Reserves eligible for inclusion in Level 2 capital with respect to exposures subject to internal qualifications methodology (prior to the application of the limit)  Limit on the inclusion of reserves in the capital of level 2 under the methodology of internal qualifications  uity instruments subject to gradual elimination (applicable only between 1 January 2018 and 1 January 2022)  Current limit of CET1 instruments subject to gradual elimination  Amount excluded from the CET1 due to the limit (excess over the limit after amortizations and maturities)	862 6,881 N.A. N.A.
77 78 79 <b>Eq</b> 1 80 81	Reserves eligible for inclusion in level 2 capital with respect to exposures subject to standardized methodology (prior to the application of the limit)  Limit on the inclusion of provisions in Level 2 capital under standardized methodology  Reserves eligible for inclusion in Level 2 capital with respect to exposures subject to internal qualifications methodology (prior to the application of the limit)  Limit on the inclusion of reserves in the capital of level 2 under the methodology of internal qualifications  uity instruments subject to gradual elimination (applicable only between 1 January 2018 and 1 January 2022)  Current limit of CET1 instruments subject to gradual elimination  Amount excluded from the CET1 due to the limit (excess over the limit after amortizations and maturities)  Current limit of AT1 instruments subject to gradual elimination	862 6,881 N.A. N.A.
77 78 79 <b>Eq</b> 1 80 81	Reserves eligible for inclusion in level 2 capital with respect to exposures subject to standardized methodology (prior to the application of the limit)  Limit on the inclusion of provisions in Level 2 capital under standardized methodology  Reserves eligible for inclusion in Level 2 capital with respect to exposures subject to internal qualifications methodology (prior to the application of the limit)  Limit on the inclusion of reserves in the capital of level 2 under the methodology of internal qualifications  uity instruments subject to gradual elimination (applicable only between 1 January 2018 and 1 January 2022)  Current limit of CET1 instruments subject to gradual elimination  Amount excluded from the CET1 due to the limit (excess over the limit after amortizations and maturities)  Current limit of AT1 instruments subject to gradual elimination  Amount excluded from the AT1 due to the limit (excess over the limit after amortizations	862 6,881 N.A. N.A.
77 78 79 <b>Eq</b> 1 80 81 82 83	Reserves eligible for inclusion in level 2 capital with respect to exposures subject to standardized methodology (prior to the application of the limit)  Limit on the inclusion of provisions in Level 2 capital under standardized methodology  Reserves eligible for inclusion in Level 2 capital with respect to exposures subject to internal qualifications methodology (prior to the application of the limit)  Limit on the inclusion of reserves in the capital of level 2 under the methodology of internal qualifications  uity instruments subject to gradual elimination (applicable only between 1 January 2018 and 1 January 2022)  Current limit of CET1 instruments subject to gradual elimination  Amount excluded from the CET1 due to the limit (excess over the limit after amortizations and maturities)  Current limit of AT1 instruments subject to gradual elimination  Amount excluded from the AT1 due to the limit (excess over the limit after amortizations and maturities)	862 6,881 N.A. N.A. N.A. 1,179
77 78 79 <b>Eq</b> 1 80 81	Reserves eligible for inclusion in level 2 capital with respect to exposures subject to standardized methodology (prior to the application of the limit)  Limit on the inclusion of provisions in Level 2 capital under standardized methodology  Reserves eligible for inclusion in Level 2 capital with respect to exposures subject to internal qualifications methodology (prior to the application of the limit)  Limit on the inclusion of reserves in the capital of level 2 under the methodology of internal qualifications  uity instruments subject to gradual elimination (applicable only between 1 January 2018 and 1 January 2022)  Current limit of CET1 instruments subject to gradual elimination  Amount excluded from the CET1 due to the limit (excess over the limit after amortizations and maturities)  Current limit of AT1 instruments subject to gradual elimination  Amount excluded from the AT1 due to the limit (excess over the limit after amortizations	862 6,881 N.A. N.A.

# II. Relation of net capital with the Balance Sheet

Table II.1 Balance Sheet figures

Reference of balance sheet items	Balance Sheet figures	Amount presented in the balance sheet
	Assets	1,180,342
BG1	Cash and cash equivalents	74,931
BG2	Margin securities	1,458
BG3	Investments in securities	248,860
BG4	Debtor balances under repurchase en resale agreements	405
BG5	Securities lending	-
BG6	Derivatives financial instruments	28,239
BG7	Valuation adjustments for asset hedging	84
BG8	Loan portfolio, net	753,170
BG9	Receivables generated by securitization	61
BG10	Other accounts receivables	34,715
BG11	Foreclosed assets	738
BG12	Property, furniture and equipment	12,905
BG13	Permanent stock investment	2,745
BG14	Long-term assets available for sale	-
BG15	Deferred taxes	4,853
BG16	Other assets	17,179
	Liabilities	1,071,941
BG17	Deposits	756,705
BG18	Interbank and other loans	35,686
BG19	Creditor balances under repurchase and resale agreements	166,654
BG20	Securities lending	-
BG21	Colaterales vendidos o dados en garantía	2
BG22	Derivatives financial instruments	34,568
BG23	Valuation adjustments for financial liabilities coverage	-
BG24	Obligations in securitization operations	-
BG25	Other accounts payable	44,230
BG26	Subordinated debentures	33,560
BG27	Deferred taxes	-
BG28	Deferred credits and advance collections	535
	Stockholders' equity	108,400
BG29	Paid-in capital	19,979
BG30	Other capital	88,422
BG31	Guarantees granted	-
	Memorandum accounts	1,640,288
BG32	Contingent assets and liabilities	193
BG33	Credit commitments	269,658
BG34	Assets in trust or under mandate	458,795
BG35	Financial agent of the federal government	-
BG36	Managed assets in custody	446,162
BG37	Collateral received	237,510
BG38	Collateral received and sold or given as a pledge	159,301
BG39	Investment banking transactions on account of third parties, (net)	68,035
BG40	Interest accrued but not charged of past due loans	634
BG41	Other registration accounts	-

Table II.2
Regulatory concepts considered for calculating the components of net capital

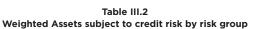
ldentifier	Regulatory concepts considered for calculating the components of net capital	Reference to the disclosure format for the capital integration of subparagraph (I) of this Annex	Amount in accordance with the notes to the table concepts regulatory considered for the calculation of the components 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	9,898	BG16: 9,898 (Other intangibles)
3	Deferred income tax (recoverable) from tax losses and credits	101	-	
4	Receivables generated by securitization	13	61	BG9: 61 (Receivables generated by securitization)
5	Investments of the pension plan for benefits defined without restricted access and unlimited	15	-	
6	Investments in its own shares	16	-	
7	Mutual Investments in ordinary capital	17	-	
8	Direct Investments in the equity of financial institution where the Institution has no more than 10% of the shares issued		-	
9	Indirect investments in the equity of financial institution where the Institution has no more than 10% of the shares issued	ons 18	-	
10	Direct investments in the equity of financial institution where the Institution owns more than 10% of the shares issued	ns 19	-	
11	Indirect investments in the capital of financial institution where the Institution owns more than 10% of the share capital issued		807	BG13: 807 (Permanent stock investment)
12	Deferred income tax (recoverable) from temporary differences	21	N.A.	
13	Reserves recognized as complementary capital	50	862	BG51: 862 (Reserves)
14	Subordinated debt investments	26 - B	-	
15	Investments in multilateral organisms	26 - D	-	
16	Investments in related companies	26 - E	-	
17	Investments in risk capital	26 - F	-	
18	Investments in societies of investment	26 - G	-	
19	Financing for the acquisition of own shares	26 - H	-	
20	Deferred charges and advance payments	26 - J	-	
21	Workers 'participation in deferred earnings (net)	26 - L	-	
22	Investments of the pension plan for defined benefits	26 - N		
23	Investments in clearing houses	26 - P	-	
Liability				
24	Deferred tax (liability) associated to goodwill	8	1,005	BG16: 1,005 (Goodwill)
25	Deferred tax (liability) associated to other intangible	9	9,898	BG16: 9,898 (Other intangibles)
26	Liabilities of the pension plan for defined benefits without unrestricted and unlimited access	15	-	
27	Deferred income tax (payable) associated with pension plan for defined benefits	15	-	
28	Deferred income tax (payable) associated with others other than the above	21	-	
29	Subordinated obligations amount complying with Annex 1-R	31	-	
30	Subordinated debentures subject to transitory computing as basic Capital 2	33	1,179	BG26: 1,179 (Subordinated debentures)

31	Subordinated obligations amount complying with Annex 1-S	46	-	
32	Subordinated debentures subject to transitory computing as complementary capital	47	2,784	BG26: 2,784 (Subordinated debentures)
33	Deferred income tax (in charge) associated with deferred charges and advance payments	26-J	-	
	Stockholders' equity			
34	Contributed capital that complies with annex 1-Q	1	19,979	BG29; 19,979 (Contributed capital)
35	Retained earnings from prior years	2	53,133	BG30; 53,133 (Earned capital)
36	Result from valuation of instruments for cash flow hedging of items accounted at fair value	3	(3,430)	BG30; -3,430 (Earned capital)
37	Other elements of capital earned other than previous	3	37,059	BG30; 37,059 (Earned capital)
38	Contributed capital that complies with Annex 1-R	31	-	
39	Contributed capital that complies with Annex 1-S	46	-	
40	Result from valuation of instruments for cash flow hedging of items not accounted at fair value	3, 11	(3,430)	BG30; -3,430 (Earned capital)
41	Result from convertions	3. 26 - A	1.659	BG30; 1,659 (Earned capital)
42	Income from non-monetary assets	3, 26 - A	-	Bood, 1,000 (Ediffed capital)
	Memorandum accounts	0,20 /:		
43	Positions in First-Loss Schemes	26 - K	-	
	Regulatory Concepts not considered in the balance sheet			
44	Reserves pending to constitute	12	-	
45	Profit or increase the value of the assets by acquisition of positions of securitizations			
	(Originating Institutions)	26 - C	-	
46	Operations that violate the dispositions	26 - I	-	
47	Operations with Relevant Related People	26 - M	-	
48	Abrogated	26 - O, 41, 56	-	

# **III. Weighted Assets Subject to Total Risk**

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

Concept	Amount of equivalent positions	Capital requirements
Transactions in local currency with nominal rate	39,493	3,159
Transactions in local currency with securities in local currency with surcharge and a rate reviewable	5,329	426
Transactions in local currency with real rate or denominated in UDI's	1,597	128
Operations in local currency with performance rate referred to the growth of the General Minimum Wage	-	-
Positions in UDI's or with yield referred to INPC	57	5
Positions in local currency with performance rate referred to the growth of the General Minimum Wage	-	-
Operations in foreign currency with nominal rate	10,440	835
Positions in foreign currency or with yield indexed to a exchange rate	8,796	704
Positions in capital instruments or with yield indexed at the cost of a capital instruments group	562	45
Positions in goods	-	-



Concept	Risk Weighted Assets	Capital requirement
Group III (weighted at 20%)	8,605	688
Group III (weighted at 50%)	655	52
Group III (weighted at 100%)	6,235	499
Group IV (weighted at 20%)	12,795	1,024
Group V (weighted at 20%)	22,833	1,827
Group V (weighted at 50%)	5,218	417
Group V (weighted at 115%)	253	20
Group V (weighted at 150%)	22,740	1,819
Group VI (weighted at 50%)	41,356	3,309
Group VI (weighted at 75%)	13,693	1,095
Group VI (ponderados al 100%)	174,502	13,960
Group VII_A (weighted at 20%)	3,326	266
Group VII_A (weighted at 50%)	4,306	345
Group VII_A (weighted at 100%)	13,670	1,094
Group VII_A (weighted at 150%)	29	2
Group VII_B (weighted at 20%)	4,969	398
Group VII_B (weighted at 0%)	1,986	159
Group VII_B (weighted at 100%)	190,877	15,270
Group VII_B (weighted at 50%)	98	8
Group VIII (weighted at 115%)	6,444	515
Group VIII (weighted at 50%)	1,225	98
Group IX (weighted at 100%)	34,142	2,731
Securitizations with a Risk Degree of 1 (weighted at 20%)	1,735	139
Securitizations with a Risk Degree of 2 (weighted at 50%)	334	27
Securitizations with a Risk Degree of 3 (weighted at 100%)	43	3

Table III.3 Weighted assets subject to operational risk

Method	Weighted assets by risk	Capital requirement
Alternative standard method	Ps. 53,865	Ps. 4,309

 Average requirement for market and credit risk in the past 36 months	Average of the annual positive net income of last 36 months
45.455	68.063

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

Reference	Characteristics	Q BANORTE 08U
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	MX0QBA070037
3	Legal framework	LMV, LIC, CIRCULAR 2019/95, LGTOC
Regulatory treatment		
4	Level of capital with transience	Complementary Capital
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	494,543,600 (Four hundred and ninety-four million, five hundred and forty three thousand and six hundred) UDIs, respective to \$1,962,998,835.09 (One billion 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
24	Convertibility conditions	N. A.
25	Convertibility grade	Non-convertible in shares
26	Convertibility rate	N.A.
27	Security convertibility type	Non-convertibles
28	Type of convertibility Financial instrument	N.A.
29	Instrument isuer	N.A.
30	Value decrease clause (Write-Down)	No
31	Condiciones value decrease	N.A.
32	Grade of value decrease	N.A.
33	Temporality of value decrease	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Preferential subordinated debentures
36	Default characteristics	No
37	Description of non-compliance features	N.A.

Reference	Characteristic	D2 IXEGB40 141020
1	Issuer	Ixe Banco, S.A., Institución de Banca Múltiple, Ixe Grupo Financiero
2	Identifier ISIN, CUSIP or Bloomberg	USP59974AB40
3	Legal framework	New York Law
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 (One thousand dollars 00/100 USD)
9ª	Currency	USD dollar
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
ields / lividends	· •	,
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	IRUSDOLIBOR
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-convertible
24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertible in shares
26	Convertion rate	N.A.
27	Security convertibility type	Non-convertible
28	Type of financial instrument of convertibility	N.A.
29	Instrument issuer	N.A.
30	Value decrease clause (WriteODown)	No
31	Conditions for value decrease	N.A.
32	Degree of low value	N.A.
33	Temporality of low value	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures
36	Default characteristics	Yes
37	Default characteristics description	Breach of 30 days in the interest payment, non-payment of principal on the due date or bankruptcy.
1	Issuer	Banco Interacciones, S.A., Institución de Banca Múltiple, Grupo Financiero Interacciones.
	Identifier ISIN, CUSIP o Bloomberg	MX0QBI000051
2	identifier isin, cosir o biddifiberg	141/0/00/00/00/1

Regulatory Treatment		
4	Level of capital with transience	Complementary capital
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	\$ 1,000,000,000 (One billion pesos 00/100 MXN)
9	Valor nominal del instrumento	\$ 100.00 (One hundred pesos 00/100 MXN)
9A	Currency	MXN pesos
10	Accounting classification	Liability at amortized cost
11	Date of issuance	26/02/2015
12	Secutity term	Maturity
13	Date of maturity	13/02/2025
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
ields / lividends	consequent annex or payment in an arrange	really montenesserors materially date
17	Type of yields/Dividends	Fixed
18	Interest rate/Dividends	Real (Yield)
19	Clause of cancellation of dividends	Yes
20	Discretion in payment	Discretionary
21	Clause of increase of interest	No
22	Yields/Dividends	Non-cumultive
23	Security convertibility	Non-convertible
24	Convertibility conditions	N.A.
25	Convertibility grade	Non-convertible in shares
26	Convertion rate	N.A.
27	Security convertibility type	Non convertible
28	Type of financial instrument of convertibility	N.A.
29	Instrument issuer	N.A.
30	Value decrease clause (WriteODown)	No
31	Conditions for Value Decrease	N.A.
32	Degree of low value	N.A.
33	Temporality of low value	N.A.
34	Temporary value reduction mechanism	N.A.
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures
36	Default characteristics	Yes
37	Default characteristics description	Breach of 30 days in the interest payment, non-payment of principal on the due date or bankruptcy.
Reference	Characteristics	D2 BANOD19 999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple Grupo Financiero Banorte.
2	Identifier ISIN, CUSIP or Bloomberg	USP14008AD19
3	Legal framework	Nueva York Law
Regulatory reatment		
4	Level of capital with transience	Basic Capital 2
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of intrument	Subordinated debenture
	<u> </u>	

8	Amount recognized in regulatory capital	nount recognized in regulatory capital  U.S.\$350,000,000 (Three hundred and fifty million dollars 00/100 USD)	
9	Nominal value	U.S. \$1,000.00 (one thousand dollars 00/100 USD)	
9A	Currency	USD dollar	
10	Accounting classification	Liability at amortized cost	
11	Date of issuance	06/07/2017	
12	Security term	Maturity	
13	Date of matutity	Perpetual	
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	
rields / dividends			
17	Type of yields/Dividends	Fixed	
18	Interest rate/Dividends	IRUSDOLIBOR	
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-convertible	
24	Convertibility grade	N.A.	
<b>2</b> 5	Discretion in payment	Non-convertible in shares	
26	Convertion rate	N.A.	
27	Security convertibility type	Non convertible	
28	Type of financial instrument of convertibility	N.A.	
29	Instrument issuer	N.A.	
30	Value decrease clause (WriteODown)	No	
31	Conditions for value decrease	N.A.	
32	Degree of low value	N.A.	
33	Temporality of low value	N.A.	
34	Temporary value reduction mechanism	N.A.	
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures	
36	Default characteristics	Yes	
37	Default characteristics description	Breach of 30 days in the interest payment, non-payment of principal on the due date or bankruptcy.	

Reference	Characterístic	D2 BANOE91 999999
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP14008AE91
3	Legal framework	New York Law
Regulatory treatment		
4	Level of capital with transience	Basic Capital 2
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.\$550,000,000 (Five hundred and fifty million dollars 00/100 USD)
9	Nominal value	U.S. \$1,000.00 (One thousand dollars 00/100 USD)

9A	Currency	USD dollars	
10	Accounting classification	Liability at amortized cost	
11	Date of issuance	04/10/2017	
12	Security term	Maturity	
13	Date of maturity	Perpetual	
14	Clause of advance payment	Yes	
15	First date of advance payment	At any time before the expiration date	
15A	Regulatory or fiscal events	Yes	
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization	
16	Subsequent dates of payment in advance	At any time before the expiration date	
Yields / dividends			
17	Type of yields/Dividends	Fixed	
18	Interest rate/Dividends	IRUSDOLIBOR	
19	Clause of cancellation of dividends	Yes	
20	Discretion in payment	Discretional	
21	Clause of increase of interest	No	
22	Yields/Dividends	Non-cumulative	
23	Security convertibility	Non-convertibles	
24	Convertibility conditions	N.A.	
25	Convertibility grade	Non-convertibles in shares	
26	Convertibility rate	N.A.	
27	Security convertibility type	Non-convertible	
28	Type of convertibility Financial instrument	N.A.	
29	Instrument isuer	N.A.	
30	Value decrease clause (Write-Down)	No	
31	Condiciones value decrease	N.A.	
32	Grade of value decrease	N.A.	
33	Temporality of value decrease	N.A.	
34	Temporary value reduction mechanism	N.A.	
35	Position of subordination in the event of liquidation	Non-Preferential subordinated debentures	
36	Default characteristics	Yes	
37	Description of non-compliance features	Nonperformance of 30 days in the interests payment, nonperformance in the payment of main in the due date, mercantile contest or it fails.	

Reference	Characteristic	D2 BANOC36 311004
1	Issuer	Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte.
2	identifier ISIN, CUSIP o Bloomberg	USP14008AC36
3	Legal framework	New York Law
Regulatory treatment		
4	Level of capital with transience	Complementary capital
5	Level of capital without transience	N.A.
6	Level of security	Credit institution without consolidating subsidiaries
7	Type of instrument	Subordinated debenture
8	Amount recognized in regulatory capital	U.S.\$500,000,000 (Five hundred million dollars) 00/100 USD)
9	Nominal value	U.S. \$1,000.00 (One thousand dollars 00/100 USD)
9A	Currency	USD dollars

10	Accounting classification	Liability at amortized cost	
11	Date of issuance	04/10/2016	
12	Security term	Maturity	
13	Date of maturity	04/10/2031	
14	Clause of advance payment	Yes	
15	First date of advance payment	At any time before the expiration date	
15A	Regulatory or fiscal events	Yes	
15B	Settlement price of the advance payment clause	Nominal value plus interest accrued at the date of the anticipated amortization	
16	Subsequent dates of payment in advance	At any time before the expiration date	
rields / dividends	· •	j	
17	Type of yields/Dividends	Fixed	
18	Interest rate/Dividends	IRUSDOLIBOR	
19	Clause of cancellation of dividends	Yes	
20	Discretion in payment	Discretional	
21	Clause of increase of interest	No	
22	Yields/Dividends	Non-cumulable	
23	Security convertibility	Non-convertibles	
24	Convertibility conditions	N.A.	
25	Convertibility grade	Non-convertible in shares	
26	Convertibility rate	N.A.	
27	Security convertibility type	Non-convertible	
28	Type of convertibility Financial instrument	N.A.	
29	Instrument isuer	N.A.	
30	Value decrease clause (Write-Down)	Yes	
31	Condiciones value decrease	Yes	
32	Grade of value decrease	7%.	
33	Temporality of value decrease	N.A.	
34	Temporary value reduction mechanism	N.A.	
35	Position of subordination in the event of liquidation	Non-preferential subordinated debentures	
36	Default characteristics	Yes	
37	Description of non-compliance features	Nonperformance of 30 days in the interests payment nonperformance in the payment of main in the due date, mercantile contest or it fails.	

#### V. Management

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

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

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

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

Countercyclical Capital	supplement of the	institution

4.41 millions	
Jurisdiction	Weighting
Hong Kong	1.25%
United Kingdom	0.50%
Sweden	2.00%

## **ANNEX 1-0 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)	1,151,698
2	(amounts of assets deducted to determine level 1 capital of Basel III)	(13,430)
3	Exhibitions within the balance sheet (Net) (excluding financial derivatives and SFT,	
	sum of lines 1 and 2)	1,138,268
	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)	14,962
5	amounts of additional factors for potential future exposure, associated with all	
	operations with derivative financial instruments	9,266
6	Increase in collateral provided in transactions with derivative financial instruments	
	when such collaterals are discharged from the balance sheet under the operating	
	accounting framework	N.A.
7	(Deductions to the account receivables for change margin in cash contributed in	
	operations with derivative financial instruments)	(14,035)
8	(Exposure by transactions in financial instruments derived by client accounts,	
	in which the liquidating partner does not grant its guarantee in case of non-fulfilment	
	of the obligations of the Central Counterpart)	N.A.
9	Adjusted effective notional Amount of credit-derived financial instruments subscribed	N.A.
10	(Compensations made to the notional adjusted cash of the financial instruments derived	
	from credit subscribed and deductions of the additional factors by the credit derivatives	
	financial instruments subscribed)	N.A.
11	Total exposures to derivative financial instruments (sum of lines 4 to 10)	10,193
	Exhibitions by financing operations with values	
12	Assets SFT gross (without recognition of compensation), after adjustments for	
	accounting transactions for sales	159,284
13	(Accounts payable and for charging of compensated SFT)	(405)
14	Exposure of counterpart risk by SFT	9,830
15	Exposure by SFT acting on behalf of third parties	
16	Total exposures for financing operations with securities (sum of lines 12 to 15)	168,709
	Other exposures out of balance sheet	
17	Exposure out of balance (gross notional amount)	269,658
18	(Conversion adjustments to credit equivalents)	(232,910)
19	Off-balance sheet items (sum of the lines 17 and 18)	36,748
	Capital and total exposure	
20	Equity level 1	113,835
21	Total exposures (Sum of lines 3, 11, 16 and 19)	1,353,918
	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 and 2
4	Current Cost of replacement (RC) of transactions with derivative financial instruments, in accordance with those laid
	down in annex 1-L of these provisions, minus the partial cash settlements (cash variation margin) received, provided
	that The following conditions are fulfilled:
	a) In the case of counterparts other than the clearing houses referred to in the second subparagraph of article
	2 Bis 12 (a), the cash received shall be available to the institution.
	b) The valuation at market of the operation is carried out daily and the received cash is exchanged with
	the same frequency.
	c) The cash received as well as the operation with the derivative instrument, are denominated in the same currency.
	d) The amount exchanged from the cash variation margin is at least the amount necessary to cover the
	market value considering the threshold and the minimum amount transferred agreed in the
	corresponding framework contract.
	e) The amount exchanged from the cash variation margin is at least the amount necessary to cover the
	market value considering the threshold and the minimum amount transferred agreed in the corresponding framework contract.
	In any case, the maximum amount of cash variation margins received that may be considered will correspond to
	the positive value of the current replacement cost of each counterpart.
5	Additional Factor in accordance with annex 1-L of these provisions, of operations with derivative financial
3	instruments. In addition, in the case of credit-derived financial instruments which provide credit protection,
	the conversion value must be included at the credit risk in accordance with article 2 Bis 22 of these provisions.
	In no case may they be used the real guarantees financial that the institution has received to reduce the amount
	of the additional factor reported in this line.
6	Not applicable. The accounting framework does not allow the cancel of assets given as collateral.
7	Total of margins of change in cash delivered in operations with derivative financial instruments that fulfill with
	the conditions indicated in the line 4 to reduce the in cash received change margins. The total must register
	with negative sign.
8	N.A.
9	Not applicable. The exhibition that is considered for the purposes of solvency framework in operations with
	financial derivative instruments of credit which provides credit protection corresponds to 100 per cent of
	the amount actually guaranteed in the operations concerned. This exhibition is regarded in Line 5.
10	Not applicable. The exhibition that is considered for the purposes of solvency framework in operations
	with financial derivative instruments of credit which provides credit protection corresponds to 100 per
	cent of the amount actually guaranteed in the operations concerned. This exhibition is regarded in Line 5.
11	Sum of lines 4 to 10
12	Amount of the assets recorded in the balance sheet (accounts receivable recorded) of operations of
	reported and securities lending. The amount shall not consider any compensation in accordance with
13	the Accounting Criteria.  Positive amount resulting from deducting the accounts payable Accounts receivable generated by
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 Cis 37 when there is such an agreement. The foregoing is without considering
	adjustments by eligible collateral that applies to the guarantee in the framework of capitalization.
	And in accordance with Article 2 Cis 37 when there is such an agreement. The foregoing is without considering

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# II Comparative of total assets and the assets adjusted

TABLE II.1
COMPARATIVE OF TOTAL ASSETS AND ASSETS ADJUSTED

REFERENCE	DESCRIPTION	AMOUNT
1	Total assets	1,180,341
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	(13,430)
3	Adjustment for investments in the capital of banks, financial, insurance or	
	commercial entities that are consolidated for accounting purposes, but are	
	outside the scope of regulatory consolidation	N.A.
4	Adjustment for derivative financial instruments	(18,045)
5	Adjustment for repurchase agreements and securities lending operations (1)	168,304
6	Adjustment for items recognized in memorandum accounts	36,748
7	Other adjustments	-
8	Leverage coefficient exposure	1,353,918

<sup>&</sup>lt;sup>(1)</sup> 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 I) 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.

## III conciliation of total assets and the exposure inside balance

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

REFERENCE	CONCEPT	AMOUNT
1	Total assets	1,180,341
2	Operations in derivative financial instruments	(28,239)
3	Operations in repurchase agreements and lending of securities	(404)
4	Trust assets recognized in the balance sheet under the accounting framework,	
	but excluded from the measure of the leverage ratio exposure	N.A.
5	Exposure inside balance	1,151,698

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

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

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

TABLE IV.1

MAIN CAUSES OF SIGNIFICANT VARIANCES OF THE ELEMENTS (NUMERATOR AND DENOMINATOR)

OF THE LEVERAGE RATIO COVENANT

CONCEPT/TRIMESTRE	SEPTEMBER '18	DECEMBER '18	VARIATION (%)
Basic capital	109,074	113,835	4.365%
Adjusted assets	1,317,442	1,353,918	2.769%
Leverage ratio	8.28%	8.41%	1.553%

## **Institution of Local Systemic Importance**

On July, 2018, Banorte was confirmed as an Institution of Local Systemic Importance of grade II, 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 11.175% at the end of 2018, 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, the Institution is developing its Capital Sufficiency Assessment which will consider the risks the Institution is exposed to as well as its major vulnerabilities in order to prove the Institution's solvency by means of financial forecasts with adverse macro-economic scenarios.

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

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

## 31 - FOREIGN CURRENCY POSITION

As of December 31, 2018 and 2017, the Financial Group holds certain assets and liabilities in foreign currency, mainly US dollars, converted to the exchange rate issued by Banco de México at Ps. 19.6512 and Ps. 19.6629 per USD 1.00, respectively, as shown below:

	Thousands of	of US dollars
	2018	2017
Assets	Ps. 8,397,671	Ps. 7,941,734
Liabilities	8,796,094	8,072,404
Net liability position in US dollars	(398,423)	(130,670)
Net liability position in Mexican pesos	Ps. (7,829)	Ps. (2,569)

## **32 - POSITION IN UDIS**

As of December 31, 2018 and 2017, the Financial Group holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps. 6.226631 and Ps. 5.934551, per UDI, respectively, as shown below:

	Thousand	Thousands of UDIS		
	2018		2017	
Assets	2,147,633		889,528	
Liabilities	827,501		457,368	
Net asset position in UDIS	(1,320,132)		(432,160)	
Net asset position in Mexican pesos	Ps. (8,220)	Ps.	(2,565)	

## **33 - EARNINGS PER SHARE**

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

Earnings per share for the years ended December 31, 2018 and 2017 are shown below:

		2018	2017		
	Net Income	Weighted share average	Earnings per share	Earnings per share	
Net income per share	Ps. 31,958	2,843,583,408	Ps. 11.2386	Ps. 8.6600	

Net earnings per share diluted for the years ended December 31, 2018 and 2017 are shown below:

		2018		2017		
	Net Income	Weighted share average	Earnin	gs per share	Ear	nings per share
Net income per share	Ps. 31,958	2,880,832,418	Ps. 11	.0932	Ps.	8.6194

## 34 - RISK MANAGEMENT (unaudited)

#### **Authorized bodies**

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

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

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

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

- 1. Propose for approval by the Board:
  - The objectives, guidelines and policies for overall risk management.
  - The global limits for risk exposure.
  - The mechanisms for the implementation of corrective actions.
  - The cases or special circumstances which may exceed the overall limits as much as the specifics.
- 2. Approve and review at least once a year:
  - · Specific limits for discretionary risks and the risk tolerance levels for non-discretionary.
  - The methodology and procedures to identify, measure, monitor, limit, control, report and disclose various types of risk to which the Financial Group is exposed to.
  - The models, parameters and settings used to carry out the valuation, measurement and control of risks proposed by the unit for comprehensive risk management.

## 3. Approve:

- The methodologies for the identification, valuation, measurement and control of risks of new business, products and services that the holding intends to offer to the market.
- The corrective actions proposed by the drive for comprehensive risk management.
- Manuals for comprehensive risk management.
- The technical evaluation aspects of risk management.
- 4. Appoint and remove the unit responsible for overall risk management, it is ratified by the Board.
- 5. Report to the Board at least quarterly, the risk exposure and its possible negative effects and follow-up to the limits and tolerance levels.
- 6. Report to the Board on corrective actions taken.

## 35 - COMPREHENSIVE RISK MANAGEMENT UNIT (UAIR) (unaudited)

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

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

GFNorte's Risk Management main objectives are:

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

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

**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 December 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	Banorte	Arrendadora y Factor*	Sólida	Cartera Total
(Million pesos)	Banorte	Factor	Solida	IOtal
Commercial	189,751	26,818	434	217,003
YoY Revenues or Sales < 14 MM UDIS	68,390	1,087	409	69,885
YoY Revenues or Sales >= 14 MM UDIS	121,361	25,731	25	147,117
States or Municipalities	125,942	91	0	126,033
Decentralized Federal Government				
Agencies and State Companies	66,292	5,054	0	71,345
Projects with own source of payment	93,529	0	0	93,529
Financial Institutions	21,088	542	0	21,629
Mortgage	157,262	0	0	157,262
Consumer Non-Revolving	76,761	6	2,275	79,041
Total Loans subject to the Standard Method	730,625	32,510	2,709	765,843
Credit Card	38,808	0	0	38,808
Total Loans subject to the Standard Method	38,808	0	0	38,808
Eliminations				(14,218)
Not Rated				22
Cartera Total				790,455

<sup>\*</sup> 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, Verum, DBRS Ratings México and A.M. Best America Latina. Only ratings issues by rating agencies are considered, and are not assigned based on comparable assets.

## 2.2.1 Loan Portfolio

GFNorte's Credit Risk loan portfolio as of 4Q18 presents a total exposure of Ps 790.45 billion, +Ps 24.82 billion higher vs. the previous quarter; or +3.2%, and Ps 162.37 billion or +25.9% vs. the previous year.

Variations per product of GFNorte's total portfolio are:

		Total Loan			Var. vs. 3Q18		Var. vs. 4Q17	
Product / Segment (Million pesos)	4Q17	3Q18	4Q18	\$	%	\$	%	
Government	134,905	197,652	197,377	(276)	(0.1%)	62,472	46.3%	
Commercial	140,740	166,969	177,241	10,272	6.2%	36,501	25.9%	
Mortgage	136,728	151,966	157,262	5,297	3.5%	20,534	15.0%	
Corporate	105,700	131,273	140,726	9,453	7.2%	35,025	33.1%	
Payroll	54,490	56,390	54,648	(1,741)	(3.1%)	158	0.3%	
Credit Card	36,093	37,871	38,808	937	2.5%	2,715	7.5%	
Auto Loans	19,423	23,510	24,393	883	3.8%	4,970	25.6%	
Total Loans	628,080	765,630	790,455	24,824	3.2%	162,374	25.9%	

	Loans Dist		Distresse	d Portfolio			
Subsidiary (Million pesos)	Performing	Past-due	Performing	Past-due	Total	Total Reserves	
Banorte*	740,840	6,043	1,534	6,797	755,214	18,089	
Arrendadora y Factoraje	32,173	11	16	310	32,510	390	
Sólida	2,608	76	0	25	2,709	186	
Accounting Records**	22	0	0	0	22	179	
Total Loans	775,642	6,131	1,550	7,132	790,455	18,844	

<sup>\*</sup> Banorte's total loans include eliminations for (Ps 14.22 billion)

Total reserves of Ps 18.84 billion include rating reserves of Ps 18.66 billion and accounting records (to provision 100% of past due interests, valuation, negative debts in the Credit Bureau, and those registered in recoveries) of Ps 179 million.

GFNorte's performing, past-due and distressed portfolios in 4Q18 grouped by sector and subsidiary are detailed in the following two tables:

	Loans Distressed			ressed	Reserves				
Sector (Million pesos)	Performing	Past-Due Pe	erforming	Past-Due	Total Loans	3Q18	Var vs 2Q18	QoQ Charge offs	Days Past- -Due**
Government	199,364	4	0	0	199,368	2,119	222	0	2
Services*	79,219	35	244	473	79,971	937	35	66	484
Commerce	48,797	24	194	2,003	51,018	1,309	46	36	402
Construction	48,524	46	334	1,662	50,565	1,265	(38)	163	351
Manufacturing	46,538	123	67	2,098	48,827	1,232	(13)	28	1,615
Top 5 Sectors	422,442	231	839	6,236	429,749	6,862	251	294	
Other Sectors	83,939	27	711	896	85,573	1,338	(30)	17	
Mortgage	155,798	1,464	0	0	157,262	957	30	381	
Consumer	113,441	4,408	0	0	117,849	9,508	(297)	3,335	
Accounting Records	22	0	0	0	22	179	0	0	
Total Group	775,642	6,131	1,550	7,132	790,455	18,844	(45)	4,027	

<sup>\*</sup> Includes Financial, Real Estate and Other Services

<sup>\*\*</sup> Includes portfolio from trust FCICK 16-1 for Ps 22 million.

<sup>\*\*</sup> Days past due from Non-Performing Loans.

<sup>\*\*\*</sup> Includes portfolio from trust FCICK 16-1 for Ps 22 million.

**Total Loans** 

Banorte*	AyF	Sólid
194,226	5,142	
75,384	4,587	
41,037	9,981	
	194,226 75,384	194,226 5,142 75,384 4,587

Government	194,226	5,142	0	199,368
Services**	75,384	4,587	0	79,971
Commerce	41,037	9,981	0	51,018
Construction	44,958	5,198	409	50,565
Construction Manufacturing	44,287	4,515	25	48,827
Top 5 Sectors	399,891	29,424	434	429,749
Remaining	355,345	3,086	2,275	360,706
Total Loans	755,236	32,510	2,709	790,455

<sup>\*</sup> Banorte's total loans include eliminations for (Ps 14.22 billion)

As of 4Q18, GFNorte's performing, past due and distressed portfolios grouped by federal entity and subsidiary are detailed in the following two tables:

	Lo	ans	Distressed			
Federal Entities (Million pesos)	Performing	Past-Due	Performing	Past-Due	Total Loans	Total Reserves
1 Ciudad de México	301,992	1,748	737	2,854	307,331	6,646
2 Nuevo León	108,713	660	82	2,363	111,818	2,887
3 Estado de México	54,671	757	140	488	56,055	1,564
4 Jalisco	39,383	365	51	200	39,999	845
5 Tamaulipas	21,297	171	53	100	21,621	491
6 Sinaloa	21,034	135	28	110	21,307	370
7 Chihuahua	18,157	145	27	64	18,393	427
8 Baja California Sur	18,017	86	1	8	18,112	247
9 Veracruz	17,110	245	51	154	17,559	474
10 San Luis Potosí	15,150	108	6	14	15,278	313
Top 10	615,525	4,420	1,175	6,354	627,474	14,264
Other Federal Entities	160,096	1,711	374	778	162,959	4,401
Accounting Records	22	0	0	0	22	179
Total Loans	775,642	6,131	1,550	7,132	790,455	18,844

<sup>\*</sup> Banorte's total loans include eliminations for (Ps 14.22 billion)

As of 4Q18, GFNorte's performing, past due and distressed portfolios grouped by term are detailed below:

	Port	tfolio	Distressed			
Remaining Term (Million pesos)	Performing	Past-Due	Performing	Past-Due	Total Loans	Total Reserves
O - 1 years	130,920	2,411	176	5,029	138,536	8,742
1 - 5 years	178,917	2,220	648	1,720	183,504	6,331
5 - 10 years	109,620	140	710	47	110,518	1,051
> 10 years	321,383	1,273	0	0	322,656	1,965
Banorte*	740,840	6,043	1,534	6,797	755,214	18,089
Leasing and Factoring	32,173	11	16	310	32,510	390
Sólida	2,608	76	0	25	2,709	186
Accounting Records**	22	0	0	0	22	179
Total Loans	775,642	6,131	1,550	7,132	790,455	18,844

<sup>\*</sup> Banorte's total loans include eliminations for (Ps 14,218)

<sup>\*\*</sup> Includes Financial and Real Estate services

<sup>\*\*\*</sup> Remaining includes the portfolio from trust FCICK 16-1 for Ps 22 million

<sup>\*\*</sup> Includes the portfolio from trust FCICK 16-1 for Ps 22 million

<sup>\*\*</sup> Includes the portfolio from trust FCICK 16-1 for Ps 22 million.

The total distressed portfolio is Ps 8.68 billion. Below is the quarterly balance of loan loss provisions for this portfolio:

		40	Q18	
Loan Loss Reserves for Distressed Portfolio		Arrendadora		
(Million pesos)	Banorte	y Factor	Sólida	GFNorte
Initial Loan Loss Provisions	3,768	153	15	3,936
Charged to results	163	10	0	172
Loans' write offs	91	0	0	91
FX changes	36	0	0	36
Adjustments in Credit Risk	36	10	0	45
Received in lieu of payment	0	0	0	0
Write-offs, charge-offs and discounts	(291)	0	0	(291)
Final Loan Loss Reserves	3,640	162	15	3,817
Loan Recoveries	31	0	0	31

#### 2.2.2 Exposure to Financial Instruments

As of December 31, 2018, exposure to Credit Risk for Securities Investments of Banco Mercantil del Norte was Ps 245.59 billion, of which 99.5% 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 September 2018. Additionally, 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 September 2018 has higher or similar rating to AA- (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 1 months totaling Ps 12.88 billion at 6.0%; promissory notes, market certificates and certificates of deposits of Banco Santander Mexicano to 4 months totaling Ps 7.80 billion at 8.3%.

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 September 2018.

Exposure to Credit Risk for Securities Investments of Casa de Bolsa Banorte was Ps 210.4 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 30% of the Capital as of September 2018. 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 September 2018 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 PEMEX for 11 months totaling Ps 4.29 billion at 8.7%; market certificates of CFE for 1 year and 4 months totaling Ps 3.34 billion at 8.9%;certificates of deposit and market certificates of Bancomer for 9 months totaling Ps 2.91 billion at 8.6%; market certificates from Banco Santander Mexicano, for 1 years and 1 month, totaling Ps 2.90 billion at 8.7%; certificates of deposit and market certificates of Banamex for 11 months totaling Ps 2.89 billion at 8.6%; certificates of deposit and market certificates of Scotiabank Inverlat fot 11 months totaling Ps 1.67 billion at 8.6%; certificates of deposit and market certificates of HSBC México for 1 year and 6 months totaling Ps 1.56 billion at 8.8%; market certificates of Banco Inbursa for 3 years and 3 months totaling Ps 1.54 billion at 8..8%; certificates of deposit and market certificates from Banobras for 2 years totaling Ps 1.23 billion at 8.5%; certificates of deposit and market certificates from Consubanco for 2 years totaling Ps 1.01 billion at 9.8%; Deutsche Bank bonds for 4 years and 5 months for Ps 570 million at 12.1%, market certificates from Banco Multiva for 1 year and 4 months for Ps 531 million at 9.1%; market certificates of Banco Actinver for 10 months totaling Ps 523 million at 9.1%; market certificates from Bancomext for 1 year and 6 months totaling Ps 414 million at 8.5%; market certificates from INFONACOT for 2 years and 6 months for Ps 252 million at 8.0% and market certificates of Nafinsa for 1 year and 3 months totaling \$216 million at 8.5%.

There are no Derivative instrument operations.

Arrendadora y Factor Banorte had no exposure to Securities Investments nor to Derivatives.

Sólida Administradora de Portafolios had no exposure whatsoever to Securities Investments nor to Derivatives.

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

Position (Million Pesos)	4Q18	4Q18 Average
Forwards	(3)	(22)
FX Swaps	(328)	(108)
FX	2	(3)
Options	403	197
Swaps with Interest Rates IRS	4,580	3,785
Cross Currency Swap (CCIRS)	(10,615)	11,049
Total	(5,962)	(7,199)
Positive Fair Value	15,145	15,938
(Positive Fair Value)		
Netting Effect*	21,107	23,137
Delivered Guarantees(-) /Received(+)	0	0
Cash	(2,109)	(1,623)
Securities	0	0
Total	(2,109)	(1,623)

<sup>\*</sup> Difference between the positive fair value (not considering the net positions) and the portfolio market value.

Transactions performed at the clearing house are not included, as they are not subject to counter party risk.

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

	Potential Risk		Current Risk		
Financial Counterparties (Million Pesos)	4Q18	4Q18 Average	4Q18	4Q18 Average	
FWD	1,293	692	0	(13)	
FX SWAP			(328)	(108)	
FX			2	(3)	
OPTIONS	1,359	1,219	1,096	949	
INTEREST RATE SWAP	18,232	20,002	7,487	8,496	
CCS	1,041	1,441	(10,606)	(11,040)	
Total	5,306	5,073	(2,350)	(1,718)	
Clients					
(Non-Financial)	4Q18	4Q18 Avg	4Q18	4Q18 Avg	

(Non-Financial)	4Q18	4Q18 Avg	4Q18	4Q18 Avg
FWD	11	21	(3)	(9)
OPTIONS	31	31	(693)	(752)
NTEREST RATE SWAP	1,424	871	(2,907)	(4,711)
CCS	37	35	(9)	(9)
Total	1,499	952	(3,612)	(5,482)

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)	4Q18	4Q18 Average
Cash Outflow with 1-notch Downgrade	0	0
Cash Outflow with 2-notch Downgrade	0	0
Cash Outflow with 3-notch Downgrade	0	0

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

#### Rating

(Thousand pesos)	MoM 4Q18	4Q18 Average
AAA/AA-	0	0
A+/A-	(840)	40
BBB+/BBB-	(1,567)	(1,819)
BB+/BB-	(1,409)	(2,577)
B+/B-	0	0
CCC/C	0	0
SC	(2,146)	(2,843)
Total	(5,962)	(7,199)

#### 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:

	40	218	
<u> </u>	Arrendadora		
Banorte	y Factor**	Sólida	GFNorte*
769,454	32,510	2,709	790,455
24,243	0	0	24,243
419,671	6,815	25	426,510
21,721	0	0	21,721
22,132	0	0	22,132
20,061	7,895	0	27,956
507,827	14,710	25	522,562
	769,454  24,243  419,671  21,721  22,132  20,061	Banorte         Arrendadora y Factor**           769,454         32,510           24,243         0           419,671         6,815           21,721         0           22,132         0           20,061         7,895	Banorte         y Factor**         Sólida           769,454         32,510         2,709           24,243         0         0           419,671         6,815         25           21,721         0         0           22,132         0         0           20,061         7,895         0

<sup>\*</sup> Total Loans includes eliminations for (Ps 14.21 billion).

<sup>\*\*</sup> Excludes operating leasing

#### 2.4 Expected Loss

As of December 31, 2018, Banco Mercantil del Norte's total portfolio was Ps 769.43 billion. The expected loss represents 1.9% and the unexpected loss is 4.2% with respect to the total portfolio. The average expected loss is 2.0% during the period October- December 2018.

Regarding Casa de Bolsa Banorte, the credit exposure of investments is Ps 210.44 billion and the expected loss represents 0.04% of the exposure. The average expected loss is 0.04% between October- December 2018.

The total portfolio of Arrendadora and Factor, including pure leasing is Ps 35.83 billion. The expected loss represents 0.9% and the unexpected loss is 4.9% of the total portfolio. The average expected loss represents 0.9% during the October- December 2018 period.

The total portfolio of Sólida Administradora de Portafolios was Ps 2.71 billion. The expected loss of the portfolio represents 11.0% and the unexpected loss 11.6%, both with respect to the total portfolio. The average expected loss for the period of October- December 2018 was 11.2%.

## 2.5 Internal Advanced Model for Credit Card

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

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

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

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

Consumer Revolving Portfolio under Internal Advanced Model							Million Pesos
Degree of Risk*	Accounting Balance	Default Exposure (DE)**	Severity of Loss	PD factored by DE	Unused credit lines	DE factored by exposure	Current DE
A1	17,654	31,826	87.16%	1.60%	42,823	45%	31,826
A2	6,226	8,442	87.16%	4.08%	4,859	26%	8,442
B1	2,995	3,884	87.16%	5.95%	1,546	23%	3,883
B2	798	925	87.16%	8.29%	396	14%	925
B3	2,140	2,780	87.16%	7.95%	859	23%	2,780
C1	2,514	3,215	87.16%	11.24%	820	22%	3,214
C2	3,788	4,435	87.16%	26.77%	746	15%	4,381
D	1,702	1,779	87.16%	80.57%	157	4%	613
E	992	1,008	88.70%	98.49%	143	2%	59
Total Portfolio	37,808	58,295	87.33%	9.19%	52,348	33%	56,124

<sup>\*</sup> The scale of Degrees of Risk of the Internal Advanced Model has been mapped in accordance with regulatory risk levels.

<sup>\*\*</sup> The balances under Default Exposure include Potential Risk as well as Used credit line balance.

The next table shows the difference between expected loss and observed loss resulting from the Internal Advance Model for Credit Cards from 1Q19.

	Backtesting			
	Expected Loss Internal Model (Dic'18)	Observed Loss Ene'18-	(Observed	
Portfolio		Dec'18	Expected Loss)	% Use
Credit Card	4,471	4,235	236	95%
Cartera Total	4,471	4,235	236	95%

Internal Models were applied for the first time in February 2018; therefore, Observed Loss cannot be estimated for a full year.

#### 2.6 Risk Diversification

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

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

Tier 1 as of September 30, 2018	109,074
I. Loans with individual balance greater than 10% of basic equity:	
Loan Operations	
Number of loans	0
Total amount of loans	0
% in relation to Tier 1	0%
Money Market Operations	
Number of loans	0
Total amount of loans	0
% in relation to Tier 1	0%
Overnight Operations	
Number of loans	0
Total amount of loans	0
% in relation to Tier 1	0%
II. Maximum amount of credit with the 3 largest debtors and common risk groups:	44,883

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

Equity as of September 30, 2018	4,752
I. Loans with individual balance greater than 10% of equity:	
Loan Operations	
Number of loans	7
Total amount of loans	9,378
% in relation to Equity	197%
Money Market Operations	
Number of loans	0
Total amount of loans	0
% in relation to Equity	0%
Overnight Operations	
Number of loans	0
Total amount of loans	0
% in relation to Equity	0%
II. Maximum amount of credit with the 3 largest debtors and common risk groups:	7,166

In compliance with risk diversification regulation on active and passive operations, Sólida Administradora de Portafolios presents the following information (million pesos):

Equity as of September 30, 2018	3,248
I. Loans with individual balance greater than 10% of equity (group level):	
Loan Operations	
Number of loans	1
Total amount of loans	409
% in relation to Equity	13%
Money Market Operations	
Number of loans	0
Total amount of loans	0
% in relation to Equity	0%
Overnight Operations	
Number of loans	0
Total amount of loans	0
% in relation to Equity	0%
II. Maximum amount of credit with the 3 largest debtors and common risk groups:	618

#### 3. MARKET RISK (BANK AND BROKERAGE HOUSE)

GFNorte's objectives regarding Market Risk are:

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

GFNorte's Market Risk Policies are:

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

## 3.1 Market Risk Methodology

Market Risk Management is controlled through a series of fundamental pillars, highlighting the use of models and methodologies such as 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 4Q18 was Ps 59.1 million (Ps 4.3 million higher than the average VaR from last quarter).

The result shows that the Bank's potential loss will be above Ps 59.1 million in one out of a hundred days.

VaR	Average
Million Pesos	4Q18
VaR Total	59.1
Net Capital	128,307
VaR/Net Capital	0.05%

VaR by risk factor for Banorte's portfolio had the following behavior during the fourth quarter of the year:

Risk Factor			
Million Pesos	4Q18	4Q18	
Rates	57.8	55.0	
FX	25.6	23.8	
Equity	7.8	7.0	
Diversification Effect	(28.4)	(26.7)	
Bank's Total VaR	62.8	59.1	

VaR for 4Q18 was Ps 62.8 million. The contribution to VaR for each risk factor is:

Risk Factor Million Pesos	4Q18	Average 4Q18
Domestic Rates	55.2	52.9
Foreign Rates	8.0	4.3
FX	(1.1)	1.8
Equity	0.7	0.1
Bank's Total VaR	62.8	59.1

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	4Q18
Rates	63%
Rates FX	28%
Equity	9%

## 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 4Q18 was Ps 24.7 million, Ps 4.5 million lower vs. 3Q18.

The result shows that potential loss will be above Ps 24.7 million in one out of a hundred days.

VaR	Average
Million Pesos	4Q18
Total VaR	24.7
Net Capital	3,035
VaR/Net Capital	0.81%

VaR by risk factor for Casa de Bolsa Banorte Ixe portfolio had the following behavior during the fourth quarter of the year:

Risk Factor		Average
(Million Pesos)	4Q18	4Q18
Rates	20.9	24.7
FX	0	0
Equity	0.4	0.3
Diversification effect	(0.4)	(0.3)
Casa de Bolsa Total VaR	20.9	24.7

VaR at the end of 4Q18 was Ps 20.9 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 mainly in 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.

#### 4. BALANCE AND LIQUIDITY RISK

GFNorte's Balance and Liquidity Risk objectives are:

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

GFNorte's Liquidity Risk Policies are:

- Establishment of specific global limits of Balance and Liquidity Risk Management.
- Measurement and monitoring of Balance and Liquidity Risk.

Information and disclosure of Liquidity Risk to risk-taking areas, CPR, Board of Directors, Financial Authorities and to public investors.

## 4.1 Liquidity Risk Methodology and Exposure

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

#### 4.2 Profile and Funding Strategy

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

Funding Source				
(Million Pesos)	3Q18	4Q18	Change vs. 3Q18	
Demand Deposits				
Local Currency (1)	360,935	364,156	0.9%	
Foreign Currency (1)	47,783	50,282	5.2%	
Demand Deposits	408,717	414,438	1.4%	
Time Deposits - Retail				
Local Currency (2)	193,033	204,654	6.0%	
Foreign Currency	18,857	18,094	(4.0%)	
Core Deposits	620,607	637,187	2.7%	
Money Market				
Local Currency (3)	116,179	110,436	(4.9%)	
Foreign Currency (3)	4,204	9,082	116.0%	
Banking Sector Deposits	740,990	756,705	2.1%	

- 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 4Q18.

	Bank and S	ofomes
LCR Components (Million Pesos)	Unweighted amount (Average)	Weighted amount (Average)
COMPUTABLE LIQUID ASSETS		
1 Total Computable Liquid Assets	NA	107,956
CASH DISBURSEMENTS		,
2 Unsecured retail financing	371,594	25,256
3 Stable financing	238,075	11,904
4 Less stable financing	133.519	13.352
5 Unsecured wholesale financing	258,260	96,966
6 Operational Deposits	143,829	32,627
7 Non-Operational Deposits	102,333	52,242
8 Unsecured debt	12,097	12,097
9 Secured wholesale financing	283,410	17,642
10 Additional Requirements:	340,195	20,135
11 Disbursements related to derivatives and other guarantee requirements	74,896	5,467
12 Disbursements related to losses from debt financing	0	0
13 Lines of credit and liquidity	265,299	14,667
14 Other contractual financing obligations	0	0
15 Other contingent financing liabilities	Ο	0
16 TOTAL CASH DISBURSEMENTS	NA	159,998
CASH INFLOWS		
17 Cash Inflows for secured operations	121,797	4,254
18 Cash Inflows for unsecured operations	63,703	47,887
19 Other Cash Inflows	6,328	6,328
20 TOTAL CASH INFLOWS	NA	58,468
	Adjusted amount	
21 TOTAL COMPUTABLE LIQUID ASSETS	NA	107,956
22 TOTAL NET CASH DISBURSEMENTS	NA	101,531
23 LIQUID COVERAGE RATIO	NA	106.95%

During 4Q18, the average LCR for the Bank and Sofomes was 106.95%, and at the end of 4Q18 the LCR was 91.71% the aforementioned levels are above the Risk Appetite and the regulatory minimum standards.

These results show that Banorte can meet all of its short-term obligations in a crisis scenario<sup>1</sup>.

## **4.4 Evolution of LCR Components**

The evolution of the LCR components comparing 3Q18 and 4Q18 is presented in the following table:

LCR Component (Million Pesos)	3Q18	4Q18	Var. vs. 3Q18
Liquid Assets	98,461	116,491	18.3%
Cash Inflows	47,351	38,474	(18.7%)
Cash Outflows	152,596	165,498	8.5%

<sup>&</sup>lt;sup>1</sup>The Liquidity Coverage Ratio information is preliminary and is subject to Banco de Mexico's affirmation.

The Liquid Assets that compute in the LCRs for the Bank and Sofomes between 3Q18 and 4Q18 are distributed as follows:

Type of Asset			
(Million Pesos)	3Q18	4Q18	Var. vs. 3Q18
Total	98,461	116,491	18.3%
Level I	92,081	110,630	20.1%
Level II	6,379	5,861	(8.1%)
Level II A	2,103	2,146	2.0%
Level II B	4,276	3,715	(13.1%)

Liquid assets decreased in the quarterly comparison in 3Q18 and 4Q18, due to the federal government securities exchange in foreign currency as part of a long term repo operation.

#### 4.5 LCR Result's Main Causes

Variations in the LCR between 3Q18 and 4Q18 are mainly due to the increase in cash outflows related to the funding exchange market conditions, as well a decrease in the balances of liquidity maganement accounts of the treasury due to balance optimization strategies.

## 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 4Q18, estimated outflows for derivatives were as follows:

#### **Derivatives Cash Outflows**

(Million Pesos)	3Q18	4Q18	Var. vs. 3Q18
Net cash outflows at market value and for potential future exposure	4,379	4,379	0.0%
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. 3Q18.

## 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 4Q18 are presented in the following table.

Concept
---------

(Million Pesos)	3Q18	4Q18	Var. vs. 3Q18
Cumulative 30 day Gap	(69,178)	(85,370)	23.4%
Liquid Assets	93,023	109,651	17.9%

Mismatch among inflows and outflows (gaps) for the next 30 days are covered with liquid assets. In addition, a more granular breakdown of the liquidity gaps is presented, remaining as follows for 4Q18:

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(Million pesos)	1 day	7 days	1 month	3 months	6 months	12 months
Natural Gap	(18,178)	(23,680)	(39,970)	3,623	(3,316)	(6,754)
Accumulated Gap	(18,178)	(41,858)	(81,828)	(78,205)	(81,521)	(88,275)

#### 4.9 Stress Testing under liquidity extreme conditions

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

#### 4.10 Contingency Funding Plan

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

#### 4.11 Balance Risk

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 4Q18 amounted to Ps 147.98 billion and in average during 4Q18 to Ps 153.48 billion.

(Million Pesos)	3Q18	4Q18	Var. vs. 2Q18
Margin Sensitivity	1,508	1,404	(6.9%)

#### 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 4Q18.

Liquidity Ratio	Casa de	Arrendadora y	
(Million Pesos)	Bolsa Banorte	Factor	Sólida
Cumulative 30 days Gap	2,103	(1,911)	(3,017)
Liquid assets	2,495	12	84

#### **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 PERFORMED BY GFNORTE

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

GFNorte has 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 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 fulfillment of its obligations in the trust agreement and administration contract.

The Institution is responsible that each of the assigned loans meets the eligibility criteria, at the time of their respective assignment. If the trust, the common representative, the financial guarantor, identify any non-eligible loans, they may require Banorte to replace such loan or if replacement is not possible, to make payment for the "non-replaced ineligible loan" in question. If Banorte identifies any non-eligible loan, it must 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 December 31, 2018 Grupo Financiero Banorte had the following position in securities and securitization amounts carried out by the same Institution:

	Ва	Banorte		urance	Total GFNorte		
Securitization (Million pesos)	Securities	Amount	Securities	Amount	Securities	Amount	
91_BNTECB_07	50,763,776	1,569	500,000	15	51,263,776	1,585	
91_BNTECB_07-2	563,059	15	-	-	563,059	15	
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:

_	Standard & Poor's	Fitch Ratings	Mod	ody's	HR Ratings	Verum	Best	DBRS
Securitization	Local Global	Local Global	Local	Global	Local Global	Local Global	Local Gobal	Local Global
91_BNTECB_07			Aa3.mx	Baa3	HR AAA			
91_BNTECB_07-2			A3.mx	Ba3	HR AA+			
97_FCASACB_06U			mxA+		BBB (mex)			

As of December 31, 2018 the amounts of the underlying assets of each securitization were:

Securitization (Million pesos)		Amount				
	Pe	erforming		Past-Due		Total
91_BNTECB_07	Ps.	2,164	Ps.	0	Ps.	2,164
91_BNTECB_07-2						
97_FCASACB_06U	Ps.	102	Ps.	130	Ps.	233

There are no impaired assets in trust 477.

Securitization exposure broken down by Credit Risk Weight is shown below:

Concept (Million Pesos)	Balance	Capital Requirement
Securitizations with Risk Level 1 (weighted 20%)	-	-
Securitizations with Risk Level 2 (weighted 50%)	1,569	63
Securitizations with Risk Level 3 (weighted 100%)	15	1
Securitizations with Risk Level 4 (weighted 350%)	-	-
Securitizations with Risk Level 4, 5, 6 or not rated (weighted 1250%)	-	-

<sup>\*</sup> 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 563 and 477 consider early amortization provisions. The institution has not made revolving securitizations or resecuritizations operations during the quarter.

#### **6.1 Applied Accounting Policies**

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

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

The 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 December 31 2018, Banco Mercantil del Norte held shares amounting to Ps 4.88 billion, with gains of Ps 713.8 million accumulated during 2018.

During the fourh quarter, accumulated losses from sales and settlements were Ps 17.1 million.

For negotiable securities, the capital requirement for Market Risk was Ps 56 million. For securities available for sale, the capital requirement for Market Risk was Ps 1.0 million and for Credit Risk Ps 20.3 million.

Institution	Type of Trading	Accounting Classification	Capitalization Treatment	Market Value 4Q18	Gains / Losses 4Q18	Acum. Profit / Loss 3Q18-4Q18
Banorte	Public	Negotiation	Market Risk	5.5	0.0	(21.7)
Banorte	Public	Available for Sale	Market Risk	4.1	(38.0)	(11.6)
Banorte	w/o Public trading	Negotiation	Credit Risk	248.5	5.3	107.7
Banorte	Public	Negotiation	Capital Reduction	204.3	(29.1)	103.6
Banorte	Public	Available for Sale	Capital reduction	455.5	(64.9)	210.9
Banorte	w/o Public trading	Available for Sale	Market and Credit Risk	3,968.0	63.4	324.8
			Total	4,885.9	(63.2)	713.8

In December 31 2018 it has a position of 508.9 billion million pesos in Casa de Bolsa Banorte

During the quarter, there were gains for 0.7 million pesos from sales and settlements.

Regarding Market Risk Capital Requirement the amount was of 154 million pesos of the total position in shares of Banorte.

Institution	Type of Trading	Accounting Classification	Capitalization Treatment	Market Value 4Q18	Gains / Losses 4Q18	Acum. Profit / Loss 3Q18-4Q18
Casa de	Public	Negotiable	Market Risk	508.9	(70.3)	257.8
Bolsa Banorte		Securities				
			Total	508.9	(70.3)	257.8

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

	2018		2017
Operations on behalf of third parties			
Banks customers (current accounts)	Ps. 236	Ps.	. 33
Settlement of customer transactions	(145	5)	(64)
Customer securities received in custody	699,130	)	663,995
Customer repurchase agreements	209,59		118,210
Collateral pledged on account of clients	209,595	;	118,175
Managed trusts	91,152	2	112,960
Investment banking transactions on account of third parties, (net)	68,035	;	87,333
	Ps. 1,277,594	. Ps.	1,100,642
Proprietary transactions			
Contingent assets and liabilities	Ps. 193	Ps.	. 100
Assets in trust or under mandate	458,795	j	290,749
Managed assets in custody	676,612	)	561,016
Credit commitments	305,418	3	252,516
Collateral received	245,892	)	145,077
Collateral received and sold or given as a pledge	372,88		184,011
Deposits of assets	2,780	)	3,068
Interest accrued but not charged of past due loans	635	,	368
Other registration accounts	255,02		267,027
	Ps. 2,318,227	Ps.	. 1,703,932

## **37 - COMMITMENTS**

As of December 31, 2018 and 2017, the Financial Group had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 305,611 (Ps. 252,616 in 2017), which are recorded in memorandum accounts.
- The Institution takes on lease properties where its branches are located, as well as some of its administrative offices, which consider an annual increase in the amount of the rent calculated based on the National Index of Consumer Prices. The Lease terms range from one to fifteen years, for which, as of December 31, 2018, the commitments for payment of rents are as follows

Year	Ammount
2019	Ps. 1,688
2020	1,756
2021	1,826
2022	1,899
2023	1,976
2024 to 2033	26,019
Total	Ps. 35,164

• In addition, the Institution also takes in lease some equipment for operation, mainly computer equipment, electronic and utility vehicles. At December 31, 2018, the commitments for payment of rents are the following:

Year	Ammount
2019	Ps. 1,096
2020	1,139
2021	1,185
2022	1,232
2023	1,282
2024 to 2033	16,004
Total	Ps. 21,938

## **38 - CONTINGENCIES**

As of December 31, 2018, there are lawsuits filed against the Financial Group in civil and business court cases; however, the Financial Group's attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Financial Group's consolidated financial position. As of December 31, 2018, the Financial Group has recorded a reserve for contentious matters of Ps. 1,095 (Ps. 782 in 2017).

## 39 - PREVENTIVE MECHANISM FOR SAVINGS' PROTECTION

The objective of the Institute for the Protection of Bank Savings (IPAB) is to protect the deposits of small customers and thereby contribute to maintain the financial system's stability and the proper functioning of the payments systems.

According to the Law of Bank Savings Protection (LPAB), the IPAB manages a bank savings protection system that guarantees the payment of bank deposits or loans or credits to Full Service Banking Institution up to an amount equivalent to 400 thousand UDIS per individual or business entity, regardless of the number or type of such obligations in the customer's favor and charged to a single bank.

On July 30, 2007, general rules were issued for addressing joint accounts or those in which there is more than one account holder, referred to in art. 14 of the LPAB, as well as the rules banks must observe for classifying information relative to transactions associated with guaranteed obligations.

The IPAB plays a major role in the implementation of the LPAB resolutions methods and the Law of Credit Institutions (LIC) as timely and adequate mechanisms for salvaging and liquidating Full Service Banking Institutions in financial trouble that may affect their solvency. The purpose is to provide maximum protection to the public while minimizing the negative impact that salvaging an institution may have on others in the banking system.

During 2018 and 2017, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps 3,149 and Ps 2,634, respectively.

## **40 - NEW ACCOUNTING GUIDELINES**

As of December 31, 2018, CINIF has issued the following NIFs and improvements to current NIFs which could generate accounting changes.

Accord with the resolution amending published on November 15, 2018 that modifies the general provisions applicable to credit institutions published on December 27, 2017 the NIFs issued by the CINIF, referred in paragraph 3 of criteria A-2, will be applicable beginning January 1, 2020.

The Financial Group 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 NIFs may have in the financial statements, same that we will inform in due time considering the final version of the project once it is published in the Official Gazette of the Federation and according to the requirements of the NIF B-1, "Accounting changes and corrections of errors".

The NIFs issued and which will be applicable to credit institutions from January 1, 2020 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".
- NIF D-5, "Leases".