



GRUPO FINANCIERO BANORTE, S. A. B. DE C. V.

ANNUAL BUSINESS REPORT 2018

Annual business report 2018, Grupo Financiero Banorte.

In 2018, the group continued to direct its efforts to digitalization with a focus on customer service and satisfaction, following the path to the fulfillment of our Vision 20/20 strategic Plan. It was a year fundamentally marked by the electoral cycle, where Mexico underwent the largest electoral process in its history in terms of number of positions to be elected; in this sense, we successfully faced the challenges and uncertainty to capitalize opportunities; therefore, I am glad to report that, thanks to the work and efforts of all our collaborators, we achieved historical results and made great achievements, positioning the Financial Group and the Bank as the second ranked in the national financial system.

In our 20/20 Vision, we significantly progressed towards our goal to be the best financial group in Mexico and for Mexicans; the best for clients; for investors and for collaborators, mainly focusing on increasing the product index per client and generating, in turn, an increase in capital return. In this sense, during the year, we continued to work on initiatives to provide to our clients a bank in their mobiles with high service and quality standards. We made very important progress in the satisfaction levels of our clients with our products and services, measured by NPS (Net Promoter Score).

During the year, and after obtaining the corresponding regulatory authorizations, we completed the acquisition and integration of Grupo Financiero Interacciones (GFI) and the acquisition of two portfolios in the Pensions business. In this annual report, we make a summary of the most relevant events and results for the year.

Macroeconomic Environment

Mexico experienced great volatility in its financial markets in 2018, because of its electoral process and the effects of the two most relevant events that marked the world in 2018: Commercial protectionism and monetary restriction.

As for commercial protectionism, both the previous administration and a delegation of the incoming administration in Mexico, made a common front to negotiate a new trade treaty with the United States and Canada, named T-MEC (Mexico, United States, Canada Treaty). The negotiations of this treaty ended on November 30 last year, with legislative approvals in the member countries being expected for 2019.

On the monetary side, after implementing the most significant incentive in history, the U.S. Federal Reserve Bank (the Fed) started a process of 'normalization' of interest rates in December 2015. Notwithstanding that low inflation pressures globally allowed the Fed to carry out this rate increase cycle in a very gradual manner, in 2018 the size was increased twofold, increasing the milestone rate by 100 base points. Facing a highly uncertain environment due to global and local issues, the Board of Governors of Banco de México decided to reproduce such increases last year.

Fortunately, the momentum of economic activity continued, observing a 2.0 percent growth in the GDP.

Group Results

It was an exceptional year for GFNorte, reaching a net profit of \$31,958 million pesos, a 34% increase from the previous year, reflecting the good performance in a majority of its subsidiaries: the Bank reported a 35% growth, Brokerage 23%, Seguros sin Afore 24% and Arrendadora y Factor 12%.

The income from net interest increased by 18%, with a net interest margin (MIN) of 5.6%, that is, an annual expansion of 16 basic points (pb) as a result of a better portfolio mix and the re-pricing of assets facing interest rate increases in the market. On the other hand, non-financial income increased by 39%, including brokerage income, which increased by 59% as a result of derivative financial instrument sales to clients and a strong dollar purchase and sale activity, also with clients.

With a controlled expense 11% higher than last year by incorporating the operation of GFI, the Group's efficiency index was 39%, an improvement of 382pb as a result of operating efficiency, higher interest

income and controlled funding cost aligned to market conditions. Special efforts and achievements were made, in line with the announcement made before the merger with GFI.

The evolution of the credit portfolio showed a substantial growth of 26% in the year, as a result of strategic efforts in the consumption portfolio, especially mortgage, with 15%, and automobile, with 26% of annual expansion, as well as in corporate and commercial with the incorporation of the GFI portfolio, with a 34% increase in corporate and 27% in commercial. These increases are a result of appropriate origination through analytic and risk management tools that we have strengthened in the last few years with technological development, including artificial intelligence and process optimization.

The quality of our assets was substantially improved, the due portfolio index showed an improvement in all portfolio segments, and in the aggregate, it also improved, at 1.7% as of the year closing. Credit, commercial and corporate card portfolios showed a significant improvement in portfolio quality as a result of better risk selection and management.

In June 2018, the Group allocated dividends to its shareholders in an amount of \$9,563 million pesos, equivalent to \$3.4478 pesos per share, corresponding to 40% of the net profit for fiscal year 2017, as approved at the annual ordinary shareholders meeting.

The return on equity (ROE) of GFNorte was of 20.3%, 330 basic points above the previous year, while the return on assets (ROA) amounted to 2.2%, 32 basic points over last year, consolidating and strengthening our progress towards the objectives established in the 20/20 Vision.

All subsidiaries of the financial group are solvent and keep capital indicators above the regulatory minimum. Concerning the bank's regulatory capital indicators, these remain strong, since, as of the closing of the year, the bank's capitalization index was 17.2%, while the fundamental capital index reached a level of 12.7%, much higher than the regulatory minimum.

Relevant events

In 2018, we had several milestones, including:

- One of the most important events of the year was the acquisition of Grupo Financiero Interacciones, S.A.B. de C.V.; as a result of this merger, the group incorporated a portfolio of government and infrastructure credits, which allowed Banorte to position itself as the second largest Bank in Mexico, in terms of portfolio and deposits. Likewise, the financial group also became the second largest in the country.
- As of the closing of 2018, the Pensiones company purchased two pension portfolios for an aggregate of \$19,392 million, which contributed to the strengthening of this subsidiary to serve more clients.
- The "Estrategia Banorte" Forum 2018 was held with the topic "Banorte, an Ally of Mexico's Future". An unprecedented event, gathering the then incoming ministers of state of the new government and the businessmen of Mexico. The Forum was a space for dialog between the new administration and domestic businessmen, who were able to obtain first-hand the vision of the new government on budget, infrastructure, telecommunications, education and rule of law.
- In November 2018, Banorte was recognized by the "The Banker" magazine as Bank of the Year 2018, for its work in financial inclusion and its commitment to Mexico's development. Such publication recognizes financial institutions that stand out globally, especially those that demonstrate to be one step ahead in consumption trends and that innovate with technologies, offering better value added to their clients. The qualities considered for this recognition were i) increase in accessibility of banking services with products such as Rechargeable Amazon, ii) system to increase the activation rate of credit cards, and iii) financing of infrastructure in states and municipalities.

- Afore XXI Banorte was recognized by The World Finance Pension Fund Awards as the best pension fund in Mexico, this is the fourth award received by Afore XXI Banorte in this category, which recognizes companies that have demonstrated the ability to innovate and adapt to the changing and complex environment of the sector, while maintaining an excellence standard. Afore XXI Banorte was selected in recognition of its track record in investment policies, and of its leadership in the industry by developing innovative strategies and demonstrating great quality, adaptability and excellence, in addition to technological solutions allowing it to better know its clients' needs.
- GFNorte was considered again in the FTSE4Good Index Series, which ratifies it as a company that meets the higher sustainability standards established by London's FTSE.

Reflection

I am convinced that these results, as a whole, speak of the sound and innovative financial group that we continue to build for Mexico.

I am sincerely grateful to our clients who continue to be loyal to Banorte, to the more than 4 thousand investors, for their confidence during the year, in spite of market volatility, and to our Board of Directors, local and regional Directors, and to each and all of the more than 30 thousand collaborators who, once again, demonstrated their dedication and commitment to the institution of which we are all part.

José Marcos Ramírez Miguel
CEO of Grupo Financiero Banorte