

Annual Report 2018

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

IN ACCORDANCE WITH REGULATIONS APPLICABLE TO THE FINANCIAL INFORMATION OF CONTROLLING COMPANIES OF FINANCIAL GROUPS SUBJECT TO SUPERVISION BY THE NATIONAL BANKING AND SECURITIES COMMISSION (CNBV),

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I. Management's Discussion & Analysis

When analyzing the information contained herein is important to take the following into consideration:

- ✓ The financial information contained in this report is based on GFNorte's Audited Financial Statements for the years ended December 31, 2018 and 2017, published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited dated February 22, 2019. For the year ended December 31, 2016, financial figures are based on GFNorte's Audited Financial Statements published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited, dated February 22, 2017.
- ✓ Throughout this document there are references to reported and recurring figures, the latter are related to ongoing business activities, without the effect of the extraordinary asset sale & leaseback transaction.
- ✓ on July 10th, 2018, GFNorte and Grupo Financiero Interacciones S.A.B. de C.V. ("GFInter") received the necessary authorizations from the Ministry of Finance and Public Credit (Secretaría de Hacienda y Crédito Público) - considering the opinion of the Central Bank (Banco de México), the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores), and the National Insurance and Bonding Commission (Comisión Nacional de Seguros y Fianzas) respectively- to carry out the merger of: (i) GFInter, as the merged company, with GFNorte, as the merging company; (ii) Banco Interacciones, S.A., as the merged company, with Banco Mercantil del Norte, S.A., as the merging company; (iii) Interacciones Casa de Bolsa, S.A. de C.V., as the merged company, with Casa de Bolsa Banorte, S.A. de C.V., as the merging company; (iv) Aseguradora Interacciones, S.A. de C.V., as the merged company, with Seguros Banorte, S.A. de C.V., as the merging company; and (v) Interacciones Sociedad Operadora de Fondos de Inversión, S.A. de C.V., as the merged company, with Operadora de Fondos Banorte, S.A. de C.V., as the merging company.
- ✓ The Board of Directors of GFNorte, during its session held on January 25th, 2018, approved the spinoff of Banorte USA (BUSA), as spun-off entity, and the subsequent investment in Banorte Financial Services as the new spinoff with the objective of transferring to it, among other assets, the shares that represent the total shareholders equity of INB Financial Corp and the shares that represent the total shareholders equity of Uniteller Financial Services. This spinoff did not have any effect in the figures presented in the consolidated financial statements due to the fact that the Holding company consolidates both entities as of December 31st, 2018.
- ✓ The Board of Directors of Banorte, during its session held on January 25th, 2018, approved the liquidation of Banorte USA, to be executed upon the successful completion of the spinoff of Banorte USA. The liquidation was completed on January 14th, 2019, upon reception of the certificate of dissolution from the State of Delaware, United States of America. In the fourth quarter of 2016 GFNorte decided to dispose of Inter National Bank ("INB") as part of the corporate restructuring program. As result of the aforementioned, Banco Mercantil del Norte ("Banorte") reclassified its investment in Inter National Bank as a long-term asset available for sale, which was registered at yearend at its estimated sale value. Moreover, INB's net income was registered as Income from Discontinued Operations. Consequently, INB's consolidated results in Banorte were reversed for 2016.
- ✓ During the third quarter of 2016 Fees from Commercial and Government Loans were reclassified retroactively to Fees for Commercial and Mortgage Loans from Other Fees Charged in order to make figures comparable.
- ✓ The financial information presented in this report has been calculated in pesos and the tables are in million pesos, thus, differences are the result of rounding effects.

A) Operating Results

SELECTED FINANCIAL INFORMATION

| | 2018 | 2017 | 2016 |
|--|-------------|-------------|-------------|
| Net Income Grupo Financiero Banorte (GFNorte) | \$31,958 | \$23,908 | \$19,308 |
| Total Assets GFNorte | \$1,620,470 | \$1,354,147 | \$1,268,119 |
| Total Liabilities GFNorte | \$1,446,006 | \$1,206,563 | \$1,125,418 |
| Stockholders' Equity GFNorte | \$174,464 | \$147,584 | \$142,701 |
| Stockholders' Equity GFNorte excluding minority interest | \$172,279 | \$145,752 | \$140,746 |

INFORMATION PER SHARE

| | | | |
|--|----------|----------|----------|
| Net income per share Basic (pesos) | \$11.24 | \$8.70 | \$7.02 |
| Net income per share Diluted (pesos) | \$11.09 | \$8.62 | \$6.96 |
| Dividend approved per share (pesos) ¹⁾ | \$3.45 | \$4.05 | \$2.47 |
| Book value per share (pesos) (excluding minority interest) ²⁾ | \$59.75 | \$52.55 | \$50.74 |
| Shares outstanding Basic (millions) | 2,843.58 | 2,749.03 | 2,754.03 |
| Shares outstanding Diluted (millions) | 2,880.83 | 2,773.73 | 2,773.73 |

PROFITABILITY RATIOS

| | | | |
|--|--------|--------|--------|
| NIM | 5.63% | 5.47% | 4.80% |
| NIM adjusted for credit risk | 4.42% | 4.16% | 3.60% |
| NIM adjusted w/o Insurance & Annuities | 5.48% | 5.37% | 4.61% |
| NIM from loan portfolio | 8.26% | 8.49% | 7.88% |
| Return on assets (ROA) | 2.18% | 1.86% | 1.58% |
| Return on equity (ROE) | 20.28% | 16.98% | 13.91% |

OPERATIONS

| | | | |
|--|---------|---------|--------|
| Efficiency ratio ³⁾ | 39.03% | 41.94% | 44.94% |
| Operating efficiency ratio ⁴⁾ | 2.56% | 2.65% | 2.58% |
| Average Liquidity Coverage Ratio for Banorte and SOFOM - Basel III | 106.95% | 123.42% | 99.55% |

ASSET QUALITY INDICATORS

| | | | |
|----------------------|---------|---------|---------|
| Past due loan ratio | 1.68% | 1.99% | 1.79% |
| PDL reserve coverage | 142.08% | 129.16% | 139.48% |

CAPITALIZATION RATIO

| | | | |
|---------------------------|--------|--------|--------|
| Banco Mercantil del Norte | 17.17% | 17.23% | 15.30% |
|---------------------------|--------|--------|--------|

INFRASTRUCTURE AND EMPLOYEES

| | | | |
|---|---------|---------|---------|
| Bank Branches ⁵⁾ | 1,150 | 1,148 | 1,175 |
| ATMs (automated teller machines) | 8,423 | 7,911 | 7,756 |
| Points of Sale | 158,735 | 165,441 | 151,948 |
| Full-time employees | 30,538 | 29,903 | 27,913 |
| Full-time employees and professional services | 30,548 | 29,915 | 27,929 |

Million pesos.

- Figures coming from the Income Statement were reexpressed to reflect INB deconsolidation in 2016 due to the corporate restructure process; therefore, such figures differ from those presented in the Annual Report submitted to the authority in April 2016.
- Dividends approved by the Shareholders' Assemblies in 2016, 2017 and 2018 were: Total dividend decreed in 2016 was Ps 2.4671 per share to be paid in two installments of Ps 1.23353556868510 per share (August 2016 and March 2017). Total dividend decreed in 2017 was Ps 4.04622998378046 per share to be paid in June 2017 compound of in two installments, the first one for 2.784391033549680 per share and a extraordinary part of Ps 1.261838950230780 as of the sell of INB. Total dividend decreed in 2018 was Ps 3.447788386581080 per share to be paid in June 2018.
- Non Interest Expense / (Net Interest Income + Non- Interest Income).
- Non Interest Expense / Average Total Assets.
- Includes bank modules and excludes 1 branch in the Cayman Islands.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In 2018 the contribution by business sector to accumulated profits was as follows:

Recurring net income from **Consolidated Bank** totaled Ps 23.16 billion during 2018, up +Ps 4.82 billion, or +26% vs. 2017, while according to GFNorte's share, they totaled Ps 22.73 billion, which is Ps 4.72 billion or +26% higher than that of the previous year, contributing with 75% of recurring net income of GFNorte. With reported numbers, net income of Ps 24.83 billion grew +46% on good operating performance and the extraordinary net income of Ps 1.67 billion related to the asset sale.

Long Term Savings sector, constituted by **Afore XXI Banorte, Seguros Banorte** and **Pensiones Banorte** generated total net income of Ps 6.78 billion during 2018, up +8% vs. 2017. Accumulated net income from Seguros Banorte, excluding Afore XXI Banorte totaled Ps 3.43 billion, +24% above the reported result in 2017. According to GFNorte's share in this sector, accumulated net income accounted for 18.0% of the Group's net income. This increase was driven by a higher operating dynamic in Seguros Banorte's operation, and it was also driven by Afore and Pensiones's contraction vs. the previous year.

The Brokerage Sector (**Casa de Bolsa Banorte** and **Operadora de Fondos Banorte**) reported net income of Ps 1.20 billion, +23% higher due to +25% higher interest margins, +14% net fees, and +31% higher trading results. Net income for the quarter represented 3.0% of the Financial Group's net income, while the accumulated result represented 3.7% of it.

The SOFOM and other Finance Companies' sector, constituted by **Arrendadora and Factor Banorte, Almacenedora Banorte, Solida Administradora de Portafolios** and Ixe servicios, totaled net income of Ps 80 million during 2018. According to Banorte's share in these businesses, net income totaled Ps 84 million, compared to a (Ps 152) million loss during 2017. This sector was benefited by +20.9% higher interest income, driven by loan growth from Arrendamiento y Factoraje, as well as by a (Ps 170) million decline in Solida Administración de Portafolios.

**Consolidated Bank in 2016 considers Banco Mercantil del Norte, Banorte-Ixe Tarjetas, Banorte USA and Afore XXI Banorte according to its 50% ownership; whereas, in 2016 considers Banco Mercantil del Norte –merging entity of Banorte-Ixe Tarjetas since May- and Banorte USA –deconsolidated and reported in Discontinued Operations as of 4Q16- and excludes Afore XXI Banorte as it is reported within Long Term Savings since 4Q16.*

1. Grupo Financiero Banorte

Consolidated Income Statement

| | 2018 | 2017 | 2016 |
|---|-------------------|------------------|------------------|
| Interest income | \$137,583 | \$110,509 | \$80,264 |
| Premium income (Net) | 29,067 | 25,043 | 21,307 |
| Interest expense | (60,754) | (44,635) | (27,383) |
| Increase in technical reserves | (13,508) | (12,645) | (8,477) |
| Casualty rate, claims and other contractual obligations (net) | (17,563) | (14,906) | (12,654) |
| NET INTEREST INCOME (NII) | \$74,825 | \$63,366 | \$53,057 |
| Loan Loss Provisions | (16,079) | (15,213) | (13,313) |
| NET INTEREST INCOME ADJUSTED FOR CREDIT RISK | \$58,746 | \$48,153 | \$39,744 |
| Fees Charged | 22,567 | 19,542 | 16,683 |
| Fees Paid | (9,526) | (7,558) | (6,056) |
| Trading Income | 4,228 | 2,657 | 2,346 |
| Other Operating Income | 4,259 | 3,211 | 3,491 |
| Non-Interest Income | \$21,528 | \$17,852 | \$16,465 |
| Administration and promotional expenses | (37,609) | (34,061) | (31,243) |
| OPERATING INCOME | \$42,665 | \$31,944 | \$24,965 |
| Subsidiaries' Net Income | 1,385 | 1,264 | 1,246 |
| PRE-TAX INCOME | \$44,050 | \$33,208 | \$26,211 |
| Income Tax | (10,768) | (8,469) | (7,056) |
| Deferred Income Tax (Net) | (868) | (579) | 178 |
| Taxes | (\$11,636) | (\$9,048) | (\$6,878) |
| INCOME BEFORE DISCONTINUED OPERATIONS | \$32,414 | \$24,160 | \$19,333 |
| Discontinued operations | - | 89 | 243 |
| INCOME FROM CONTINUOUS OPERATIONS | \$32,414 | \$24,249 | \$19,576 |
| Minority interest | (456) | (341) | (268) |
| NET INCOME | \$31,958 | \$23,908 | \$19,308 |

Million pesos.

The following is a breakdown of the most important items of the Income Statement:

- **Net Interest Income - NII**

| | 2018 | 2017 | 2016 |
|--|-----------------|-----------------|-----------------|
| Interest Income | \$125,631 | \$100,315 | \$73,204 |
| Interest Expense | 59,703 | 43,941 | 26,893 |
| Fees Charged | 1,283 | 1,171 | 1,206 |
| Fees Paid | 1,052 | 695 | 490 |
| Net Interest Income without Insurance and Annuities | 66,160 | 56,850 | 47,027 |
| Premium Income (Net) | 29,067 | 25,043 | 21,307 |
| Technical reserves | 13,508 | 12,645 | 8,477 |
| Damages, Claims and Other Obligations | 17,563 | 14,906 | 12,654 |
| Technical Result | (2,003) | (2,507) | 176 |
| Net Interest Income (Expense) | 10,669 | 9,024 | 5,854 |
| Net Interest Income for Insurance and Annuities | 8,665 | 6,517 | 6,030 |
| Net Interest Income GFNorte | 74,825 | 63,366 | 53,057 |
| Credit Provisions | 16,079 | 15,213 | 13,313 |
| Net Interest Income Adjusted for Credit Risk | \$58,746 | \$48,153 | \$39,744 |
| Average Earnings Assets | \$1,329,316 | \$1,157,638 | \$1,088,718 |
| NIM ¹⁾ | 5.63% | 5.50% | 4.90% |
| NIM adjusted for Credit Risk ²⁾ | 4.42% | 4.20% | 3.70% |
| NIM adjusted w/o Insurance and Annuities | 5.48% | 5.40% | 4.70% |
| NIM from loan portfolio ³⁾ | 8.26% | 8.50% | 8.00% |

Million pesos.

1. NIM (Net Interest Margin) = Annualized Net Interest Income / Average Earnings Assets.
2. NIM adjusted for Credit Risk = Annualized Net Interest Income adjusted for Credit Risk / Average Earnings Assets.
3. NIM from loan portfolio = Annualized Net Interest Margin from loan portfolio / Average Performing Loans.

GFNorte's **NII increased +18%** as a result of significant revenue increases in Insurance and Annuities, and repos, as well as from ongoing loan growth. **NIM for the year totaled 5.6%**, showing a +16bp improvement vs. 2017.

During the year, there was a +16% increase in **interest income without Insurance and Annuities** as a consequence of strong loan growth, in addition to the impact from the +100bps total increase to the reference rate during the year, resulting in **loan portfolio NIM of 8.3%**, below the 8.5% figure in 2017. This reduction is explained by the mathematical effect of incorporating the acquired loan book in the NIM formula.

Furthermore, accumulated **income from Insurance and Annuities** grew **+33%**, driven by growth in the Insurance business, mainly in life, damages and auto portfolios. The pensions business shows an increase from the incorporation of the acquired portfolios during the year.

- **Non-Interest Income**

| | 2018 | 2017 | 2016 |
|-----------------------------------|-----------------|-----------------|-----------------|
| Service Fees | 13,041 | \$11,984 | \$10,628 |
| Trading | 4,228 | 2,657 | 2,346 |
| Other Operating Income (Expenses) | 4,259 | 3,211 | 3,491 |
| Non-Interest Income | \$21,528 | \$17,852 | \$16,465 |

Million pesos.

There is a **+24% annual growth** mainly driven by an increase in net service fees, and a significant increase in trading income resulting from derivatives sold to customers.

- **Service Fees**

| | 2018 | 2017 | 2016 |
|------------------------------------|------------------|------------------|------------------|
| Fund Transfers | \$ 1,634 | \$ 1,489 | \$ 1,287 |
| Account Management Fees | 2,517 | 2,529 | 2,075 |
| Electronic Banking Services | 8,268 | 6,903 | 5,808 |
| Basic Banking Services Fees | \$ 12,419 | \$ 10,921 | \$ 9,170 |
| For Commercial and Mortgage Loans | 1,272 | 694 | 796 |
| For Consumer Loans | 4,711 | 4,296 | 3,658 |
| Fiduciary | 498 | 422 | 347 |
| Income from Real Estate Portfolios | 189 | 107 | 113 |
| Mutual Funds | 1,673 | 1,343 | 1,163 |
| Trading & Financial Advisory Fees | 702 | 721 | 520 |
| Other Fees Charged (1) | 1,103 | 1,038 | 916 |
| Fees Charged on Services | \$ 22,567 | \$ 19,542 | \$ 16,683 |
| Interchange Fees | 4,000 | 3,099 | 2,504 |
| Insurance Fees | 1,479 | 1,218 | 1,371 |
| Other Fees Paid | 4,047 | 3,243 | 2,180 |
| Fees Paid on Services | \$ 9,526 | \$ 7,558 | \$ 6,055 |
| Service Fees | \$ 13,041 | \$ 11,984 | \$ 10,628 |

Million Pesos

1. Includes fees from letters of credit, transactions with pension funds, warehousing services, financial advisory services and securities trading among others.

During 2018, the **accumulated result** increased **+15%** mainly explained by growth in electronic banking services, and fees from commercial, mortgage and consumer loan origination, resulting from higher customer activity.

On the other hand **fees paid increased +22%** increase explained by higher interchange activity in the acquirer business, followed by Insurance fees paid, and other fees paid related to loan origination and debt, as well as by correspondent banking fees.

- **Trading**

| | 2018 | 2017 | 2016 |
|-------------------------|----------|----------|----------|
| Trading Revenues | | | |
| Currency and Metals | (119) | (153) | 82 |
| Derivatives | 1,979 | 492 | 328 |
| Negotiable Instruments | (135) | (709) | (73) |
| Valuation | \$ 1,725 | \$ (370) | \$ 338 |
| Currency and Metals | 2,113 | 1,729 | 1,511 |
| Derivatives | (71) | 137 | (14) |
| Negotiable Instruments | 461 | 1,161 | 511 |
| Trading | \$ 2,503 | \$ 3,027 | \$ 2,008 |
| Trading Income | \$ 4,228 | \$ 2,657 | \$ 2,346 |

Million pesos

During 2018 Trading Income grew +59% annually due to derivative contracts sold to customers totaling Ps 700 million, registered under derivatives valuation, and from increased activity in FX transactions with customers, which had higher transaction margins.

- **Other Operating Income (Expenses)**

| | 2018 | 2017 | 2016 |
|--|----------|----------|----------|
| Loan Recovery | \$9 | \$1,750 | \$1,550 |
| Loan Portfolios | 227 | 190 | 149 |
| Income from foreclosed assets | 275 | 159 | 98 |
| Provisions Release | 16 | 371 | 393 |
| Losses and Estimates | (2,310) | (1,636) | (960) |
| Impairment of Assets | (180) | (493) | (242) |
| Lease Income | 465 | 447 | 325 |
| From Insurance | 870 | 835 | 1,017 |
| Others | 4,887 | 1,588 | 1,162 |
| Other Operating Income (Expenses) | \$ 4,259 | \$ 3,211 | \$ 3,491 |

Million pesos

Recurring other operating income (expenses) shows an annually increase, reaching **Ps 1.85 billion**, as a result of higher income from foreclosed assets, higher insurance and leasing income, and others.

The significant **increase in reported other operating income (expenses)**, for the year, is explained by the **Ps 2.41 billion non-recurring gross income**, totaling **Ps 4.25 billion**.

- **Non-Interest Expense**

| | 2018 | 2017 | 2016 |
|---|-----------|-----------|-----------|
| Personnel | \$ 15,022 | \$ 13,447 | \$ 12,876 |
| Professional Fees | 3,330 | 2,926 | 2,208 |
| Administrative and Promotional | 7,954 | 7,833 | 7,366 |
| Rents, Depreciation & Amortization | 5,625 | 5,058 | 4,689 |
| Taxes other than income tax & non-deductible expenses | 2,075 | 1,772 | 1,390 |
| Contributions to IPAB | 3,149 | 2,634 | 2,325 |
| Employee Profit Sharing (PTU) | 455 | 391 | 389 |
| Non-Interest Expense | \$ 37,610 | \$ 34,061 | \$ 31,243 |

Million pesos

On the annual result, the +11% growth includes Ps 450 million in one-time advisory fees, and Ps 250 million from severance payments to employees. Additionally, there are Ps 765 million related to managing the recently acquired business.

The Recurring Efficiency ratio reached 40% for the year, as a result of operating efficiency from lower administrative and operating expenses, and controlled cost of funds aligned with market conditions. Reported efficiency ratio was 39% for the year.

- Net Income

| | 2018 | 2017 | 2016 |
|--------------------------|------------------|------------------|------------------|
| Operating Income | \$ 42,665 | \$ 31,944 | \$ 24,965 |
| Subsidiaries' Net Income | 1,385 | 1,264 | 1,246 |
| Pre-tax income | \$ 44,050 | \$ 33,208 | \$ 26,211 |
| Taxes | 11,636 | 9,048 | (6,878) |
| Discontinued Operations | - | 89 | 243 |
| Minority Interest | (456) | (341) | (269) |
| Net Income | \$ 31,958 | \$ 23,908 | \$ 19,308 |

Million Pesos

Recurring Net Income grows +26% in the year, explained by good overall performance from the insurance business, mutual funds, and brokerage. Reported results show a +34% increase for the year.

Recurring taxes had a +21% growth for the year, showing an effective tax rate of 26.2%. Reported taxes in the period grew +29% for the year, driven by the tax generated by the asset sale & leaseback transaction posted in November.

Regarding recurring net income for the year, they show growth rate of +27%. Reported net income totaled +34%. Recurring EPS for the year is Ps 10.51 and reported EPS is Ps 11.08.

- Performing loan portfolio

| | 2018 | 2017 | 2016 |
|--------------------|------------------|------------------|------------------|
| Commercial* | \$173,941 | \$137,501 | \$125,377 |
| Consumer* | 269,187 | 240,899 | 203,047 |
| Corporate | 136,639 | 102,220 | 103,491 |
| Government | 197,373 | 134,905 | 134,798 |
| Subtotal | \$777,140 | \$615,525 | \$566,713 |
| Recovery Bank | 52 | 72 | 91 |
| Total | \$777,192 | \$615,598 | \$566,805 |
| Past due loans | 13,263 | 12,482 | 10,312 |
| % NPL Ratio | 1.68% | 1.99% | 1.79% |

Million pesos.

| | 2018 | 2017 | 2016 |
|-----------------------|------------------|------------------|------------------|
| Mortgage | \$155,748 | \$135,334 | \$114,718 |
| Car Loans | 24,131 | 19,189 | 15,047 |
| Credit Cards* | 36,657 | 33,906 | 28,445 |
| Payroll | 52,653 | 52,469 | 44,838 |
| Consumer Loans | \$269,189 | \$240,899 | \$203,047 |

Million pesos.

* As of 1Q16, "Tarjeta Empuje Negocios" was reclassified to the SME segment from the Credit Card segment with a performing balance of Ps 995 million

- **Total Performing Loans**

For **the full year**, total performing loans **grew +26%**, driven by a **+46% growth** in **government loans** as a result of the incorporation of GFI's portfolio (government loans account for 25% of the total loan book), followed by a significant **+34%** increase in **corporate** loans, and a **+27%** in the **commercial** portfolio.

Consumer loans shows a **+12%** growth rate, above that of the system's and main peers'. Growth in **auto loans** is noteworthy, showing a **+26%** increase, followed by **mortgages +15%**, and credit cards +8%, thus keeping Banorte in 3rd place among the top players.

- ✓ **Mortgages.** Banorte shows annual growth rates considerably above market rates, (+15.6% compared to +9.9%), and a market share of 19.5% consolidating its **second place within the banking system**.
 - ✓ **Auto Loans.** Solid annual growth driven by loan origination through exclusivity agreements with auto dealerships. Banorte holds a 17.7% market share, gaining +182bps in the year, thus **leading loan growth among the main banking players**.
 - ✓ **Credit Cards.** Moderate +8% origination growth in order to preserve asset quality, but **led growth among top players**, ranking 4th in the market.
 - ✓ **Payroll Loans.** Shows a decline as a result of a more moderate loan origination strategy aimed at preserving asset quality. Banorte holds a 21.2% market share, and **ranks third in the market**.
 - ✓ **Commercial.** Shows a +7% expansion in the quarter, and +27% annual growth. Market share (including corporate loans, according to the regulator's methodology), stood at 11.1%, ranking fourth in the banking system.
 - ✓ GFNorte's **SME** performing shows a slight **+Ps 102 million increase** vs. the previous period, and a **+1% increase** vs. the previous year. NPL ratio totaled 5.5%, showing an improvement vs. 6.0% during the previous quarter.
 - ✓ **Corporate Loans.** The portfolio reached an ending balance of **Ps 136.64 billion** representing a +7% sequential and +34% annual increase, showing good credit demand in this segment. GFNorte's corporate loan book is well diversified by industry and regions, and showed low concentration risk. Its 20 main corporate borrowers accounted for 23.8% of the group's total portfolio. The group's largest corporate exposure represented 3% of the total portfolio; whereas number 20 represented 0.6% of it. 75% of GFNorte's main corporate borrowers have an A1 rating, 5% are A2, 10% are B1, 5% are B2 and the rest have B3 rating.
- As of December 31, 2018 GFNorte's loan exposure to home builders was Ps 1.94 billion** among Urbi Desarrollos Urbanos, S.A.B. de C.V., Corporación Geo, S.A.B. de C.V., and Desarrolladora Homex, S.A.B. de C.V., (0.4%) lower than the previous quarter. This exposure represented 0.2% of the total loan portfolio, lower than the previous quarter. Total portfolio was 100% guaranteed, without changes vs. the previous quarter. For Corporación GEO and Desarrolladora Homex, loan exposure is fully guaranteed. Loan Loss Reserve coverage for these companies was 37.9% as of 4Q18. Solida held a balance of Ps 2.68 billion in investment projects from these companies, (52%) lower vs. 3Q18 related to a change in the accounting methodology to value these assets. The valuation loss was registered in Retained Earnings.
- ✓ **Government Book.** Loan book is slightly down vs. the previous quarter, with a total balance of **Ps 197.37 billion**. Annual portfolio growth is attributed to the incorporation of GFI's portfolio. GFNorte's government portfolio is diversified by regions, and shows adequate concentration risk given that 29.3% of the loans are granted to Federal Government entities. 82.3% of loans to states and municipalities are backed by a fiduciary guarantee, (consisting of Federal budget transfers and local revenues such as payroll tax), while short term loans (with no guarantee) account for 17.7% of the

portfolio. As a result, as of November 2018, market share was of 34.2%, **ranking first in the system.**

- ✓ **Infrastructure:** As a result of the merger, the group incorporated a portfolio of infrastructure loans as follows:

- **Past Due Loans**

At the end of the period, **Past Due Loans showed a +6%** increase explained by deterioration in corporate, mortgage and commercial loans. Further detail by product is presented below:

The evolution of NPL balances were as follows:

| | 2018 | 2017 | Var. 2017 |
|--------------|------------------|------------------|---------------|
| Credit Card | \$ 2,151 | \$ 2,188 | -\$ 36 |
| Payroll | 1,995 | 2,020 | (24) |
| Car Loans | 261 | 233 | 28 |
| Mortgage | 1,464 | 1,323 | 141 |
| Commercial | 3,300 | 3,239 | 61 |
| Corporate | 4,087 | 3,481 | 606 |
| Government | 4 | - | 4 |
| Total | \$ 13,262 | \$ 12,482 | \$ 780 |

Million pesos.

NPL ratio stood at **1.7%**, **for the year** represent **an overall improvement across most products.** Credit Card and Payroll portfolios show a significant improvement as a result of diligent loan origination supported by analytics tools and adequate risk management.

PDL Ratios by segment showed the following trends during the last 12 months.

| | 2018 | 2017 | 2016 |
|-------------------|-------------|-------------|-------------|
| Credit Card | 5.5% | 6.1% | 5.4% |
| Payroll | 3.7% | 3.7% | 3.1% |
| Car Loans | 1.1% | 1.2% | 1.2% |
| Mortgage | 0.9% | 1.0% | 0.9% |
| Commercial | 1.9% | 2.3% | 2.7% |
| <i>SME</i> | 5.5% | 5.3% | 6.3% |
| <i>Commercial</i> | 0.9% | 1.3% | 1.4% |
| Corporate | 2.9% | 3.3% | 2.4% |
| Government | 0.0% | 0.0% | 0.0% |
| Total | 1.7% | 2.0% | 1.8% |

- **Deposits**

| | 2018 | 2017 | 2016 |
|---|------------------|------------------|------------------|
| Non-Interest Bearing Demand Deposits | \$303,340 | \$239,227 | \$231,395 |
| Interest Bearing Demand Deposits | 110,670 | 157,425 | 152,367 |
| Total Demand Deposits | \$414,010 | \$396,652 | \$383,761 |
| Time Deposits – Retail | 222,748 | 193,617 | 167,652 |
| Money Market | 122,477 | 58,352 | 24,342 |
| Total Bank Deposits ¹⁾ | \$759,235 | \$648,622 | \$575,755 |
| GFNorte's Total Deposits ²⁾ | \$756,301 | \$640,821 | \$574,560 |
| Third Party Deposits | 150,850 | 157,748 | 148,407 |
| Total Assets Under Management | \$910,085 | \$806,370 | \$724,163 |

Million pesos.

Banorte's total deposits increased +8% during the year. The annual comparison the **demand deposits** had a slight **+1%** growth, together with an increase in demand deposits which had a higher cost. On the annual comparison, time deposits, as well as interest-bearing demand deposits show a significant increase as a consequence of a strong strategy towards increasing average account balances and client loyalty.

Trading desk operations show a **+110%** growth annually, in line with the strategy to fund the acquired assets at lower costs. Overall, **total bank deposits grew+17%**.

2. Consolidated Bank

Consolidated Bank in 2016 considers Banco Mercantil del Norte, Banorte-Ixe Tarjetas, Banorte USA and Afore XXI Banorte according to its 50% ownership; whereas, in 2016 considers Banco Mercantil del Norte –merging entity of Banorte-Ixe Tarjetas since May- and Banorte USA –deconsolidated and reported in Discontinued Operations as of 4Q16- and excludes Afore XXI Banorte as it is reported within Long Term Savings since 4Q16.

Recurring net income totaled **Ps 23.16 billion**, a **+26%** increase vs. 2017. Reported net income grew **+35%**, on good operating performance, and the extraordinary net income from the asset sale & leaseback transaction for Ps 1.67 billion. Regarding profitability, there is a significant improvement with recurring ROE totaling **24.1%** and **ROA 2.1%**.

According to the percentage of participation of GFNorte, **the recurring profit of Banco Consolidado in 2018** amounted to Ps. 23.15 billion, an annual increase of 26%, representing 75% of the Group results.

Consolidated Income Statement

| | 2018 | 2017 | 2016 |
|---|-----------------|-----------------|-----------------|
| Interest income | \$117,979 | \$95,710 | \$69,407 |
| Interest expense | (53,466) | (40,062) | (23,244) |
| NET INTEREST INCOME (NII) | \$64,513 | \$55,648 | \$46,163 |
| Loan Loss Provisions | (15,635) | (14,983) | (13,070) |
| NET INTEREST INCOME ADJUSTED FOR CREDIT RISK | \$48,878 | \$40,665 | \$33,093 |
| Fees Charged | 21,379 | 18,436 | 15,764 |
| Fees Paid | (7,849) | (6,142) | (4,498) |
| Trading Income | 3,799 | 2,101 | 1,839 |
| Other Operating Income | 2,869 | 2,365 | 2,078 |
| Non-Interest Income | \$20,198 | \$16,760 | \$15,183 |
| Administration and promotional expenses | (35,079) | (31,750) | (29,155) |
| OPERATING INCOME | \$33,997 | \$25,675 | \$19,121 |
| Subsidiaries' Net Income | 161 | 62 | 1,043 |
| PRE-TAX INCOME | \$34,158 | \$25,737 | \$20,164 |
| Income Tax | (8,565) | (6,781) | (5,479) |
| Deferred Income Tax (Net) | (759) | (706) | (116) |
| Taxes | (9,324) | (7,487) | (5,363) |
| INCOME BEFORE DISCONTINUED OPERATIONS | \$24,834 | \$18,250 | \$14,801 |
| Discontinued operations | - | 89 | 243 |
| INCOME FROM CONTINUOUS OPERATIONS | \$24,834 | \$18,339 | \$15,044 |

Million pesos.

The following is a breakdown of the most important items of the income statement:

- **Net Interest Income**

| | 2018 | 2017 | 2016 |
|---|-----------------|-----------------|-----------------|
| Interest Income | \$116,698 | \$94,541 | \$68,208 |
| Interest Expense | 52,422 | 39,375 | 22,759 |
| Fees Charged | 1,282 | 1,169 | 1,199 |
| Fees Paid | 1,044 | 687 | 485 |
| Net Interest Income | \$64,514 | \$55,648 | \$46,163 |
| Credit Provisions | 15,635 | 14,983 | 13,070 |
| Net Interest Income Adjusted for Credit Risk | \$48,879 | \$40,665 | \$33,093 |
| Average Earnings Assets | \$1,025,487 | \$954,973 | \$905,035 |
| NIM¹⁾ | 6.29% | 5.83% | 5.10% |
| NIM adjusted for Credit Risk²⁾ | 4.77% | 4.26% | 3.66% |

Million pesos.

1. NIM (Net Interest Margin) = Annualized Net Interest Income / Average Earnings Assets.

2. Annualized Net Interest Income adjusted for Credit Risk / Average Earnings Assets.

Net Interest Income grew +16%, on good credit origination and funding results.

- **Provisions**

Loan Loss Provisions grew +21% due to two events which took place in previous quarters, as well as by growth in the commercial and corporate loan books (except for government and municipal loan portfolios). Within the consumer portfolio, mortgages and auto loans registered the highest growth. **Risk adjusted NIM** totaled **4.8%**, a +4.5% increase vs. the previous year.

- **Non-Interest Income**

| | 2018 | 2017 | 2016 |
|----------------------------------|-----------------|-----------------|-----------------|
| Services | \$13,529 | \$12,294 | \$11,266 |
| Trading | 3,799 | 2,101 | 1,839 |
| Other Operating Income (Expense) | 2,869 | 2,365 | 2,078 |
| Non-Interest Income | \$20,197 | \$16,760 | \$15,183 |

Million pesos.

Recurring non-interest income was up **+23%** following a +12% increase in net fees, and an +81% increase in trading income. Reported non-interest income grew +40%, as a result of the asset sale & leaseback transaction during 4Q18, which explains the **+21% increase in total income**. **Accumulated NIM for 2018 totaled 6.3%**, a strong increase vs. the 5.8% result in the previous year.

- **Non-Interest Expense**

| | 2018 | 2017 | 2016 |
|---|-----------------|-----------------|-----------------|
| Personnel | \$14,312 | \$12,808 | \$12,290 |
| Professional Fees | 2,718 | 2,456 | 1,845 |
| Administrative and promotional expenses | 7,342 | 7,206 | 6,753 |
| Rents, depreciations and amortizations | 5,319 | 4,716 | 4,400 |
| Other Taxes and Non-deductible Expenses | 1,795 | 1,547 | 1,159 |
| Contributions to IPAB | 3,149 | 2,634 | 2,325 |
| Employee Profit Sharing (PTU) | 445 | 383 | 383 |
| Non-Interest Expense | \$35,080 | \$31,750 | \$29,155 |

Million pesos.

Non-financial expense rose 11% during the year, showing an adequate operating expenses control, which translates into an improvement in the **efficiency ratio** which totaled **42.6%**, down from 45% in 2017.

- **Performing Loan Portfolio**

| | 2018 | 2017 | 2016 |
|-------------------------------|------------------|------------------|------------------|
| Commercial * | 158,938 | 125,322 | 113,936 |
| Consumer* | 266,983 | 237,328 | 201,348 |
| Corporate | 138,128 | 107,983 | 108,057 |
| Government | 192,234 | 132,816 | 133,540 |
| Subtotal | \$756,284 | \$603,450 | \$556,880 |
| Recovery Bank | 52 | 72 | 91 |
| Total performing loans | \$756,335 | \$603,522 | \$556,972 |
| Past due loans | 12,839 | 12,192 | 10,060 |
| % NPL Ratio | \$769,174 | \$615,714 | \$567,032 |

Million Pesos.

| | 2018 | 2017 | 2016 |
|-----------------------|------------------|------------------|------------------|
| Mortgage | 155,748 | 135,334 | 114,718 |
| Car Loans | 24,125 | 19,187 | 15,042 |
| Credit Cards * | 36,657 | 33,906 | 28,445 |
| Payroll | 50,454 | 48,901 | 43,143 |
| Consumer loans | \$266,983 | \$237,328 | \$201,348 |

Million Pesos.

For **the full year**, total performing loans **grew +25%**, driven by a **+45% growth** in **government loans** as a result of the incorporation of GFI's portfolio (government loans account for 25% of the total loan book), followed by a significant **+34%** increase in **corporate** loans, and a **+27%** in the **commercial** portfolio.

At the end of the period, **Past Due Loans showed a +6%** increase being 1.67% explained by deterioration in corporate.

- **Deposits**

| | 2018 | 2017 | 2016 |
|--------------------------------------|------------------|------------------|------------------|
| Non-Interest Bearing Demand Deposits | \$303,340 | \$239,227 | \$231,394 |
| Interest Bearing Demand Deposits | 110,670 | 157,425 | 152,367 |
| Total Demand Deposits | \$414,010 | \$396,652 | \$383,761 |
| Time Deposits – Retail | 222,748 | 193,617 | 167,652 |
| Money Market | 122,477 | 58,352 | 24,342 |
| Total Bank Deposits | \$759,235 | \$648,622 | \$575,755 |

Million pesos.

Banorte's total deposits increased +8% during the year. The annual comparison the **demand deposits** had a slight **+1%** growth, together with an increase in demand deposits which had a higher cost. On the annual comparison, time deposits, as well as interest-bearing demand deposits show a significant increase as a consequence of a strong strategy towards increasing average account balances and client loyalty.

Trading desk operations show a **+110%** growth annually, in line with the strategy to fund the acquired assets at lower costs. Overall, **total bank deposits grew+17%**.

- **Capital**

Reported **shareholders' equity totaled Ps 108.40 billion, up +26%** vs. the previous year respectively.

During the year, shareholder's equity was impacted by the following transactions:

- i) a Ps 24.83 billion increase in Net Income.
- ii) a (Ps 1.99 billion) mark-to-market loss on securities held for sale during the quarter, resulting from asset price volatility during the period.
- iii) a Ps 224 million mark-to-market gain on cash flow hedging instruments.
- iv) (Ps 1.24 billion) from interest paid on capital notes during the year, posted under Retained Earnings.
- v) a Ps 343 million benefit resulting from calculations related to resolutions on defined employee benefits.

3. Brokerage

| | 2018 | 2017 | 2016 |
|-------------------------|---------|---------|---------|
| Net Income | \$1,198 | \$972 | \$832 |
| Stockholders' Equity | 3,884 | 3,060 | 2,753 |
| Total Assets | 214,073 | 121,833 | 81,175 |
| Assets Under Management | 878,033 | 824,291 | 757,423 |

Million pesos.

The Brokerage Sector (Casa de Bolsa Banorte and Operadora de Fondos Banorte) reported net income of Ps 1.20 billion, +23% higher due to +25% higher interest margins, +14% net fees, and +31% higher trading results.

Net income for the quarter represented 3.0% of the Financial Group's net income, while the accumulated result represented 3.7% of it.

Assets Under Management

At the end of 2018 AUMs totaled **Ps 878 billion**, growing +7% vs. YoY.

Mutual fund assets totaled Ps 179 billion, up + 12% during the year. Assets held in **fixed income funds** totaled **Ps 164 billion**, showing a +12% increase during the year; while equity funds held assets amounting to Ps 15 billion, up +8.2% during the year. Banorte held an 7.9% share of the mutual fund market during 2018, of which 9.9% came from fixed income funds and 2.4% from equity funds.

4. Long-Term Savings

On August 16, 2016, the National Insurance and Bonding Commission ("CNSF") authorized Seguros Banorte to directly invest in Banorte Futuro's equity, and to invest indirectly in the equity of Afore XXI's. Then, on August 26, the National Commission for the Retirement Savings System ("CONSAR") authorized Seguros Banorte to indirectly acquire a 50% stake in Afore XXI Banorte, as a result of its spin-off from Banco Mercantil del Norte. Additionally, the Tax Administration Service ("SAT") on October 12, 2016, authorized to transfer shares at fiscal cost from Banorte Futuro i) to Banorte Ahorro y Previsión, and ii) then to Seguros Banorte. These transactions became effective as of October 17, 2016. Therefore, as of that date, 50% of Afore's XXI Banorte profits are registered in the Subsidiaries' Net Income line.

The following figures correspond to what was reported in the Financial Statements of each company. The total sector figures are not consolidated figures. See note 28 of the Audited Financial Statements.

| | 2018 | 2017 | 2016 |
|---------------------------------|---------|---------|---------|
| Long-Term Savings Sector | | | |
| Net Income | \$6,787 | \$6,271 | \$5,727 |
| Stockholders' Equity | 26,941 | 25,996 | 22,513 |
| Total Assets | 174,655 | 139,625 | 119,283 |
| Seguros Banorte | | | |
| Net Income | \$4,690 | \$4,059 | \$2,902 |
| Stockholders' Equity | 23,096 | 22,967 | 20,364 |
| Total Assets | 51,478 | 49,292 | 41,593 |
| Afore XXI Banorte | | | |
| Net Income | \$2,558 | \$2,614 | \$2,541 |
| Stockholders' Equity | 24,541 | 24,333 | 24,008 |
| Total Assets | 26,437 | 26,056 | 25,336 |
| AUM ¹⁾ | 747,082 | 732,700 | 645,213 |
| Pensiones Banorte | | | |
| Net Income | \$818 | \$882 | \$561 |
| Stockholders' Equity | 3,845 | 3,030 | 2,150 |
| Total Assets | 123,177 | 90,333 | 77,690 |

Million pesos.

1. Source: CONSAR

- **Seguros Banorte**

Accumulated technical results reached **Ps 6.27 billion**, **+15%** annual growth. Such behavior is explained by a **+14%** annual increase in **Premium Income** due to good performance across life, damage and auto portfolios, as well as lower growth in claims (13%).

Acquisition Costs in 2018 increased 20% reaching **Ps 2.41 billion**.

Net Operating Income during for 2018 showed a solid **+24%** increase reaching **Ps 4.78 billion**

Accumulated net income for Seguros Banorte (including Afore XXI Banorte) was **Ps 4.69 billion**, a **+16%** increase.

Net Income for Seguros Banorte **excluding Afore XXI Banorte** totaled **Ps 3.43 billion**, representing 10.7% of the group's results.

ROE for the **Insurance** business reached **20.0%**, showing an improvement vs. the previous year. **ROE excluding the Afore** business totaled 41.1% for the year.

Regarding the disclosure requested by the General Provisions applicable to Financial Groups' holding companies, for this reporting period:

- i. Risks assumed through the issuance of insurance premiums and bonds, with respect to operations and authorized branches of cancelled operations.
 - *No cancellations were registered during 2018 that involved any technical risk.*
- ii. Damages and claims, as well as the fulfillment with reinsurers and bonding companies according to their participation.
 - *In 4Q18 damage ratios remained under control, and reinsurers complied with their obligations.*
- iii. Costs derived from placement of insurance policies and bonds.
 - *There were no relevant events to disclose in 2018*
- iv. Transfer of risks through reinsurance and bonding contracts
 - *In the Damages and Life, books, 4 important businesses were transferred to foreign reinsurers: 1 related to government, 1 related to retail business, 1 related to the manufacturing sector, and 1 to the services sector.*
- v. Contingencies arising from non-fulfillment by reinsurers and bonding companies.
 - *There were no relevant issues related to non-fulfillment during 2018.*

- **Afore XXI Banorte**

Afore XXI Banorte posted **net income of Ps 2.56 billion**, a small decline vs. the previous year associated with market effects, and to a lower degree to higher subscription and transfer costs.

ROE during 2018 reached **10.7%** there is a decline vs. 2017 due to lower net income. Excluding good will, **Return on Tangible Equity (ROTE)** totaled **23.9%**, showing a sharp (**160bps**) decline.

The Afore's net income contributed with 3.9% of the annual result.

Assets under management as of December 2018 totaled **Ps 747.08 billion**, a (**3%**) decline during the quarter, and a **+2%** increase during the year.

- **Pensiones Banorte**

Net income from Pensiones Banorte showed a (**7%**) decline derived from higher claims cost from pension payments from the portfolios acquired during the year, and from the acquisition costs of such portfolios. In addition to this, there was an increase in reserves requirements and update components.

Annually **net income** numbers represented 2.6% of the Financial Group's net income, respectively.

The accumulated variation in the investment portfolio's revenue is explained in the quarterly comparison by the inflation increase, and the decline in premiums collected during 2018; on an annual basis, it is explained by growth in the investment base, as well as by the inflation decline in the year-end results. The charge from UDI mark-to-market valuation accounts –registered under Interest Income and whose counter-account is the Technical Reserve Increase – during 2018 it totaled Ps 5.00 billion, which was higher than the Ps 4.52 billion during the previous year.

ROE for the quarter totaled **23.8%** for the year.

5. SOFOM and Other Finance Companies

The following figures correspond to what was reported in the Financial Statements of each company. The total sector figures are not consolidated figures. See note 28 of the Audited Financial Statements.

| | 2018 | 2017 | 2016 |
|--|---------|---------|---------|
| SOFOM and Other Finance Companies | | | |
| Net Income | \$80 | \$(158) | \$178 |
| Stockholders' Equity | 8,516 | 9,087 | 9,049 |
| Total Portfolio | 38,626 | 34,052 | 29,170 |
| Past Due Loans | 422 | 291 | 252 |
| Loan Loss Provisions | 580 | (572) | (442) |
| Total Assets | 47,023 | 46,915 | 43,483 |
| Leasing and Factoring | | | |
| Net Income | \$861 | \$771 | \$693 |
| Stockholders' Equity | 4,957 | 5,149 | 4,482 |
| Total Portfolio* | 35,917 | 29,841 | 27,402 |
| Past Due Loans | 321 | 154 | 180 |
| Loan Loss Provisions | 393 | 302 | (319) |
| Total Assets | 36,216 | 30,362 | 27,768 |
| Warehousing | | | |
| Net Income | \$17 | \$42 | \$28 |
| Stockholders' Equity | 243 | 226 | 184 |
| Inventories | 961 | 783 | 438 |
| Total Assets | 1,154 | 955 | 586 |
| Sólida Administradora de Portafolio ¹⁾ | | | |
| Net Income | (\$797) | (\$969) | (\$538) |
| Stockholders' Equity | 3,178 | 3,573 | 4,243 |
| Total Portfolio | 2,709 | 4,211 | 1,768 |
| Past Due Loans | 101 | 137 | 73 |
| Loan Loss Provisions | 187 | 270 | (123) |
| Total Assets | 9,515 | 15,459 | 14,988 |
| Ixe Servicios | | | |
| Utilidad neta | (\$1) | (\$1) | (\$5) |
| Capital contable | 138 | 139 | 141 |
| Activo total | 138 | 139 | 141 |

Million pesos.

1. Includes operating lease portfolio and fixed assets, registered in property, furniture and equipment (net).

- **Leasing and Factoring**

Net income for 2018 was **Ps 861** million, a **+12%** increase vs. the previous quarter, from +21% higher interest income from the leasing and factoring portfolio.

Past Due Loans Ratio was **1%**, and **Coverage ratio** totaled **122.4%**, below the annual comparison. The **Capitalization ratio** as of 2018 was 13.2% considering total risk-weighted assets of Ps 37.40 billion.

The leverage ratio as of 2018 was 12.49%; considering adjusted assets of Ps 39.59 billion.

Net Income from Leasing and Factoring accounted for 2.7% of the Group's total results.

- **Warehouse**

In 2018, the business posted profits of Ps 17 million; a **(59%)** decline vs. 2017 mainly driven by clients leaving the business and an increase in operating expenses. **ROE** for 2018 was **7.2%**, **-13.3pp** vs. 2017. Almacenadora Banorte's annual profits accounted for 0.10% of the Financial Group's profits in 2018.

At the end of the year, the **Capitalization Ratio** was **191%** considering net capital of Ps 200 million, and deposit certificates issued of Ps 2.1 billion. Almacenadora Banorte ranked fourth among the 14 warehousing businesses in this sector in terms of profits.

- **Sólida Administradora de Portafolios**

The business reported a loss amounted to **Ps 797 million**, due to lower income.

Past Due Loan Ratio was **3.7%** at the end of 2018, (5bps) below 2017. **Coverage ratio** was **184.8%**, (270 bps) lower vs. 2017.

Capitalization ratio at the end of the year reached **22.8%**, (6.9bps) YoY.

Leverage ratio as of December 2018 was **27.54%**, considering adjusted assets of Ps 8.95 billion.

During the period there was a Ps 2.80 billion balance reclassification related to a mark-to-market valuation decline in homebuilders' shares available for sale originally booked under Valuation Result of Securities Held for Sale and now booked under Prior Period Retained Earnings, as per CNBV authorization in document No. 320-1/15576/2018 dated October 3, 2018; this transaction has no effect on shareholders' equity balance.

Furthermore, during the period there was a **(Ps 4.33 billion)** loss posted to Prior Period Retained Earnings related to changes in the valuation methodology for investment projects and other assets. Since this is an accounting policy change, the initial effect of the implementation of the new methodology was posted against retained earnings based on NIF B-1 norm.

B) Financial situation, Liquidity and Capital resources**NET INCOME AND PROFITABILITY INDICES****GFNorte's Equity**

| | 2018 | 2017 | 2016 |
|---|------------------|------------------|------------------|
| Paid-in Capital | 14,962 | 14,591 | 14,574 |
| Premium of Subscribed & Issued Shares | 47,904 | 35,592 | 36,427 |
| Subscribed Capital | \$62,866 | \$50,183 | \$51,001 |
| Capital Reserves | 5,207 | 5,491 | 4,825 |
| Retained Earnings | 76,550 | 71,294 | 68,492 |
| Surplus (Deficit) from Valuation of Securities Available for Sale | (2,136) | (2,390) | (2,592) |
| Results from Valuation of Hedging Instruments | (3,369) | (3,588) | (2,089) |
| Results from Valuation of the reserve for unexpired risks on changes in rates | 28 | 96 | 87 |
| Results from Conversions | 1,751 | 1,684 | 2,084 |
| Remeasurements on defined benefits for employees | (576) | (926) | (370) |
| Net Income | 31,958 | 23,908 | 19,308 |
| Earned Capital | \$109,413 | \$95,569 | \$89,745 |
| Minority Interest | 2,185 | 1,832 | 1,955 |
| Total Shareholders' Equity | \$174,464 | \$147,584 | \$142,701 |

Million pesos.

Consolidated Bank's Equity (*)

| | 2018 | 2017 | 2016 |
|---|------------------|-----------------|-----------------|
| Paid-in Capital | 18,794 | 18,105 | 18,105 |
| Premium of Subscribed & Issued Shares | 1,184 | 648 | 72 |
| Subscribed Capital | \$19,978 | \$18,753 | \$18,177 |
| Capital Reserves | 14,847 | 13,013 | 11,509 |
| Retained Earnings | 53,133 | 38,959 | 50,215 |
| Surplus (Deficit) from Valuation of Securities Available for Sale | (1,994) | 4 | (1,645) |
| Results from Valuation of Hedging Instruments | (3,430) | (3,653) | (2,131) |
| Results from Conversions | 1,659 | 1,590 | 1,985 |
| Remeasurements on defined benefits for employees | (628) | (943) | (377) |
| Net Income | 24,834 | 18,339 | 15,044 |
| Earned Capital | \$88,421 | \$67,309 | \$74,600 |
| Minority Interest | 3 | - | 10 |
| Total Shareholders' Equity | \$108,402 | \$86,062 | \$92,787 |

Million pesos.

(*) Does not include the Afore.

Banco Mercantil del Norte's Capitalization Ratio*

See Note 30 of GFNorte's 2018 Audited Financial Statements

| | Dec-18 | Dec-17 | Dec-16 |
|---|------------------|------------------|------------------|
| Tier 1 Capital | 113,835 | 95,323 | 81,348 |
| Tier 2 Capital | 14,472 | 13,286 | 16,643 |
| Net Capital | \$128,307 | \$108,609 | \$97,991 |
| Credit Risk Assets | 627,479 | 507,721 | 477,880 |
| Market & Operational Risk Assets | 119,984 | 119,254 | 162,709 |
| Total Risk Assets ¹⁾ | \$747,464 | \$626,976 | \$640,590 |
| Net Capital / Credit Risk Assets | 20.46% | 21.39% | 20.51% |
| Capitalization Ratio | | | |
| Tier 1 | 15.23% | 15.20% | 12.70% |
| Tier 2 | 1.94% | 2.12% | 2.60% |
| Total Capitalization Ratio | 17.17% | 17.32% | 15.30% |

Million pesos.

Banorte has fully adopted the capitalization requirements established to date by Mexican authorities and international standards, so-called Basel III, which came into effect as of January 2013.

In July 2018, Banorte was confirmed as Level II - Domestic Systemically Important Financial Institution, which implies that Banorte must maintain a capital buffer of 0.90 bps, to be constituted progressively in up to four years, starting on December 2016. Therefore, starting on December 2017, the **minimum Capitalization Ratio required for Banorte amounts to 11.175%** (corresponding to the regulatory minimum of 10.5% plus the constituent capital supplement to date).

The Capitalization Ratio increased +1.94 pp in respect to 2016 due to the following:

| | |
|--|-----------|
| 1. Profit growth for 4Q18 | + 3.32 pp |
| 2. Other Capital effects* | + 0.11 pp |
| 3. Capital Notes | - 0.14 pp |
| 4. Interest paid on Tier 1 Capital Notes | - 0.16 pp |
| 5. Goodwill** | - 0.19 pp |
| 6. Permanent Investments and Intangibles | - 0.38 pp |
| 7. Securities' (mark-to-market) | - 0.33 pp |
| 8. Growth in Risk Assets | - 0.88 pp |
| 9. Merger Effect | - 1.51 pp |

* Including the mark-to-market valuation effect on Capital Notes

** Initial fair market value valuation of Assets & Liabilities related to the merger

At the end of 2018 the estimated Capitalization Ratio (CR) for Banorte was 17.17% considering credit, market and operational risk; and, 20.46% considering only credit risks. Moreover, Total Tier 1 Capital reached 12.71% as of 2018.

CASH FLOW STATEMENT

The cash flow statement reveals cash available to the institution at a certain point in time in order to meet its obligations with creditors. The structure of the cash flow statement provides details of the cash generated by the operation, and uses of resources for net financing and the investment program. As of December 2018, available cash amounted to Ps 75.64 billion, (.83%) lower than the Ps 76.27 billion registered in December 2017.

GFNorte's Cash Flow Statement

| | 2018 | 2017 |
|--|-----------------|-----------------|
| Net income | \$31,958 | \$23,908 |
| Items not requiring (generating) resources: | | |
| Depreciation and amortization | 2,217 | 1,688 |
| Technical reserves | 13,508 | 12,645 |
| Provisions | 2,314 | (260) |
| Current and deferred income tax | 11,636 | 9,048 |
| Discontinued Operations | - | 89 |
| Subsidiaries' Net Income | (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 repo debtors | (343) | (679) |
| Changes in derivatives (assets) | (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) | 5 |
| Changes in debtor premiums, net | 209 | 214 |
| Changes in reinsurance (net) (asset) | 45 | (1,550) |
| Changes in receivables generated by securitizations | 80 | 15 |
| 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 (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 from Discontinued Operations | - | (8,069) |
| Income tax | (11,774) | (184) |
| Net cash generated or used from operations | (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) |
| Charges on acquisitions of Subsidiaries and associated companies | - | 3,195 |
| Payment on acquisitions of Subsidiaries and associated companies | (1) | - |
| Assets from Discontinued Operations | 1,255 | 2,364 |
| Charges for cash Dividends | 15,254 | - |
| Net cash flows from investment activity | 15,556 | 1,521 |
| FINANCING ACTIVITIES: | | |
| Dividends paid | (9,563) | (14,645) |
| Repurchase of shares | (855) | (1,181) |
| Interest payments on subordinated obligations | (1,225) | (301) |
| Net financing activity cash flows | (11,643) | (16,127) |
| Net (decrease) increase in cash and cash equivalents | (631) | 10,410 |
| Effects from changes in the value of cash and cash equivalents | (1) | (27) |
| Cash and cash equivalents at the beginning of the year | 76,269 | 65,886 |
| Cash and cash equivalents at the end of the year | \$75,637 | \$76,269 |

Million pesos.

DIVIDENDS

GFNorte's Ordinary General Shareholders' Meeting held on November 19th, 2015, approved to modify the Dividend Policy, which was effective since October 2011.

As of November 2015, the Policy establishes that the dividend payment can be between 16% and up to 40% of the net income of the prior year.

- For reference, the former Policy which decreed dividends established a payment between 16% and 20% of the recurring net income depending on its annual growth.

POLICIES GOVERNING TREASURY ACTIVITIES OF THE BANK

Regulatory Framework

All operations carried out by the Treasury will be executed in strict accordance with regulations established by Banking Institution regulatory authorities, such as the Central Bank (BANXICO), the National Banking and Securities Commission (CNBV), the Ministry of Finance and Public Credit (SHCP), as well as those set forth in the Law of Credit Institutions.

Moreover, the Treasury is subject to the policies regarding the management of liquidity, market and counterparty credit risks established by the Risk Policy Committee and which are set according to limits established annually to the following operation parameters:

Market Risk:

- VaR (Value at Risk).
- DV01 (sensitivity by security, term and currency).

Liquidity Risk:

- LCR (Liquidity Coverage Ratio)
- ACLME (Regime of liabilities admission and investment in foreign currency and regime of FX risk position).
- NSFR (Net Stable Funding Ratio)
- Survival horizon.

Credit Risk:

- Lines with Counterparties.

Capital Management:

- Tier 1, Core Tier 1 and Net Capital (these are monitoring thresholds, the Treasury will set mechanisms to the extent that the Bank or any of its subsidiaries approaches the limits established by the CPR).

Treasury Management

In order to maintain a prudent strategy for the management of assets and liabilities through stable funding sources, constitute and maintain liquid assets at optimum levels, the Treasury applies the following limits:

1. Diversification of funding sources in national and international markets.
2. Structure liabilities in such a way as to avoid the accumulation of maturities that significantly influence the administration and control of the Treasury's resources.
3. Ensure liquidity by tapping mid and long-term liabilities.
4. Manage and maintain liquid assets to total assets considering its effects on profitability and liquidity needs.

5. Determine and propose to the General Management the Transfer Costs Policy according to the current business plan.

Treasury's Funding sources

Sources of financing for the International Treasury must be classified in a monthly report indicating the sources of available resources, their use and concentration:

1. Public:
 - Demand Deposits
 - Retail Deposits
2. Market:
 - Commercial paper.
 - Cross Currency Swaps
 - Syndicated Loans.
 - Securitizations
 - Deposit Certificate.
 - Issuance Schedule
3. National Banks and Development Funds:
 - National Banks.
 - Funds.
4. Correspondent Banks:
 - Foreign Banks
5. Available credit lines: (not available)
 - Commercial paper.
 - Correspondent banks.

Through diverse Long Term Financing Programs, proposals will be studied, analyzed and implemented, in order to consolidate an adequate debt profile.

The Treasury, in coordination with the Head of Risk Management, will monitor the results of its daily calculations of liquidity coefficients established by the CPR and authorities.

PAID AND DEFERRED TAX

| Concept | As of December 31, 2018 |
|------------------------|--------------------------------|
| Income Tax (ISR) | 10,768 |
| Profit Sharing (PTU) | 445 |
| Updated caused taxes | 0 |
| Deferred ISR & PTU | 895 |
| Updated deferred taxes | 0 |
| Total | \$12,108 |

Million pesos.

| Temporary Asset Differences | ISR | PTU | Net |
|--|-----------------|------------|-----------------|
| Allowance for loan losses | 619 | 0 | 619 |
| Fiscal losses | 1,182 | 0 | 1,182 |
| Surplus of loan loss provisions over the net fiscal limit | 5,479 | 0 | 5,479 |
| Financial Instruments' valuation effects | 1,161 | 0 | 1,161 |
| Excess of tax over book value of foreclosed and fixed assets | 1,258 | 0 | 1,258 |
| PTU | 141 | 0 | 141 |
| Fees collected in advance | 1,117 | 0 | 1,117 |
| Accounting provisions | 1,369 | 0 | 1,369 |
| Other items | 18 | 0 | 18 |
| Total Assets | \$12,344 | \$0 | \$12,344 |

| Temporary Liability Differences | ISR | PTU | Net |
|---|------------------|------------|------------------|
| Portfolios acquired | (413) | 0 | (413) |
| Capitalizable projects' expenses | (4,583) | 0 | (4,583) |
| Valuation of Financial Instruments | (2,234) | 0 | (2,234) |
| Anticipated contributions to the pension fund | (225) | 0 | (225) |
| Intangible Assets | (387) | 0 | (387) |
| Other liabilities | (178) | 0 | (178) |
| Total liabilities | (\$8,026) | \$0 | (\$8,026) |

| Assets (Liabilities) Accumulated Net | \$4,318 | \$0 | \$4,318 |
|---|----------------|------------|----------------|
|---|----------------|------------|----------------|

Million pesos.

GFNorte recognizes the effect of deferred taxes determined under the assets and liabilities method, in accordance with NIF D-4 "Income Tax", through a comparison of their accounting and fiscal values. Temporary differences arise from this comparison to which the corresponding tax rate was applied.

On the other hand, employee profit sharing (PTU) is determined using the guidelines established by the *Constitución Política de los Estados Unidos Mexicanos*, so deferred taxes are not generated.

The net effect of all the aforementioned operations are shown in the Balance Sheet under assets entitled "Deferred Taxes".

The deferred taxes for each subsidiary as of December 31, 2018 are as follows:

| Deferred Taxes | As of December 31, 2018 |
|---|--------------------------------|
| Banco Mercantil del Norte S.A. | 4,839 |
| Grupo Financiero Banorte S.A.B. de C.V. | (56) |
| Arrendadora y Factor Banorte S.A. de C.V. | (2) |
| Banorte Ahorro y Previsión S.A. de C.V. | (1,450) |
| Casa de Bolsa Banorte Ixe, S. A. de C. V. | (23) |
| Almacenadora Banorte S.A. de C.V. | 5 |
| Sólida Administradora de Portafolios S.A. de C.V. | 1,005 |
| Total | \$4,318 |

Million pesos.

TAX CREDITS OR DEBTS

The tax credits listed below are currently in litigation:

| | As of December 31, 2018 |
|--|--------------------------------|
| UNITELLER | \$8 |
| Philippines 2007 - 2008 | 8 |
| AFORE XXI BANORTE | \$2 |
| Loan # 4429309391 Payroll Tax of the state of Coahuila | 2 |
| PENSIONES BANORTE | \$172 |
| Financial year 2014 | 172 |

Million pesos

C) Internal Control

The companies comprising GFNorte have an Internal Control System (SCI) structured according to the guidelines set forth by their Board of Directors, which establishes a general internal control framework, as well as the environment in which it must operate in order to provide reasonable security regarding the effective and efficient performance of operations, reliability of financial statements and compliance of regulation and legal framework.

The SCI's mission is to help running an adequate internal control in the operations and in data generating and recording. The system is made up of various elements:

- A. The Board of Directors with the support of the Advisory Board, Risk Policies Committee (CPR), Audit and Corporate Practices Committee (CAPS) and Human Resources Committee.
- B. GFNorte's CEO and the departments which support him: Risk Management Unit (RMU), Legal Department and the Comptroller, responsible for ensuring that adequate control levels, operational risks and compliance with regulation are maintained.
- C. Internal Audit, External Audit and the Commissary (The Commissary applies only to GFNorte subsidiaries) as additional support structures to check how the Internal Control System functions and provide reasonable assurance regarding the reliability of the generated data. The Internal Audit Department reports to the Audit and Corporate Practices Committee (CAPS) and maintains full independence from the administrative areas.
- D. The Executive Group as main responsible persons for SCI assurance according to the functions and responsibilities assigned to them. In addition to promoting the enforcement of the regulations established for the Institution and the strategies set forth by the GFNorte's CEO.
- E. Documents that establish the general control criteria that should be followed in the operation and reporting of transactions; in optimizing human, material and technological resources; in the use, security, timeliness and reliability of the information; and in the due compliance with the external and internal regulations. Within these documents, the Code of Conduct stands out as it regulates the behavior that each Board member, officer or employee of the Group should maintain while performing their activities.
- F. Policy and procedure manuals that regulate documentation, recording and liquidation of operations that the Institution carries out and establish the control points that should be observed, assuring the separation of functions, clear assigning of responsibilities, safekeeping of information and prevention of unlawful acts.

During 2018, activities related to strengthening control, risk evaluation and management, establishment and monitoring of controls, and assurance of quality information continued to be developed; highlighting the following:

- A. The various Corporate Governance Committees have had the required financial, economic, accounting and/or legal information for proper decision-making.
- B. Corporate Governance documents related with Internal Audit were revised and updated, and were presented by the Audit and Corporate Practices Committee to the Board of Directors for final approval.
- C. Throughout the merger with Interacciones, several cross-functional teams were concluded to ensure an adequate operating, technological, legal and accounting process integration. The internal control tracking and monitoring models of Banorte are applied to the new business incorporated.
- D. The policies and procedures manuals have been updated as per changes in external regulations, new products, and changes in the Institution's processes or improvements to internal controls.
- E. The requests from different internal areas regarding internal control matters were addressed, both in support of the development of new institutional projects, as well as those that derive from regulatory changes. GFNORTE's business and operating support processes are constantly monitored through the Business Process and Management Comptrollers. They issue periodic compliance reports and identify areas of opportunity so that they can be remediated in a timely manner.
- F. GFNORTE's business and operating support processes are constantly monitored through the Business Process and Management Comptrollers. They issue periodic compliance reports and identify areas of opportunity so that they can be remediated in a timely manner.

- G. According to the work plan established at the beginning of the year, there was progress in several activities related to internal accounting control.
- H. Effectiveness tests related to the Business Continuity Plan were executed
- I. There has been continuous follow-up of the improvement actions regarding the observations made by the different members of the SCI.
- J. The Supervisory Authorities' requirements have been addressed and the information required by the external regulations has been submitted. Regular inspection visits were carried out.

II. Main Transactions and Intragroup Exposure

OPERATIONS WITH RELATED PARTIES AND CONFLICTS OF INTEREST

At Banco Mercantil del Norte, GFNorte's main subsidiary, loans to related individuals and companies do not exceed the 35% limit of tier 1 capital for December 2018, 2017 and 2016.

| | Banorte | | |
|---|----------|----------|---------|
| | Dec-18 | Dec-17 | Dec-16 |
| Portfolio Art. 73 | \$17,133 | \$19,410 | \$9,792 |
| Portfolio Art. 73 / Tier 1 Capital | 15.7% | 19.8% | 11.8% |
| Portfolio Art. 73 / Limit established of tier 1 Capital | 44.9% | 56.6% | 33.7% |

As of **December 31, 2018**, total loans granted to related parties, under Article 73 of the Law of Credit Institutions, was Ps 17.13 billion (including Ps 6.71 billion in — Letters of Credit “CC”, which are registered in memorandum accounts), representing 2.2% of Banorte's total loan portfolio (excluding the balance of CC). Of the total related loans balance, Ps 14.28 billion were loans granted to clients linked to members of the Board of Directors; Ps 1.64 billion were granted to clients linked to shareholders and Ps 1.21 billion were linked to companies related to GFNorte.

In accordance with Article 73 of the Law for Credit Institutions, the balance of GFNorte's loan portfolio for individuals and corporations at the end of June 2018 was 15.7% of the basic part of the equity.

Related party loans have been granted under market conditions and rated in accordance with the policies, procedures and rating systems applicable to the rest of GFNorte's loan portfolio based on the general dispositions applicable to credit institutions with regard to rating of loan portfolios issued by CNBV. 95% of the related party loans are rated in Category "A", and the majority of these loans were classified as commercial loans.

As of **December 31, 2017**, total loans granted to related parties, under Article 73 of the Law of Credit Institutions, was Ps 19.410 billion (including Ps 5 billion in — Letters of Credit “CC”, which are registered in memorandum accounts), representing 3.2% of Banorte's total loan portfolio (excluding the balance of CC). Of the total related loans balance, Ps 16.769 billion were loans granted to clients linked to members of the Board of Directors; Ps 1.561 billion were granted to clients linked to shareholders and Ps 1.12 billion were linked to companies related to GFNorte.

In accordance with Article 73 of the Law for Credit Institutions, the balance of GFNorte's loan portfolio for individuals and corporations at the end of December 2017 was 19.8% of the basic part of the equity.

Related party loans have been granted under market conditions and rated in accordance with the policies, procedures and rating systems applicable to the rest of GFNorte's loan portfolio based on the general dispositions applicable to credit institutions with regard to rating of loan portfolios issued by CNBV. 97% of the related party loans are rated in Category "A", and the majority of these loans were classified as commercial loans.

III. Board of Directors

The Board of Directors of Grupo Financiero Banorte, S.A.B. de C.V. is made up of 14 Proprietary Members, and when appropriate their respective Alternates, of which 10 are independent. Alternate Members can only replace their respective proprietary members in the event of a temporary vacancy, with the understanding that Alternates of Independent Board Members have the same capacity.

Frequency of sessions: The Board meets every quarter and under extraordinary circumstances at the request of the Board's Chairman, 25% of Proprietary Members, or the Chairmans of the Audit and Corporate Practices' Committees.

Quorum: 51% of the Board Members which should always include at least one independent member.

- All proprietary members of the Board have voice and vote in the meetings.
- In the absence of a proprietary member, the alternate is entitled to vote and his/her presence is considered part of the required quorum.
- When a proprietary member is present, the alternate is not entitled to vote and his/her presence is not considered part of the required quorum.
- Decisions are made by the majority of votes of those present.

The Board of Directors was approved during the Annual General Shareholders' Meeting held on April 27, 2018. It is comprised by the following members:

| NAME | POSITION | WITH THE COMPANY SINCE | PROFESSIONAL BACKGROUND |
|----------------------------------|--|------------------------|--|
| Carlos Hank Gonzalez | Chairman of the Board of Directors Proprietary Member | October 2014 | <ul style="list-style-type: none"> • He was Vice President of Gruma's Board of Directors. • He was CEO of Grupo Financiero Interacciones, Interacciones Casa de Bolsa and Grupo Hermes. • He was Deputy Managing Director of Grupo Financiero Banorte. • He holds a Bachelor's Degree in Business Management from Universidad Iberoamericana. |
| Juan Antonio Gonzalez Moreno | Proprietary Member | April 2004 | <ul style="list-style-type: none"> • He is Chairman of the Board and CEO of Gruma and Gimsa. • He has been Managing Director of Gruma Asia and Oceania, Senior Vice Chairman of Special Projects of Gruma Corporation, Chairman of the Board and CEO of CarAmigo, Vice President of Central and East Regions of MissionFoods, Chairman and Vice President of sales of Azteca Milling. • He graduated in Business Management from Universidad Regiomontana and holds an MBA from San Diego University. |
| David Juan Villarreal Montemayor | Proprietary Member | October 1993 | <ul style="list-style-type: none"> • CEO and major shareholder of Artefactos Laminados, S. A. de C.V. • He is Chairman of the Board of Directors and Deputy CEO of Inmobiliaria Montevi, S.A. de C.V. and Inmobiliaria Monyor S.A. de C.V. • He is a regional Advisor of Banco Nacional de Mexico, S.A. (Banamex) and Financial Advisor and Business Developer for SISMEX, Sistemas Mexicanos S.A. de C.V. • He is a Mechanical and Electrical Engineer from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM), holds a Master's Degree in Science in Automatic Control from the same institution and participated in the Advanced Management program from Instituto Panamericano de Alta Direccion (IPADE). |
| Jose Marcos Ramirez Miguel | Proprietary Member | July 2011 | <ul style="list-style-type: none"> • CEO of Grupo Financiero Banorte, Banco Mercantil del Norte and Casa de Bolsa Banorte Ixe. • He held positions as Managing Director of Wholesale Banking |

| NAME | POSITION | WITH THE COMPANY SINCE | PROFESSIONAL BACKGROUND |
|-------------------------------------|--------------------------------|------------------------|---|
| | | | <p>and Chief Corporate Officer at Grupo Financiero Banorte.</p> <ul style="list-style-type: none"> • He was appointed Chairman of Asociacion Mexicana de Intermediarios Bursatiles. He also worked at Nacional Financiera, S.N.C., Banque Nationale de Paris and Banque Indosuez Mexico. Founded Finventia and served as interdisciplinary consultant at Peat Marwick Mexico. • He was CFO, Managing Director of Wholesale Banking, Managing Director of Santander Brokerage and Executive Vice President of Grupo Financiero Santander. • He holds a Bachelor's Degree in Actuarial Science from Universidad Anahuac, a Post-graduate Degree in Finance from Instituto Tecnológico Autónomo de México (ITAM) and an MBA from E.S.A.D.E. in Barcelona, Spain. |
| Everardo Elizondo Almaguer | Proprietary Independent Member | April 2010 | <ul style="list-style-type: none"> • Founder and Director of the Graduate School of the Faculty of Economics, University of Nuevo Leon. He is Professor of International Finance at EGADE, Business School, ITESM. • He was Director of Economic Studies of Grupo Industrial Alfa (Alfa Group). • He founded Consulting Agency Index, Economía Aplicada S.A. • He was Deputy Governor of the Bank of Mexico. • He graduated in Economics from the University of Nuevo Leon and holds a Master's Degree and Ph.D. in Economics, both from the University of Wisconsin-Madison.. |
| Carmen Patricia Armendariz Guerra | Proprietary Independent Member | April 2009 | <ul style="list-style-type: none"> • She is Managing Director at Financiera Sustentable, Associated Director of the Bank for International Settlements and Partner - Director and Founder of Valores Financieros. • She was advisor to GFNorte's Chairman Emeritus, Roberto Gonzalez Barrera, and Director of Special Projects at the same Institution. • She was advisor to the Minister of Finance and Public Credit and Vice President of Supervision at the National Banking and Securities Commission. • She has been international advisor in banking crises, Economics professor at Instituto Tecnológico Autónomo de México (ITAM) and author of several academic and specialized publications in Banking and Macroeconomics. • She is an Actuary from Universidad Nacional Autónoma de México (UNAM), holds a Master's Degree in Economics from the same institution and a Ph.D. in Economics from Columbia University. |
| Hector Federico Reyes-Retana y Dahl | Proprietary Independent Member | July 2011 | <ul style="list-style-type: none"> • Independent Member of the Board of Banco del Ahorro Nacional (Bansefi). • He founded the organism "ProMexico, Inversion y Comercio". • He was the CEO of Banco Nacional de Comercio Exterior, S.N.C (Bancomext), CEO of Banca Confía and Director of International Operations of Banco de México (Banxico). • He was CEO of Grupo Financiero Mifel and Banca Mifel, and was Vice President of the Mexican Banking Association. • He is an Industrial Engineer from Universidad Iberoamericana and holds an MBA from Cornell University. |
| Eduardo Livas Cantu | Proprietary Independent Member | April 1999 | <ul style="list-style-type: none"> • Member of the Executive Committee of Gruma. • He was Chief Operating Officer and Managing Director of Central America of Gimsa. • He was CEO of Gruma Corp. (U.S.A. division) and Chief Corporate Officer of Gimsa and Gruma. • Additionally he served as independent financial adviser. • He holds a Bachelor's Degree in Law from the Universidad Autónoma de Nuevo Leon (UANL) and has a Ph.D. in |

| NAME | POSITION | WITH THE COMPANY SINCE | PROFESSIONAL BACKGROUND |
|-----------------------------|--------------------------------|------------------------|--|
| | | | Economics from the University of Austin, Texas. |
| Alfredo Elias Ayub | Proprietary Independent Member | April 2012 | <ul style="list-style-type: none"> • He is Chairman of the Board of Promociones Metropolis S.A de C.V. and is member of the Board of Iberdrola USA and Rotoplas. • He was CEO of the Comision Federal de Electricidad (Mexican Federal Electricity Commission, CFE), of Aeropuertos y Servicios Auxiliares (Airports and Auxiliary Services, ASA) and held several positions within the Ministry of Energy and Mining. • He was a member of the Alumni Council at Harvard Business School, Nacional Financiera, Multibanco Mercantil de Mexico and Banco Internacional. • He was Chairman of the Board of the Mexican Institute of Electric Research and of the Mexico Foundation at Harvard. • He is a Civil Engineer from Universidad Anahuac and holds an MBA from Harvard Business School. |
| Adrian Sada Cueva | Proprietary Independent Member | April 2013 | <ul style="list-style-type: none"> • He is Executive Manager Director and member of the Board of Directors of Vitro, S.A.B. de C.V. and has held several Maganer positions within the Industrial Group. • He is a Member of the Board of Directors of Comegua, Club Industrial de Monterrey, Universidad de Monterrey and Camara de la Industria de Transformacion (CAINTRA) and GFNorte's Northern Regional Board. • He graduated in Business from Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM) and holds an MBA from Stanford Business School. |
| Alejandro Burillo Azcarraga | Proprietary Independent Member | April 2013 | <ul style="list-style-type: none"> • He is Chairman of the Board of Directors of Grupo Pegaso. • He has participated as strategic partner in: Ixe Banco, Laredo National Bank, Telefonica Movistar, Atlante Football Club, among others. He has also been independent member of the Board of Directors of Grupo Financiero BBVA Bancomer, S.A. |
| Jose Antonio Chedraui Eguia | Proprietary Independent Member | April 2015 | <ul style="list-style-type: none"> • He is CEO of Grupo Comercial Chedraui. • He has held positions as Commercial Director and then as CEO of Comercial Las Galas. • He participates in the organizations Fundacion Chedraui, Young Presidents' Organization and Mexico Nuevo. • He holds a Bachelor's Degree in Accounting and Finance from Universidad Anahuac. |
| Alfonso de Angoitia Noriega | Proprietary Independent Member | April 2015 | <ul style="list-style-type: none"> • He is Executive Vice President and Chairman of the Finance Committee at Grupo Televisa, S.A.B. He has served on the Board and Executive Committee and has held the position of Executive Vice President of Administration and Finance at Grupo Televisa. • He is member of the Board of Directors of Cablevision, S.A. de C.V., Innova, S. de R.L. de C.V. (Sky), Cablemas Telecomunicaciones, S.A. de C.V., Operbes, S.A. de C.V. (Bestel), Television Internacional, S.A. de C.V., Grupo Axo, S.A.P.I. de C.V. and The Americas Society. • He is Chairman of the Board of Kardias Foundation and member of the UNAM Foundation and the Mexican Health Foundation. • Co-founder of the Law firm Mijares, Angoitia, Cortes y Fuentes, S.C. • He was a member of the Board of Grupo Modelo, S.A.B. de C.V. and The American School Foundation. • He holds a Bachelor's Degree in Law from the Universidad Autonoma de Mexico (UNAM). |

| NAME | POSITION | WITH THE COMPANY SINCE | PROFESSIONAL BACKGROUND |
|--|--------------------------------|------------------------|--|
| Thomas Stanley Heather Rodriguez | Proprietary Independent Member | April 2016 | <ul style="list-style-type: none"> • Partner at Ritch Mueller, Heather and Nicolau, S.C. and specializes in external funding, restructurings and securities offerings. • He is Legal Advisor of the Consejo Coordinador Empresarial (CCE) and is permanent member of the Committee for drafting the CCE's Code of Best Corporate Practices. • He is member of the Board of Directors and of the Audit and Corporate Practices Committee (CAPS) of Grupo Bimbo, S.A.B. de C.V.; Independent member and Chairman of the CAPS at Gruma, S.A.B. de C.V. and Grupo Industrial Maseca, S.A.B. de C.V. • He holds a Bachelor's Degree in Law from Escuela Libre de Derecho with a Masters Degree from Texas (Austin) University - "Master o Comparative Jurisprudence- Financial Law". Moreover, he holds several specialties from Universidad Panamericana, Universidad Nacional Autónoma de México and New York University. |
| Graciela Gonzalez Moreno | Alternate Member | April 2013 | <ul style="list-style-type: none"> • She is private accountant, graduated from the Universidad Labastida in Monterrey, N.L. • She was accountant at the air conditioning factory Trane-Realven in Monterrey from 1967 to 1970. • From 1988 to 2010, she participated as founding partner and member of the Board of Directors of Asociacion Gilberto, A.C., being Vice President of it from 2007 to 2010. |
| Juan Antonio Gonzalez Marcos | Alternate Member | April 2014 | <ul style="list-style-type: none"> • He was Director of Marketing Projects at Mission Foods. • He holds a Bachelor's Degrees in Audio Production from SAE Institute of Melbourne and in Fine Arts from the University of North Texas. Furthermore, holds a Master in Fine Arts from University of Texas at Dallas. |
| Carlos de la Isla Corry | Alternate Member | April 2016 | <ul style="list-style-type: none"> • He was Director of Administration and Finance of Hermes Group from 2003 to 2014, responsible for the industrial corporate, including tourism, transportation, construction and concessions' operations. He was member of the Board of Directors of the Industrial Group. • He was member of the Board of Directors of Grupo Financiero Interacciones companies. • He also served as Chairman of the Credit Committee of Banco Interacciones and in the Financial Group as Chairman of the Risk Committee and member of the Audit, Compensations and Corporate Practices Committees. • He is an Engineer in Electronics and Digital Systems from the Universidad Nacional Autonoma de Mexico (UNAM) and holds an MBA from Texas University in Austin. |
| Clemente Ismael Reyes Retana Valdés | Alternate Independent Member | April 2017 | <ul style="list-style-type: none"> • He is a Managing Partner of Reyes Retana Consultores, S.C. as of February 2008. • He was Director of Administration and Finance (1992 to 1994) and Deputy General Manager (1994 to 2008) in Invex Grupo Financiero, S.A.B. of C.V. • He holds a degree in Actuary from the Universidad Nacional Autónoma de México. |
| Alberto Halabe Hamui | Alternate Independent Member | April 2014 | <ul style="list-style-type: none"> • Deputy Managing Director of Inmobiliaria IHM S.A. de C.V., Director of Comercializadora de Viviendas Albatros S.A. de C.V. and Nueva Imagen Construcciones S.A. de C.V. • Member of the Management and Operations Committee of St. Regis Mexico and Banorte's Metropolitan Regional Board; furthermore, he was Member of the Board of Directors in Microfinanciera Finsol. • He holds a Bachelor's Degree in Economics from Instituto Tecnológico Autonomo de Mexico (ITAM) and a Construction |

| NAME | POSITION | WITH THE COMPANY SINCE | PROFESSIONAL BACKGROUND |
|--------------------------|------------------------------|------------------------|---|
| | | | and Real Estate Management Degree from the same Institution. |
| Manuel Aznar Nicolín | Alternate Independent Member | March 2007 | <ul style="list-style-type: none"> • Founder partner at Kuri Breña, Sánchez Ugarte y Aznar. • He is attorney of Mexican banks in national and international funding operations. • Has participated in securities issuances from Mexican companies and domestic and international offerings. • He worked at Baker & McKenzie in Mexico and New York. Moreover, he was international partner of this firm. • He holds a Bachelor's Degree in Law from Escuela Libre de Derecho and a Master in American Legal System from Chicago-Kent College of Law. |
| Roberto Kelleher Vales | Alternate Independent Member | April 2014 | <ul style="list-style-type: none"> • He is Chairman and partner in Volkswagen, Seat, and Audi dealerships and a tire company in Merida. • He is shareholder and Vice President of Inmobilia Desarrollos. • He was Chairman and member of the Volkswagen National Dealers Association and member of the Mexican Association of Car Dealers. • He is Industrial and Systems Engineer from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and has several financial and management specializations from the same institution, also participated in the Advanced Management program from Instituto Panamericano de Alta Direccion (IPADE). |
| Isaac Becker Kabacnik | Alternate Independent Member | April 2002 | <ul style="list-style-type: none"> • Chairman of the textile company Becketl S.A. de C.V. and the jewelry company Becker e Hijos, S.A. de C.V. • He served as member of the Board of Directors of Multibanco Mercantil de Mexico. Participated as an active partner in Seguros Atlantida Multiba S.A. and as a member of its Executive Committee. • He was member of the Board of Directors of Multifac, S.A. de C.V., advisor of Value Casa de Bolsa S.A., and member of the board of the Asociacion de Joyeros de Mexico A.C. • He is Civil Engineer graduated from Universidad Nacional Autonoma de Mexico. |
| Jose Maria Garza Treviño | Alternate Independent Member | April 2014 | <ul style="list-style-type: none"> • Chairman of Grupo Garza Ponce. • He was member of the Board of Directors in Grupo Financiero BITAL, Finanzas Monterrey, Banca Afirme and Banca Confia-Abaco Grupo Financiero. • He served as Vice President of the Mexican Camera of the Construction Industry and of the Mexican Association of Industrial Parks (A.M.P.I.P), as an adviser in COPARMEX and in the Owners of Real Estate Camera, and as Chairman of Civil Engineers Ex a Tec. • He is Civil Engineer from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and holds an MBA from the same institution. |
| Javier Braun Burillo | Alternate Independent Member | April 2015 | <ul style="list-style-type: none"> • He is Director of Operations and member of the Board of Directors at Grupo Pegaso. • He was Senior Commercial Manager in Pegaso PCS and responsible for launching the first WiFi service in Mexico • He holds a Bachelor's degree in Economics from Universidad Iberoamericana and an MBA from UCLA Anderson School of Management. |

| NAME | POSITION | WITH THE COMPANY SINCE | PROFESSIONAL BACKGROUND |
|----------------------------|------------------------------|------------------------|--|
| Humberto Tafolla Nuñez | Alternate Independent Member | April 2018 | <ul style="list-style-type: none"> • He is the Director of Administration and Finance of Grupo Comercial Chedraui, S.A.B. of C.V. • Has more than 20 years of experience in financial areas. • Holds a degree in Business Administration from the Autonomous Technological Institute of Mexico (ITAM), a Diploma in Corporate Finance from the Monterrey Institute of Technology and Higher Education (ITESM) and a Postgraduate in Business Administration and Management by the Institute of Companies (IE) of Madrid. • He held the Mabe Industries Finance Directorate for 8 years. |
| Guadalupe Phillips Margain | Alternate Independent Member | April 2015 | <ul style="list-style-type: none"> • She is Restructuring Director at ICA. • She is member of the Board of Directors of Mas Fondos, S.A. de C.V., Grupo Televisa, S.A.B., Evercore Casa de Bolsa, S.A. and Innova, S. de R.L. de C.V. • She was Vice President and Director of Finance and Risk at Grupo Televisa, furthermore, she has held several positions such as Deputy Director of Foreigners Financial Intermediaries in the Minister of Finance (Secretaria de Hacienda y Crédito Público), Finance Director in Empresas Cablevision. • She holds a Bachelor's degree in Law from Instituto Tecnológico Autonomo de Mexico and a Master's degree and Ph.D. from Tufts University. |
| Ricardo Maldonado Yañez | Alternate Independent Member | April 2016 | <ul style="list-style-type: none"> • He is a partner of the Law firm Mijares, Angoitia, Cortes y Fuentes, S.C. since 1999. • Member of the Board of Directors of several companies, such as: Biossman Group, Endeavor Mexico and Seadrill Couragious and Secretary of the Board of Directors of companies such as: Grupo Televisa, Consorcio Ara, Controladora Vuela Compañía de Aviacion (Volaris) and Cablevision. • He was an Associate of the Law firm, White & Case, New York Office from 1993 to 1995. • He holds a Bachelor's degree in Law from Universidad Nacional Autonoma de Mexico (UNAM) and a Master's degree in Law from the Law School of Chicago University |

IV. Remuneration and Benefits

The total amount of compensations and benefits paid to GFNorte's main officers in 2018 was approximately Ps 282.0 million.

Compensations and Benefits are as follows:

- **Fixed Compensation:** Salary.

- **Annual Bonus Plan for 2018:**

The Bonus Plan for each business area evaluates estimated profit for that particular business, as well as an evaluation of individual performance, which takes into account the achievement of each participant's goals and objectives. The bonus for certain departments is also adjusted based on operational risk evaluations carried out by the Control Department. Likewise, eligibility to receive the deferred variable compensation for a group of managers is determined by a risk and compliance mechanics' review.

Eligible personnel of staff areas are evaluated based on the attainment of estimated profit for the Group, as well as individual performance in accordance with the achievement of each candidate's goals and objectives.

For the senior management, year bonus is covered by 60% and the remaining 40% is covered in three annual installments of 13%, 13% and 14% respectively.

- **Banorte's Long Term Incentive Plans:**

Stock Options:

The long term scheme for incentives consists in assign to designated Officers by the Compensation Committee, a stock options package through a trust with a vesting period up to 4 years having right in 100%. Participants will be entitled to exercise a percentage of the package each year; receiving the shares in their capital account.

- **Vacations:** From 10 to 30 working days depending on the number of years of service.
- **Vacation Premium:** From 8 to 23 days of salary payable in each employee's anniversary, depending on the number of years of service.
- **Legally Mandated Christmas Bonus:** Equivalent to 42 days of salary.
- **Savings Fund:** The Corporation matches the amount of the employee's contribution up to a maximum of 13% of their monthly salary in accordance with the legal limits established in the Income Tax Law.
- **Medical Service: Traditional Scheme:** Banorte provides medical services through recognized medical institutions, obtaining efficiency in cost and service. **Full Medical Insurance Scheme:** Major medical expenses insurance policy.
- **Life Insurance:** In the event of death or total incapacity, a life insurance policy provides a sum of up to 36 months' salary. In the event of accidental death, the compensation is double, prior verification by the insurance company.
- **Pension and Retirement:** The institution has two types of plans: one with defined benefits (Traditional and Special), and a second with a defined contribution (Ensure Your Future).

Ensure Your Future: was established on January 1, 2001. This is a defined contribution plan, whereby a percentage of individual contributions by the employee and GFNorte are deposited in a fund for

withdrawal by that employee upon termination of their labor relationship. This plan has an "initial individual contribution" (only for employees hired prior to January 1, 2001) corresponding to the pension's benefits for past services accumulated to date of the plan's creation. The maximum monthly contribution is 10% of the gross nominal wage (5% employee and 5% company). The total amount accumulated by Banorte in pension, retirement or similar plans for the company's main officers amounts to Ps 108.2 billion.

V. Responsible Officers

The undersigned hereby declare that within the scope of our respective functions, we have truthfully prepared the information contained in this annual report related to Grupo Financiero Banorte, which to the best of our knowledge and understanding reasonably reflects the situation.

Act. José Marcos Ramírez Miguel
Chief Executive Officer of Grupo Financiero Banorte

Eng. Rafael Arana de la Garza
Chief Operating Officer

C.P. Isaías Velázquez González
Managing Director of Internal Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director of Comptrollership

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

VI. Audited Financial Statements

The Audited Financial Statements are available online (investors.banorte.com) in <https://investors.banorte.com/es/financial-information/financial-statements/grupo-financiero-banorte/2018>.

This report is available in this same link, in the "Annual Reports" section under the title: "[CNBV 2018 Annual Report](#)".