



## LOAN PORTFOLIO RATING METHODOLOGY

The National Banking and Stock Commission,(Comisión Nacional Bancaria y de Valores, CNBV) published in the Official Journal of the Federation on December 2, 2005, the regulation to be applied to the loan portfolio rating methodology for loan institutions. Such regulation stress the need to have effective methods for rating loans based on the type of credit, and allow loan institutions to rate and make preventive estimates based on their own methodologies, prior authorization from the CNBV.

Since June 2001, Banco Mercantil del Norte, S.A. use an in-house meted called CIR Banorte (CIR – Internal Risk Rating, initials in Spanish) authorized by the CNBV to rate the commercial portfolio equal to or greater than an amount in Mexican pesos equivalent to four million investment units. The remainder of the loan portfolio is rated according to regulations set forth by the CNBV.

The institution apply, according to the new regulation, the CIR Banorte rate the debtor, except in financing programs granted to the State and Municipal Governments, and their Decentralized Agencies, which adhere to the procedure stated by the CNBV.

### Features of the Internal Risk Rating (CIR Banorte)

CIR Banorte is applicable to commercial loans. It includes financing for business companies and corporations, individuals in business for themselves and companies in the financial sector.

CIR Banorte is used on prospective customers, bondsmen and clients with debts equal to or greater than an amount in Mexican pesos equivalent to four million investment units.

Through CIR Banorte, the Institution can make a specific and independent assessment of the payment risk and experience, which encompass seven factors. The Institution can also evaluate GFNorte's loan strategy, characterized by Target Markets and Risk Acceptance Criteria.

Risk Criteria	Risk Factors
1. Financial Risk	1. Financial structure and payment capability 2. Financing sources 3. Management and decision-making 4. Quality and timeliness of financial information 5. Positioning and market
2. Industry Risk	- Target Markets - Risk Acceptance Criteria
3. Borrower's experience	6. Borrower's experience
4. Sovereign Risk	7. Sovereign Risk



To obtain a CIR Banorte loan risk rating, each of the seven risk factors is analyzed using descriptive evaluation tables. The result is matched to the risk ratings established by the CNBV. It is worth mentioning that the risk level for the “Financial structure and payment capability” factor is determined by a financial ratios model, which renders a quantitative risk level. The evaluation of the “Borrower’s experience” risk criteria is based on direct consultation with the Credit Bureau, respecting all the norms and criteria established by the authority.

CIR Banorte Risk Ratings	Risk level description	CNBV Risk Ratings
1	Substantially risk free	A1
2	Below minimum risk	A2
3	Minimum risk	A2
4	Low risk	B1
5	Moderate risk	B2
6	Average risk	B3
7	Requires management attention	C1
8	Potential partial loss	C2
9	High loss percentage	D
10	Total loss	E

Loans are initially rated according to the result of the debtor’s rating (as per CIR Banorte). The final rating and reserves percentage are determined by applying the CNBV procedure, placing the reserves percentage in the corresponding risk rating and level.

Preventive Reserves Ranges Level Table			
Risk Rating	Minimum	Intermediate	Maximum
A-1		0.5%	
A-2		0.99%	
B-1	1.0%	3.0%	4.99%
B-2	5.0%	7.0%	9.99%
B-3	10.0%	15.0%	19.99%
C-1	20.0%	30.0%	39.99%
C-2	40.0%	50.0%	59.99%
D	60.0%	75.0%	89.99%
E		100%	