

2Q18

**Financial Results
as of June 30, 2018**

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GFNORTE



OTC **QX**

GBOOY



XNOR

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"Best Executive Team in Latin America 2017"



"Best Corporate Governance 2017"



I. Executive Summary

GFNorte reports Net Income of Ps 13.96 billion in 1H18, +25% higher than 1H17

(BMV: GFNORTEO; OTCQX: GBOOY; Latibex: XNOR)

Grupo Financiero Banorte, S.A.B. de C.V. reported results for the period ending on June 30, 2018, highlighting:

- **In 2Q18 Net Income reached Ps 7.19 billion, showing strong sequential growth of +6.3%, and +26.6% vs. 2Q17.** Net Interest Income (NII) without Insurance and Annuities grew +6.3%, Loan Loss Reserves decreased (9.8%), Non-Interest Expense declined by (1.9%), and Earnings Before Taxes improved +10.6% sequentially.
- Key indicators for the quarter were: Return on Equity (ROE) of **19.1%**, +97bp; Return on Assets (ROA) of **2.1%**, up +9bp; **Efficiency Ratio** strengthened to **39.5%** from 40.9% in the previous quarter; **Non Performing Loans ratio (NPL)** stable at **1.97%** from 1.92% sequentially.
- **During the first half of the year, the Group's Net Income totaled Ps 13.96 billion**, underpinned by strong results across all subsidiaries **vs. 1H17: Banco Banorte +18%, Leasing and Factoring +34%, Mutual Funds +31%, and Long Term Savings division +23%.**
- Key indicators for the **first semester** showed great progress vs. 1H17: **NIM** grew from 5.4% to **5.8%**, **Efficiency Ratio** improved 404bp to **40.2%**, **ROE** up +265bp to **18.8%** and **ROA** grew +24bp reaching **2.03%**.
- Net Interest Income (NII) grew **+17.3% vs. 1H17**. Non-Interest Income up **+23.3%** while **Non-Interest Expenses only increased +7.6% vs. 1H17**. **Net Operating Profit before taxes** improved **+25.5%** during the period.
- **Performing loans** were up **+7.9% YoY**. **Consumer** grew **+15.3%**, **commercial** was up **+10.3%**, **corporate +3.2%** and **government declined (3.2%)**.
- **Consumer products are the primary driver for loan growth**, **auto loans** were up **+31.5%**, **mortgages +17.1%**, **credit cards +10.0%**, and **payroll +9.1%**.
- Asset quality behaved according to summer seasonality, resulting in an **NPL ratio of 1.97%**.
- **Total customer deposits** increased **+7.7% YoY**, **demand deposits +9.6%**, **time deposits +13.7%** while **money market declined (20.9%)**.
- The bank's **Capital Ratio** reached **17.8%** during **2Q18**, while the **leverage ratio** remained stable at **8.9%**.

Income Statement Highlights - GFNorte (Million Pesos)	2Q17	1Q18	2Q18	Change		1H17	1H18	Change 1H17
				1Q18	2Q17			
Net Interest Income	15,289	18,305	17,860	(2%)	17%	30,844	36,165	17%
Fees on Services ↘	2,923	2,607	3,256	25%	11%	5,434	5,863	8%
Trading	961	866	1,221	41%	27%	1,698	2,087	23%
Other Operating Income (Expenses) ° *	105	611	401	(34%)	281%	138	1,012	631%
Non Interest Income	3,989	4,085	4,878	19%	22%	7,271	8,962	23%
Total Income	19,279	22,389	22,738	2%	18%	38,115	45,127	18%
Non Interest Expense ↘ °	8,271	9,155	8,986	(2%)	9%	16,861	18,141	8%
Provisions	3,514	4,264	3,844	(10%)	9%	6,212	8,108	31%
Operating Income	7,494	8,970	9,908	10%	32%	15,042	18,879	26%
Taxes	2,074	2,472	3,023	22%	46%	4,354	5,495	26%
Subsidiaries & Minority Interest	255	270	306	14%	20%	439	576	31%
Discontinued Operations	6	-	-	N.A.	(100%)	79	-	(100%)
Net Income	5,680	6,768	7,191	6%	27%	11,207	13,960	25%

Balance Sheet Highlights - GFNorte (Million Pesos)	2Q17	1Q18	2Q18	Change	
				1Q18	2Q17
Asset Under Management	2,352,407	2,428,274	2,527,769	4%	7%
Performing Loans (a)	593,997	622,695	640,660	3%	8%
Past Due Loans (b)	10,818	12,205	12,888	6%	19%
Total Loans (a+b)	604,815	634,900	653,547	3%	8%
Total Loans Net (d)	588,696	618,226	636,386	3%	8%
Acquired Collection Rights (e)	1,986	2,315	2,781	20%	40%
Total Credit Portfolio (d+e)	590,682	620,541	639,168	3%	8%
Total Assets	1,265,675	1,383,526	1,400,644	1%	11%
Total Deposits	613,142	642,579	660,257	3%	8%
Total Liabilities	1,129,036	1,229,446	1,250,281	2%	11%
Equity	136,639	154,081	150,363	(2%)	10%

Financial Ratios GFNorte	2Q17	1Q18	2Q18	1H17	1H18
Profitability:					
NIM (1)	5.4%	5.9%	5.7%	5.4%	5.8%
ROE (2)	16.4%	18.2%	19.1%	16.1%	18.8%
ROA (3)	1.8%	2.0%	2.1%	1.78%	2.03%
Operation:					
Efficiency Ratio (4)	42.9%	40.9%	39.5%	44.2%	40.2%
Operating Efficiency Ratio (5)	2.6%	2.7%	2.6%	2.7%	2.6%
CCL for Banorte and SOFOM - Basel III (6)	91.5%	118.4%	116.3%	91.5%	116.3%
Asset Quality:					
Past Due Loan Ratio	1.8%	1.92%	1.97%	1.8%	2.0%
Coverage Ratio	149.0%	136.6%	133.2%	149.0%	133.2%
Cost of Risk (7)	2.4%	2.7%	2.4%	2.1%	2.5%
Market References					
Banxico Reference Rate	7.00%	7.50%	7.75%	7.00%	7.75%
TIIE 28 days (Average)	7.02%	7.75%	7.87%	6.71%	7.81%
Exchange Rate Peso/Dolar	18.06	18.27	19.69	18.43	18.98

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

2) Annualized earnings as a percentage of average quarterly equity over the period, minus minority interest, for the same period.

3) Annualized earnings as a percentage of average quarterly assets over the period, minus minority interest, for the same period.

4) Non-Interest Expense / Total Income

5) Annualized Non-Interest Expense / Average Total Assets.

6) Preliminary CCL calculation. To be updated upon Banco de Mexico's official indicators.

7) Cost of Risk = Annualized Provisions / Average Total Loans.

*As a result of changes to the B6 criterion Bank's Loan Book, starting on 1Q18 and retroactively for 2017, "Loan Recovery" and "Provisions Release" items previously under "Other Operating Income (Expenses)" were reclassified and now reconcile under "Preventive Provisions for Loan Losses".

°As of 1Q18 and retroactively for 2017, a component of Administrative Expenses from Banorte USA will now be reclassified under Fees Paid, and a component of Administrative Expenses from the Leasing business was reclassified under Other Income.

Subsidiaries Net Income (Million Pesos)	2Q17	1Q18	2Q18	Change		1H17	1H18	Change 1H17
				1Q18	2Q17			
Banco Mercantil del Norte	4,116	4,536	5,296	17%	29%	8,345	9,832	18%
Banorte- Ixe-Broker Dealer	167	158	241	52%	44%	398	399	0%
Operadora de Fondos Banorte-Ixe	68	77	85	11%	25%	124	162	31%
Retirement Funds - Afore XXI Banorte	310	329	363	10%	17%	673	692	3%
Insurance	674	1,348	751	(44%)	11%	1,560	2,100	35%
Annuities	190	210	189	(10%)	(0%)	364	399	10%
BAP (Holding)	1	7	8	20%	570%	1	15	1041%
Leasing and Factoring	178	191	289	51%	63%	360	481	34%
Warehousing	14	9	5	(52%)	(67%)	21	14	(34%)
Sólida Administradora de Portafolios	(103)	(277)	(153)	45%	(48%)	(733)	(430)	41%
Ixe Servicios	(0)	(0)	(0)	(69%)	(3%)	(1)	(1)	34%
G. F. Banorte (Holding)	66	180	117	(35%)	78%	96	296	208%
Total Net Income	5,680	6,768	7,191	6%	27%	11,207	13,960	25%

Share Data	2Q17	1Q18	2Q18	Change		1H17	1H18	Change 1H17
				1Q18	2Q17			
Earnings per share (Pesos)	2.048	2.440	2.593	6%	27%	4.041	5.033	25%
Earnings per share Basic (Pesos)	2.068	2.463	2.617	6%	27%	4.081	5.080	24%
Dividend per Share for the period (Pesos)	7.49	0.00	3.45	NA	(54%)	8.73	3.45	(60%)
Payout for the period	40.0%	0.0%	40.0%	NA	(0%)	40.0%	40.0%	(0%)
Book Value per Share (Pesos)	48.59	54.86	53.50	(2%)	10%	48.59	53.50	10%
Issued Shares (Million)	2,773.7	2,773.7	2,773.7	0%	0%	2,773.7	2,773.7	0%
Stock Price (Pesos)	115.39	111.13	117.07	5%	1%	115.39	117.07	1%
P/BV (Times)	2.37	2.03	2.19	8%	(8%)	2.37	2.19	(8%)
Market Capitalization (Million Dollars)	17,720	16,871	16,491	(2%)	(7%)	17,720	16,491	(7%)
Market Capitalization (Million Pesos)	320,061	308,245	324,721	5%	1%	320,061	324,721	1%

Share Performance



II. Management's Discussion & Analysis

Net Interest Income (NII) (Million Pesos)	2Q17	1Q18	2Q18	Change		1H17	1H18	Change
				1Q18	2Q17			1H17
Interest Income	24,615	27,420	29,185	6%	19%	47,836	56,605	18%
Interest Expense	10,985	12,311	13,132	7%	20%	20,763	25,443	23%
Loan Origination Fees	295	290	321	10%	9%	577	611	6%
Fees Paid	167	239	255	7%	53%	311	495	59%
NII excluding Insurance and Annuities Co.	13,758	15,160	16,118	6%	17%	27,339	31,278	14%
Premium Income (Net)	6,507	11,632	5,614	(52%)	(14%)	14,291	17,247	21%
Technical Reserves	2,654	6,976	814	(88%)	(69%)	8,198	7,791	(5%)
Damages, Claims and Other Obligations	3,645	4,049	4,239	5%	16%	6,951	8,288	19%
Technical Results	208	607	561	(8%)	170%	(858)	1,168	N.A.
Interest Income (Expenses) net	1,324	2,538	1,181	(53%)	(11%)	4,363	3,719	(15%)
Insurance and Annuities NII	1,532	3,144	1,742	(45%)	14%	3,505	4,887	39%
GFNORTE's NII	15,289	18,305	17,860	(2%)	17%	30,844	36,165	17%
Credit Provisions *	3,514	4,264	3,844	(10%)	9%	6,212	8,108	31%
NII Adjusted for Credit Risk	11,776	14,041	14,016	(0%)	19%	24,632	28,057	14%
Average Earning Assets	1,132,946	1,239,231	1,256,102	1%	11%	1,133,081	1,244,448	10%
Net Interest Margin (1)	5.4%	5.9%	5.7%			5.4%	5.8%	
NIM after Provisions (2) *	4.2%	4.5%	4.5%			4.3%	4.5%	
NIM adjusted w/o Insurance & Annuities	5.3%	5.4%	5.6%			5.3%	5.5%	
NIM from loan portfolio (3)	8.5%	8.5%	8.6%			8.4%	8.5%	

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

2) NIM = Annualized Net Interest Income adjusted by Loan Loss Provisions / Average Interest Earnings Assets.

3) NIM = Annualized Net Interest Income from loans / Average Performing Loans

*As a result of changes to the B6 criterion Bank's Loan Book, starting on 1Q18 and retroactively for 2017, "Loan Recovery" and "Provisions Release" items previously under "Other Operating Income (Expenses)" were reclassified and now reconcile under "Preventive Provisions for Loan Losses"

Net Interest Income (NII)

NII excluding Insurance and Annuities amounted to Ps 31.28 billion during the first half of 2018, +14% above the number reported in 1H17, driven by an increase in the bank's business volumes, as well as by the benefits of funding mix and controlled funding cost. NII from loans and deposits grew +12%, while NII from investments in securities and repos were up +22% during the period.

During the second quarter of the year, NII excluding Insurance and Annuities rose to Ps 16.11 billion, up +6% vs. 1Q18, as a result of a +3% increase in NII from loans and deposits, and also from the +18% growth in NII from investments in securities and repos.

Insurance and Annuities NII improved their growth showing a +39% increase, **reaching Ps 4.88 billion in 1H18**. This level incorporates the seasonality in insurance premium renewals during 1Q18.

Technical Results in 1H18 amounted to Ps 1.17 billion, showing a significant improvement vs. 1H17 derived from a (5%) reduction in technical reserves, and a +21% increase in revenue from insurance premiums. This increase is mainly driven by the seasonality in life and P&C premium renewals during the first months of the year. During 2Q18, this line declined to Ps 561 million due to the seasonal effect mentioned earlier.

Interest Income (Expenses) Net: declined (Ps 644) million vs. 1H17, and (Ps 1.35) billion vs. 1Q18, mainly on higher UDI valuation at the annuities company which totaled Ps 1.14 billion during 1H18, lower than the Ps 2.32 billion in 1H17, and during 2Q18 totaled (Ps 119) million, below the Ps 1.26 billion in 1Q18, driven by lower inflation in the period.

During 1H18 GFNorte's Net Interest Income (NII) totaled Ps 36.16 billion, up +17% vs. 1H17, on good margin performance of banking and long term savings businesses. However, in **2Q18 NII of the group totaled Ps 17.86 billion, (2%) below 1Q18**, as the seasonal effects from 1Q18 in the insurance business ease down, and also due to a lower inflation factor in the results from the annuities business.

Net Interest Margin (NIM) during 1H18 totaled 5.8%, up +37bp vs. 1H17, as a result of a better mix in the loan book, and the benefit of re-pricing the balance sheet due to rising market rates. **During 2Q18, NIM declined to 5.7%**, (22bp) vs. 1Q18, on lower NII from Insurance and Annuities businesses related to the seasonal effect in 1Q18.

Loan Loss Provisions

Starting on the first quarter of 2018, and retroactively for all 2017, amounts related to "Loan Recovery" and "Provisions Release" items, previously included under "Other Operating Income (Expenses)", are now classified under "Preventive Provisions for Loan Losses" in the Income Statement. For further details, please refer to Section V –Accounting and Regulatory Changes– Early adoption of changes to B-6 criterion "Bank's Loan Book".

Loan Loss Provisions totaled Ps 8.11 billion during 1H18, +31% higher vs. 1H17. This is explained by higher requirements across the loan portfolio, specifically in the consumer books (payroll and mortgage).

During 2Q18, Loan Loss Provisions totaled Ps 3.84 billion, (10%) lower sequentially. The sequential decline was driven by lower provision requirements from wholesale loans, as provisions for corporate loans ease down from the non-recurring Ps 619 million provision posted in 1Q18 related to a non-performing corporate credit exposure registered in 4Q17.

Provisions represented 22.4% of Net Interest Income in 1H18, up +2.2pp YoY, while on the **second quarter of 2018** they declined (1.8pp) QoQ totaling **21.5%**. **Cost of Risk during 1H18** increased +42bp, reaching 2.5%, as a consequence of the aforementioned one-off provision in 1Q18. Cost of Risk declined (31bp) to a more normalized level of **2.4% in 2Q18**.

Non-Interest Income

Non-Interest Income (Million Pesos)	2Q17	1Q18	2Q18	Change		1H17	1H18	Change 1H17
				1Q18	2Q17			
Service Fees	2,923	2,607	3,256	25%	11%	5,434	5,863	8%
Trading	961	866	1,221	41%	27%	1,698	2,087	23%
Other Operating Income (Expenses) ° *	105	611	401	(34%)	281%	138	1,012	N.A.
Non-Interest Income	3,989	4,085	4,878	19%	22%	7,271	8,962	23%

→* As a result of changes to the B6 criterion Bank's Loan Book, starting on 1Q18 and retroactively for 2017, "Loan Recovery" and "Provisions Release" items previously under "Other Operating Income (Expenses)", were reclassified and now reconcile under "Preventive Provisions for Loan Losses".

° As of 1Q18 and retroactively for 2017, a component of Administrative Expenses from Banorte USA will now be reclassified under Fees Paid, and a component of Administrative Expenses from the Leasing business was reclassified under Other Income.

Non-Interest Income rose to Ps 8.96 billion in 1H18, +23% higher YoY, driven by good performance across all business lines. **During 2Q18 Non-Interest Income totaled Ps 4.88 billion**, up +19% sequentially, mainly driven by good performance of Service Fees.

Service Fees

Service Fees (Million Pesos)	2Q17	1Q18	2Q18	Change		1H17	1H18	Change 1H17
				1Q18	2Q17			
Fund Transfers	390	363	422	16%	8%	758	786	4%
Account Management Fees	624	618	627	1%	1%	1,220	1,245	2%
Electronic Banking Services	1,709	1,880	2,019	7%	18%	3,348	3,899	16%
Basic Banking Services Fees	2,723	2,861	3,068	7%	13%	5,326	5,929	11%
For Commercial and Mortgage Loans	198	135	269	98%	36%	291	404	39%
For Consumer Loans	1,055	1,120	1,158	3%	10%	2,054	2,278	11%
Fiduciary	101	108	126	17%	25%	193	234	21%
Income from Real Estate Portfolios	17	36	26	(27%)	49%	24	62	153%
Mutual Funds	329	374	390	4%	19%	611	764	25%
Trading & Financial Advisory Fees	167	201	231	15%	39%	281	432	54%
Other Fees Charged (1)	205	289	281	(3%)	37%	469	570	22%
Fees Charged on Services	4,795	5,124	5,549	8%	16%	9,250	10,673	15%
Interchange Fees	762	880	986	12%	29%	1,484	1,866	26%
Insurance Fees	269	725	144	(80%)	(47%)	648	869	34%
Other Fees Paid	841	911	1,163	28%	38%	1,683	2,075	23%
Fees Paid on Services -	1,872	2,516	2,294	(9%)	23%	3,816	4,810	26%
Service Fees	2,923	2,607	3,256	25%	11%	5,434	5,863	8%

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

° As of 1Q18 and retroactively for 2017, a component of Administrative Expenses from Banorte USA will now be reclassified under Fees Paid

During the first six months of the year, Service Fees rose to Ps 5.86 billion, +8% higher YoY as a result of the following:

- +11% increase in Core Banking Service Fees supported by larger transaction volume (66% of this growth is explained by the +16% annual increase in Electronic Banking Services)
- +14% growth in Consumer, Commercial and Mortgage origination fees.
- +25% growth in Mutual Fund fees
- +54% growth in Advisory and Financial Fees, due to higher operating volumes with customers and investment banking activities during the period.

During 2Q18, Service Fees totaled Ps 3.26 billion, +25% QoQ, recovering from the sequential decline in 1Q18, highlighting:

- The (9%) decline in Fees Paid, as they ease down from the seasonal effect of Insurance Fees paid in 1Q18 (80% QoQ) as a result of the acquisition cost of insurance premium renewals posted at the beginning of the year.
- The +7% growth in Fees collected by Electronic Banking Services and +14% increase in Consumer, Commercial and Mortgage origination fees.

Trading

Trading Income (Million Pesos)	2Q17	1Q18	2Q18	Change		1H17	1H18	Change 1H17
				1Q18	2Q17			
Currency and Metals	(15)	(123)	237	N.A.	N.A.	(166)	114	N.A.
Derivatives	(56)	195	603	210%	N.A.	(251)	797	N.A.
Negotiable Instruments	56	(55)	76	N.A.	36%	82	21	(74%)
Valuation	(15)	17	916	N.A.	N.A.	(335)	932	N.A.
Currency and Metals	523	613	354	(42%)	(32%)	1,043	967	(7%)
Derivatives	73	39	(117)	N.A.	(260%)	354	(78)	N.A.
Negotiable Instruments	381	198	69	(65%)	(82%)	636	266	(58%)
Trading	977	850	305	(64%)	(69%)	2,033	1,155	(43%)
Trading Income	961	866	1,221	41%	27%	1,698	2,087	23%

During 1H18 Trading Income increased +23% vs. 1H17, totaling Ps 2.09 billion, driven by mark to market valuation on derivatives +Ps 1.05 billion, and currency and metals +Ps 280 million. During 2Q18, trading income totaled Ps

1.22 billion, up +41% sequentially driven by higher mark to market valuation on derivatives of +Ps 408 million, currency and metals +360 million and negotiable instruments +Ps 131 million.

Other Operating Income (Expenses)

Other Operating Income (Expenses) (Million Pesos)	2Q17	1Q18	2Q18	Change		1H17	1H18	Change 1H17
				1Q18	2Q17			
Loan Recovery*	3	3	2	(10%)	(20%)	6	5	(21%)
Loan Portfolios	46	44	58	33%	26%	88	102	16%
Income from Foreclosed Assets	(273)	80	68	(15%)	N.A.	(252)	148	N.A.
Provisions Release*	0	14	1	(93%)	N.A.	5	15	239%
Losses and Estimates	(423)	(913)	(355)	61%	(16%)	(717)	(1,269)	(77%)
Impairment of Assets	(10)	(173)	-	(100%)	(100%)	(437)	(173)	60%
Lease Income	105	123	106	(14%)	1%	216	229	6%
From Insurance	213	200	254	27%	20%	446	455	2%
Others	443	1,233	266	(78%)	(40%)	784	1,499	91%
Other Operating Income (Expenses)	105	611	401	(34%)	281%	138	1,012	N.A.

* As a result of changes to the B6 criterion Bank's Loan Book, starting on 1Q18 and retroactively for 2017, "Loan Recovery" and "Provisions Release" items previously under "Other Operating Income (Expenses)" were reclassified and now reconcile under "Preventive Provisions for Loan Losses"

Other Operating Income (Expenses) grew Ps 874 million YoY reaching Ps 1.012 billion in 1H18. This significant improvement was mainly driven by:

- The positive result of Foreclosed Assets, given that in 2Q17 this result was offset by a Ps 250 million provision charge.
- Lower charges from Impairment of Assets
- +91% increase in Others mainly driven by Ps 206 million in revenues from the termination of a mortgage securitization program.

During the second quarter of the year, Other Operating Income (Expenses) declined to Ps 401 million. Although the sequential comparison is unfavorable (-34% QoQ) due to one-off events during 1Q18, there was a noteworthy improvements in revenues from insurance.

Non-Interest Expense

Non-Interest Expense (Million Pesos)	2Q17	1Q18	2Q18	Change		1H17	1H18	Change 1H17
				1Q18	2Q17			
Personnel	3,285	3,535	3,850	9%	17%	6,796	7,385	9%
Professional Fees	712	714	754	6%	6%	1,279	1,468	15%
Administrative and Promotional ^o	1,888	1,941	1,973	2%	4%	3,835	3,914	2%
Rents, Depreciation & Amortization	1,274	1,347	1,386	3%	9%	2,580	2,733	6%
Taxes other than income tax & non deductible expenses	374	788	191	(76%)	(49%)	898	978	9%
Contributions to IPAB	636	725	726	0%	14%	1,270	1,451	14%
Employee Profit Sharing (PTU)	101	106	106	0%	4%	202	212	5%
Non-Interest Expense	8,271	9,155	8,986	(2%)	9%	16,861	18,141	8%

^o As of 1Q18 and retroactively for 2017, a component of Administrative Expenses from Banorte USA will now be reclassified under Fees Paid, and also a component of Administrative Expenses from the Leasing business was reclassified under Other Income

During 1H18, Non-Interest Expense totaled Ps 18.14 billion, only +8% above 1H17 as result of a controlled increase in expenses.

During 2Q18, Non-Interest Expense declined (2%) at Ps 8.99 billion, as a result of a (76%) decline in Other Taxes and non-Deductible Expenses derived from a reversal of fiscal provisions.

Efficiency Ratio for the first six months of 2018 declined to record levels of 40.2%, (404pb) lower vs. 1H17, due to positive operating leverage; on a quarterly basis, the Efficiency Ratio **declined (137bp) to a historic low of 39.5% during 2Q18**, mainly driven by lower operating expenses.

Net Income

Net Income (Million Pesos)	2Q17	1Q18	2Q18	Change		1H17	1H18	Change 1H17
				1Q18	2Q17			
Operating Income	7,494	8,970	9,908	10%	32%	15,042	18,879	26%
Subsidiaries' Net Income	335	357	409	15%	22%	598	765	28%
Pre-Tax Income	7,828	9,327	10,317	11%	32%	15,640	19,644	26%
Taxes	2,074	2,472	3,023	22%	46%	4,354	5,495	26%
Discontinued Operations	6	-	-	N.A.	(100%)	79	-	(100%)
Minority Interest	(80)	(87)	(102)	17%	29%	(159)	(190)	(20%)
Net Income	5,680	6,768	7,191	6%	27%	11,207	13,960	25%

Net Income from Subsidiaries increased +28% vs. 1H17 totaling **Ps 765 million during 1H18**, driven by a +3% increase in Afore XXI Banorte's Net Income, which reached Ps 692 million during the period, and from better results in Solida's investments (+303 million).

During **2Q18 it was Ps 409 million**, up +15% vs. 1Q18 also driven by the good performance of Afore XXI Banorte, which contributed with Ps 363 million during the quarter and Solida, which reduced its losses by Ps 125 million.

During **1H18, Taxes totaled Ps 5.49 billion**, a +26% increase vs. 1H17, and **Ps 3.02 billion during 2Q18**, a 22% increase vs. 1Q18, as a result of a higher taxable base.

The effective tax rate for 1H18 reached 28.0%, +72bp higher than 1H17, while this number totaled **29.3% for 2Q18**, +2.8pp higher than 1Q18.

GFNorte reported Net Income of Ps 13.96 billion for 1H18, +25% higher vs. 1H17 on strong subsidiary growth: Banco Banorte +18%, Leasing and Factoring +34%, Mutual Funds +31%, and Long Term Savings +23%.

Significant growth in Key financial indicators for the **first half** of the year: **NIM** increased to **5.8%** from 5.4%, **Efficiency Ratio** improved +404bp to **40.2%**, **ROE** up +256bp to **18.8%**, and **ROA** up +24bp reaching **2.03%**.

During **2Q18, Net Income totaled Ps 7.19 billion**, showing excellent sequential growth of 6%. Among key indicators for the quarter, **ROE** totaled **19.1%**, up +97bp QoQ; **ROA** at **2.1%**, up +9bp; **Efficiency Ratio** improved to **39.5%** from 40.9%; **NPLs** stable at **1.97%** from 1.92% in 1Q18.

Profitability

	2Q17	1Q18	2Q18
ROE	16.4%	18.2%	19.1%
Goodwill & Intangibles (billion pesos)	25.5	27.2	29.7
Average Tangible Equity (billion pesos)	113.4	121.2	120.4
ROTE	20.1%	22.3%	23.6%

Outstanding **ROE** growth increasing +265bp YoY, **reaching 18.8% during 1H18**; and +97bp sequentially reaching **19.1% in 2Q18**. In both cases, ROE growth is supported by growth in Net Income as well as the effect from the Ps 9.53 billion dividend paid to shareholders in June.

Return on Tangible Equity (ROTE) was 23.6% in 2Q18, up +349bps vs. 2Q17, and +128bp higher vs. 1Q18.

	2Q17	1Q18	2Q18
ROA	1.8%	2.0%	2.1%
Average Risk Weighted Assets (billion pesos)	621.5	622.6	632.6
RRWA	3.4%	4.0%	4.2%

ROA for 1H18 reached 2.0%, +24bp higher vs. 1H17, and **2.1% during 2Q18**, +9bp higher than 1Q18. **Return on Risk-Weighted Assets was 4.2%**, +18bp higher QoQ and +77bp YoY.

Regulatory Capital (Banco Mercantil del Norte)

Capitalization (Million Pesos)	2Q17	1Q18	2Q18	Change	
				1Q18	2Q17
Core Tier 1	77,392	79,218	82,205	3.8%	6.2%
Tier 1 Capital	79,559	97,855	102,290	4.5%	28.6%
Tier 2 Capital	12,221	12,795	13,220	3.3%	8.2%
Net Capital	91,780	110,650	115,510	4.4%	25.9%
Credit Risk Assets	503,729	520,534	537,661	3.3%	6.7%
Net Capital / Credit Risk Assets	18.2%	21.3%	21.5%	0.2 pp	3.3 pp
Total Risk Assets	608,847	629,234	648,781	3.1%	6.6%
Core Tier 1	12.71%	12.59%	12.67%	0.1 pp	(0.0 pp)
Tier 1	13.07%	15.55%	15.77%	0.2 pp	2.7 pp
Tier 2	2.01%	2.03%	2.04%	0.0 pp	0.0 pp
Capitalization Ratio	15.07%	17.58%	17.80%	0.22 pp	2.73 pp

(*) The reported capitalization ratio of the period is submitted to the Central Bank.

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

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

At the end of 2Q18 the estimated Capitalization Ratio (CR) for Banorte was 17.80% considering credit, market and operational risk; and, 21.48% considering only credit risks. Moreover, Total Tier 1 Capital reached 12.67% as of 2Q18.

The Capitalization Ratio decreased (0.22pp) vs. 1Q18 due to the following effects:

1. Profits during 2Q18	+ 0.83 pp
2. Capital Notes (mark-to-market and interest)	+ 0.28 pp
3. Other Capital effects	-0.06 pp
4. Securities' Mark-to-Market	-0.15 pp
5. Permanent Investments & Intangibles	- 0.15 pp
6. Growth of Risk Assets	- 0.53 pp

The Capitalization Ratio rose +2.72 pp vs. 2Q17, as follows:

1. Profit growth for the period	+ 3.06 pp
2. Capital Notes (mark-to-market and interest)	+ 2.82 pp
3. Other Capital effects	-0.08 pp
4. Financial Securities' Mark-to-Market	-0.23 pp
5. Permanent Investments & Intangibles	-0.34 pp
6. Growth of Risk Assets	- 0.93 pp
7. Dividends paid during the period	- 1.57 pp

- In July 2017, Banorte issued a Tier 1 Capital Note PerpNC10 and PerpNC5 for a total amount of Ps 900 million.

Leverage Ratio (Banco Mercantil del Norte)

Leverage Ratio according to CNBV's regulation is presented below:

Leverage <i>(Million Pesos)</i>	2Q17	1Q18	2Q18	Change	
				1Q18	2Q17
Tier 1 Capital	79,559	97,855	102,290	4.5%	28.6%
Adjusted Assets	1,063,240	1,133,135	1,152,058	1.7%	8.4%
Leverage Ratio	7.48%	8.64%	8.88%	0.2 pp	1.4 pp

Adjusted Assets are defined according to the General Provisions applicable to Credit Institutions.

Deposits

Deposits (Million Pesos)	2Q17	1Q18	2Q18	Change	
				1Q18	2Q17
Non-Interest Bearing Demand Deposits	271,601	287,671	292,129	2%	8%
Interest Bearing Demand Deposits	97,694	103,332	112,689	9%	15%
Total Demand Deposits*	369,295	391,003	404,818	4%	10%
Time Deposits – Retail	181,614	198,902	206,473	4%	14%
Core Deposits	550,909	589,906	611,291	4%	11%
Money Market	63,716	62,121	50,384	(19%)	(21%)
Total Bank Deposits	614,625	652,027	661,675	1%	8%
GFNorte's Total Deposits	613,142	642,579	660,257	3%	8%
Third Party Deposits	151,556	157,768	174,448	11%	15%
Total Assets Under Management	766,180	809,795	836,123	3%	9%

*Starting on 1Q18 and retroactively for 2017, accounts that were previously registered under Interest Bearing Demand Deposits will now be registered under Non-interest Bearing Demand Deposits, according to their particular situation.

Banorte's Total Deposits amounted to Ps 661.67 billion as of 2Q18, an +8% annual variation, driven by +10% growth in demand deposits, and a +14% increase in Time Deposits, as a result of the strong commercial efforts towards increasing client deposits during the period. **Client deposits grew +15% YoY**, and Total Assets Under Management grew +9% YoY.

During the quarter, both demand and time deposits grew +4%, but high-cost deposit such as money market declined significantly in the quarter leading to a modest +1% increase in total deposits YoY.

Loans

Performing Loan Portfolio (Million Pesos)	2Q17	1Q18	2Q18	Change	
				1Q18	2Q17
Commercial	129,783	139,543	143,181	3%	10%
Consumer	222,603	248,189	256,760	3%	15%
Corporate	107,107	100,880	110,569	10%	3%
Government	134,423	134,017	130,087	(3%)	(3%)
Sub Total	593,916	622,628	640,597	3%	8%
Recovery Bank	81	67	63	(7%)	(22%)
Total	593,997	622,695	640,660	3%	8%

Performing Consumer Loan Portfolio (Million Pesos)	2Q17	1Q18	2Q18	Change	
				1Q18	2Q17
Mortgages	124,126	139,713	145,291	4%	17%
Car Loans	16,809	20,726	22,109	7%	32%
Credit Card	31,560	33,872	34,718	2%	10%
Payroll	50,108	53,877	54,642	1%	9%
Consumer Loans	222,603	248,189	256,760	3%	15%

Total Performing Loans increased +8% YoY for an ending balance of Ps 640.60 billion in 2Q18 mainly driven by a +15% YoY growth in **consumer loans, well above** the banking system, driven by the bank's strong origination capabilities, underpinned by technology and business analytics. Commercial and Corporate Loans showed moderate growth, while Government declined (3%) in line with the market. Excluding the declining government loan book, the rest of performing loans show a +10% increase vs. the 8% reported figure.

- **Mortgages:** Grew +17% YoY, reaching a total **balance of Ps 145.29 billion in 2Q18**. During the quarter, the mortgage loan book increased by Ps 5.58 billion, **+4% QoQ**. Based on regulatory data as of May 2018, Banorte shows **more than twofold growth vs. the banking system** (+17.4% vs. +8.5%) and a market share of 19.1%, growing +145bp YoY, and consolidating its **second place within the mortgage banking system**.
- **Car Loans: Strong +32% growth vs. 2Q17**, and +7% sequentially, **reaching a Ps 22.1 billion** balance, mainly driven by loan origination through exclusivity agreements with auto dealerships. As of May 2018, Banorte held a 17.5% market share, gaining +215bp vs. 2Q17, leading loan growth among the main banking players.
- **Credit Cards:** Reached an **ending balance of Ps 34.72 billion**, up +10% YoY, and +2% sequentially, showing moderate origination growth in order to maintain asset quality. Based on May 2018's regulatory data, Banorte held a 9.3% market share, gaining +31bp YoY, standing in fourth place, and **leading growth among its competitors**.
- **Payroll Loans:** Showed a 9.1% increase YoY and +1.4% QoQ, **reaching a balance of Ps 54.64 billion**. Growth was driven by higher credit penetration on a larger base of Banorte's payroll account holders. Banorte held a 21.8% market share as of May 2018, gaining +121bps vs. 2Q17, and ranking third in the market.
- **Commercial:** With a 3% expansion in the quarter, it reached an ending balance of **Ps 143.18 billion**, which equaled to Ps 13.40 billion leading to +10% YoY growth. Market share as of May 2018 (including corporate loans, according to the regulator's methodology), is at 9.3%, ranking fourth in the banking system.

GFNorte's **SME** performing book amounted to **Ps 34.14 billion**, +5% higher YoY, and 1% QoQ. NPL declined +17bp reaching 5.5% in 2Q18.

	2Q17	1Q18	2Q18
Performing Portfolio	\$32,507	\$33,793	\$34,144
% of Performing Commercial Portfolio	25.0%	24.2%	23.8%
% of Total Performing Portfolio	5.5%	5.4%	5.3%
NPL Ratio	5.5%	5.6%	5.5%

- **Corporate Loans: with an ending of balance Ps 110.57 billion in 2Q18**, posted a considerable +10% expansion in the quarter and +3% YoY, reverting the pre-payment trend observed during the last quarter, showing good credit demand in this segment. GFNorte's corporate loan book is well diversified by industry and regions, and shows low concentration risk. GFNorte's 20 main corporate borrowers accounted for 11.1% of the group's total portfolio. The group's largest corporate exposure represents 1.2% of the total portfolio; whereas number 20 represent 0.4%. 100% of GFNorte's main corporate borrowers have an A1 rating.

As of June 30, 2018 GFNorte's loan exposure to home builders was Ps 1.96 billion in Urbi Desarrollos Urbanos, S.A.B. de C.V., Corporación Geo, S.A.B. de C.V., and Desarrolladora Homex, S.A.B. de C.V., (10.4%) lower than the previous quarter. This exposure represented 0.3% of the total loan portfolio, similar to 1Q18. Credit exposure has 100% collateral coverage, with no changes vs. the preceding quarter. Loan Loss Reserve coverage was 37.9% in 2Q18. **Sólida had a balance of Ps 5.46 billion in investment projects to these companies, +3.9% higher vs. 1Q18.**

- **Government Book: had an ending balance of Ps 130.08 billion in 2Q18**, (3%) lower vs. 2Q17, and vs. 1Q18. GFNorte's government portfolio is diversified by regions, and shows adequate concentration risk. GFNorte's 20 largest government loans account for 17.8% of the group's total portfolio. The largest government loan represents 2.7% of the total portfolio and is rated A1; whereas, number 20 represents 0.3%, also rated A1. The portfolio's risk profile is adequate with 27.1% of the loans granted to Federal Government entities, and 99.1% of loans to States and Municipalities have a fiduciary guarantee (consisting of Federal budget transfers and local revenues such as payroll tax), and 0.9% of the loans have short-term maturities. As of May 2018, Banorte held a 24.7% market share of the total system, ranking in first place.

Past Due Loans

(Million Pesos)	2Q17	1Q18	2Q18	Change	
				1Q18	2Q17
Past Due Loans	10,818	12,205	12,888	6%	19%
Loan Loss Reserves	16,119	16,674	17,161	3%	6%
Acquired Rights	1,986.30	2,314.71	2,781.27	20%	40%

During **2Q18**, **Past Due Loans** were **Ps 12.88** billion, up Ps 2.07 billion or **+19%** YoY, as a result of a Ps 1.4 billion increase from a corporate credit exposure posted in 4Q17, which is still under restructuring.

During the quarter, NPLs showed a sequential increase of +Ps 663 million, following the seasonal behavior in unsecured consumer products. The quarterly evolution of NPL balances was as follows:

Past Due Loans (Million Pesos)	2Q17	1Q18	2Q18	Change	
				1Q18	2Q17
Credit Cards	2,073	2,186	2,315	128	242
Payroll	1,662	1,601	1,868	267	206
Car Loans	183	189	242	53	59
Mortgages	1,161	1,315	1,347	32	185
Commercial	3,468	3,564	3,691	127	222
Corporate	2,270	3,350	3,426	76	1,156
Government	-	-	-	-	-
Total	10,818	12,205	12,888	683	2,070

In **2Q18**, **Past Due Loan Ratio** reached **2.0%**, growing +7bps vs. 1Q18, with seasonal deterioration in the credit card, payroll and auto loans, while corporate improved by +21bp. Quarterly evolution for the segment follows:

Past Due Loans Ratios	2Q17	3Q17	4Q17	1Q18	2Q18
Credit Cards	6.2%	6.2%	6.1%	6.1%	6.3%
Payroll	3.2%	3.2%	3.7%	2.9%	3.3%
Car Loans	1.1%	1.1%	1.2%	0.9%	1.1%
Mortgages	0.9%	0.9%	1.0%	0.9%	0.9%
Commercial	2.6%	2.6%	2.3%	2.5%	2.5%
SMEs	5.5%	5.9%	5.3%	5.6%	5.5%
Commercial	1.6%	1.5%	1.3%	1.4%	1.5%
Corporate	2.1%	2.0%	3.3%	3.2%	3.0%
Government	0.0%	0.0%	0.0%	0.0%	0.0%
Total	1.8%	1.8%	2.0%	1.9%	2.0%

The expected loss for Banco Mercantil del Norte, the group's largest subsidiary, was 2.3% and the unexpected loss 4.0%, both with respect to the total portfolio as of 2Q18. These ratios were 2.2% and 4.1%, respectively vs. 1Q18, and 2.2% and 4.4% in 2Q17.

Banco Mercantil del Norte's Net Credit Losses (NCL) including write-offs was 2.2%, +9bp higher vs. 1Q18.

Quarterly changes in accounts that affect Non Performing Loans' balances for the Financial Group were:

Past Due Loan Variations (Million Pesos)	
Balance as of March 31, 2018	12,205
Transfer from Performing Loans to Past Due Loans	6,577
Portfolio Purchase	-
Renewals	(126)
Cash Collections	(641)
Discounts	(122)
Charge Offs	(3,429)
Foreclosures	(37)
Transfer from Past Due Loans to Performing Loans	(1,655)
Loan Portfolio Sale	-
Foreign Exchange Adjustments	116
Fair Value Ix	-
Balance as of June 30, 2018	12,888

Of the total loan book, 86% was rated A Risk, 9% B Risk, and 5% as Risk C, D and E combined.

**Risk Rating of Performing Loans as of 2Q18 – GF Norte
(Million Pesos)**

Category	Loans	Loan Loss Reserves					
		Commercial			Consumer	Mortgages	Total
		Middle Market Companies	Government Entities	Financial Intermediaries			
A1	527,601	990	362	98	616	185	2,250
A2	70,578	313	307	8	319	32	978
B1	35,911	127	6	0	930	22	1,085
B2	12,580	63	-	1	356	32	453
B3	14,928	162	24	2	530	19	736
C1	9,207	96	16	0	487	84	682
C2	8,765	67	-	0	1,185	143	1,396
D	13,054	2,836	0	0	1,650	372	4,858
E	6,258	884	-	-	3,351	57	4,293
Total	698,883	5,538	714	110	9,424	946	16,732
Not Classified	(238)						
Exempt	-						
Total	698,644	5,538	714	110	9,424	946	16,732
Reserves							17,161
Preventive Reserves							429

Notes:

1) Figures for reserve creation and grading are as of June 30, 2018.

2) The loan portfolio is graded following rules issued by the Ministry of Finance and Public Credit (SHCP), and the methodology established by the CNBV.

The Institution uses regulatory methodologies to grade all credit portfolios. For the revolving consumer portfolio, as of January 2018, the bank will use the internal methodology authorized by CNBV.

The Institution uses risk ratings: A1, A2, B1, B2, B3, C1, C2, D and E to classify provisions according to the portfolio segment and percentage of the provisions representing the outstanding balance of the loan, and which are set forth in Fifth Section of the "De la constitución de reservas y su clasificación por grado de riesgo" contained in Chapter 5, Title Section of such regulation.

3) Additional loan loss reserves follow the rules applicable to banks and credit institutions.

Based on B6 Credit Portfolio criterion of the CNBV, Distressed Portfolio is defined as the pool of commercial loans unlikely to be recovered fully, including both principal and interest pursuant to terms and conditions originally agreed upon. Such determination is made based on actual information and data and on the loan review process. Performing loans and past-due loans are susceptible of being identified as Distressed Portfolios. The D and E risk degrees of the commercial loan rating were as follows:

(Million Pesos)	Total
Distressed Portfolio	8,531
Total Loans	698,644
Distressed Portfolio / Total Loans	1.2%

Loan Loss Reserves and Loan Loss Provisions

Loan Loss Reserves (Million Pesos)	2Q18
Previous Period Ending Balance	16,674
Provisions charged to results	4,276
Cargos a utilidades retenidas	0
Created with profitability margin	0
Reserve Portfolio Sold	0
Other items	0
<u>Charge offs and discounts:</u>	
Commercial Loans	(392)
Consumer Loans	(3,051)
Mortgage Loans	(418)
Foreclosed assets	0
	(3,862)
Cost of debtor support programs	(2)
Valorization and Others	75
Adjustments	0
Loan Loss Reserves at Period End	17,161

Loan Loss Reserves in 2Q18 totaled Ps 17.16 billion, +2.9% higher vs. 1Q18. Charge-offs during the quarter amounted to Ps 3.86 billion, (5.4%) lower than the previous quarter. Of this amount, 79% are related to the consumer portfolio, 10% to commercial and 11% to mortgages.

Loan loss coverage ratio was 133.2. % in 2Q18, slightly down from 136.6% during 1Q18.

Capital

Shareholders equity had an ending balance of Ps 150.36 billion, +10% higher vs. 2Q17, and (2%) lower sequentially. During the quarter, equity was impacted by the Ps 9.56 billion dividend payment which corresponds to 40% of 2017's Net Income; moreover, Ps 296 million were registered under Retained Earnings from interest paid from capital notes, and there was also a Ps 1.15 billion valuation loss from marketable securities, which was offset by Ps 7.19 billion from Retained Earnings from the previous quarter.

Recent Events

1. THE ANTITRUST REGULATOR ("COFECE"), AND THE MINISTRY OF FINANCE AND PUBLIC CREDIT ("SHCP") GRANTED ALL THE NECESSARY AUTHORIZATIONS TO CARRY OUT THE MERGER OF GFNORTE-GFINTER.

On June 28, 2018, the Mexican Antitrust regulator ("COFECE") granted its unconditional approval to carry out the merger between Grupo Financiero Banorte ("GFNorte"), and Grupo Financiero Interacciones ("GFInter"). Similarly, the Ministry of Finance and Public Credit ("SHCP") provided the legal document to proceed with the corporate and administrative acts related to the mergers. All parties agreed that the merger would be formalized no later than July 31, 2018.

2. FITCH RATINGS AFFIRMS "EXCELLENT (MEX)" INVESTMENT QUALITY RATING TO OPERADORA DE FONDOS BANORTE.

On May 16, Fitch Ratings assigned "Excellent (MEX)" – the highest rating – to Operadora de Fondos Banorte, for its solid investment process, which is supported by adequate risk criteria and analysis, investment policies, risk models and management, good corporate governance, solid organizational structure with appropriate duty segregation, complementary work and supervision teams, (Risks, Middle and Back Office, Comptroller and Audit), appropriate technology platform, good security and recovery systems.

3. SHAREHOLDERS' MEETING

The Annual General Ordinary Shareholders' meeting was held on April 27, 2018, with a total representation of 76.61% of subscribed and paid shares with voting rights of Shareholders' Equity. During this meeting, the following resolutions were made, among others:

- I. The approval of the Annual Report from the CEO, with prior opinion from the Board of Directors, and pursuant to article 44, part XI of the Stock Market Law ("Ley del Mercado de Valores"), and Article 59, part X of the Law to Regulate Financial Groups ("Ley para Regular las Agrupaciones Financieras"), which includes among other items, the Balance Sheet, Income Statement, Statement of Changes in Shareholders' Equity, and the Statement of Cash Flows of the Group as of December 31, 2017.
- II. The approval of the reports mentioned Part IV of Article 28 of the Stock Market Law ("Ley del Mercado de Valores"), and part IV of Article 39 of the Law to Regulate Financial Groups ("Ley para Regular las Agrupaciones Financieras") corresponding to the year ending on December 31, 2017.
- III. The approval towards the application of the amount provided by the Financial Statements of the Group, of Ps 23,908,081,437.07 (twenty three billion, nine hundred and eight million, eighty one thousand, four hundred and thirty seven pesos, 07/100) which represent Net Income from fiscal year 2017, to the Retained Earnings account, as it has been duly constituted in the legal reserve fund of the Group.
- IV. It was approved that the Board of Directors be integrated by 15 Proprietary Members, and when applicable, by their respective Substitute Members, designating for such effects the following people with the positions indicated for fiscal year 2018, and qualifying the independence of board members mentioned below as they do not meet any of the restrictions mentioned by the Stock Market Law ("Ley del Mercado de Valores"), and the Law to Regulate Financial Groups ("Ley para Regular las Agrupaciones Financieras").

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

- V. Héctor Ávila Flores was appointed Secretary of the Board of Directors; he will not be part of the Board of Directors.
- VI. Héctor Reyes-Retana y Dahl was appointed President of the Audit and Corporate Governance Committee.
- VII. To charge Shareholders' equity and allocate the amount of up to Ps 4,486,000,000.00 00 (Four billion, four hundred and eighty six million pesos 00/100), equivalent to 1.5% of the Market Capitalization of Grupo Financiero Banorte as of December 31, 2017, to share repurchases of the Group during the 2018 fiscal year, and comprising all operations performed during the year 2018 and up to April 2019, in compliance with the Policy of Acquisition and Issuance of Proprietary Shares ("Política de Adquisición y Colocación de Acciones Propias")

Moreover, a General Ordinary Shareholders' Meeting was held on June 1, 2018, with a total representation of 79.64% of subscribed and paid shares with voting right of Shareholders Equity. During this meeting, the following resolutions were made, among others:

- I. The distribution to shareholders of a dividend of Ps. 9,563,232,574.83 (Nine billion, five hundred and sixty three million, two hundred and thirty two thousand, five hundred and seventy four pesos 83/100) or Ps. 3.447788386581080 pesos for each outstanding share together with the distribution of coupon 9, which corresponds to 40% of Net Income from fiscal year 2017, which comes from the Net Fiscal Income account as of December 31, 2013.

4. BANORTE WAS REAFFIRMED AS A BANKING INSTITUTION WITH DOMESTIC SYSTEMIC IMPORTANCE

On April 27, Banorte was reaffirmed for the third time, as a Banking Institution with Level II Domestic Systemic Importance ("Institución de Banca Múltiple de Importancia Sistemica Local de Grado II") by the National Banking and Securities Commission ("CNBV"), which speaks to Banorte's relevance within the Mexican financial system.

The above is the result of the annual evaluation performed by the Government Meeting of the CNBV, with information as of year end 2017 from credit institutions. Such designation requires that Banorte keep a capital conservation buffer of 0.90 pp, which shall be constituted progressively during a maximum of a four-year period – that is on December 31, 2019-, this is in addition to the regulatory Capital Ratio of 10.5%, therefore Banorte's Capital Adequacy Ratio will amount to 11.4% at the end of 2019.

5. BANORTE AS ONE OF THE BEST PLACES TO WORK ACCORDING TO GREAT PLACE TO WORK AND EXPANSION MAGAZINE.

On April 25, Banorte ranked #9 among companies with more than 5,000 employees in the 2018 Great Place to Work edition. Moreover, in the 2018 edition of "Super Empresas Expansion", Banorte jumped from #7 to #4 in the category of more than 3,000 employees.

6. BANORTE PARTICIPATES IN THE BASIC SUSTAINABILITY BANKING PRINCIPLES FROM THE UN ORGANIZATION.

Banorte is the only Mexican bank participating in the United Nations Organization's initiative to create basic sustainability principles in banking activities. Banorte will participate with other 26 leading global banking institutions in the writing and establishment of the "Sustainability Banking Principles", a project developed by the UNEP FI (United Nations Environmental Program - Finance Initiative). This initiative seeks to redefine the purpose and the commercial model of banks, and align them with the Sustainable Development Objectives and the Paris Agreement on climate change.

7. GFNORTE RECEIVES AWARDS FOR ENVIRONMENTAL AND CORPORATE GOVERNANCE PRACTICES

On June 6, GFNorte received the award for the Financial Institution with Best Corporate Governance, in the Sustainability category, for its best practices towards protecting its shareholders, clients, employees, providers, and communities' interests. The award was based on the results of sustainability evaluations that Universidad Anahuac conducts on companies that are part of the Sustainable IPC index of the Mexican Stock Exchange, an index of which Banorte has been a member for 8 years.

In May, GFNorte was awarded, for the eighth consecutive year, the Socially Responsible Company Award, granted by the CEMEFI and AliaRSE. Banorte obtained the Outstanding rating in all five areas under evaluation: CSR at the company, quality of life at the company, community involvement, environmental care and preservation, and company ethics.

Moreover, VigeoEiris Ratings ratified Banorte for the fifth consecutive year, in the "Best Emerging Market ESG Performers ranking", as one of the 100 best sustainable companies in emerging markets.

8. BANORTE WAS RECOGNIZED BY GTR LEADERS IN TRADE 2018.

On April 26, Banorte became the first bank in Mexico and Latin-America to be recognized as finalist in the "Best Foreign Commerce Bank in Latin-America 2018" category of the Global Trade Review Awards. Banorte ranked as a finalist thanks to its domestic growth, to the increase in business flows from other countries, and to the product diversification and specialized solutions for this segment.

Bank

Income Statement and Balance Sheet Highlights - Bank (Million Pesos)	2Q17	1Q18	2Q18	Change		1H17	1H18	Change
				1Q18	2Q17			
Net Interest Income	13,463	14,744	15,628	6%	16%	26,735	30,372	14%
Non-Interest Income	3,496	4,297	4,265	(1%)	22%	6,944	8,561	23%
Total Income	16,959	19,041	19,893	4%	17%	33,678	38,934	16%
Non-Interest Expense	7,760	8,585	8,394	(2%)	8%	15,744	16,979	8%
Provisions *	3,433	4,149	3,759	(9%)	9%	6,091	7,907	30%
Operating Income	5,766	6,307	7,740	23%	34%	11,844	14,047	19%
Taxes	1,597	1,714	2,397	40%	50%	3,458	4,112	19%
Discontinued Operations	6	-	-	-	(100%)	79	-	(100%)
Subsidiaries & Minority Interest	17	25	49	96%	N.A.	31	75	N.A.
Net Income	4,191	4,618	5,392	17%	29%	8,496	10,010	18%
Balance Sheet								
Performing Loans (a)	583,853	612,074	629,576	3%	8%	583,853	629,576	8%
Past Due Loans (b)	10,598	11,914	12,619	6%	19%	10,598	12,619	19%
Total Loans (a+b)	594,452	623,988	642,196	3%	8%	594,452	642,196	8%
Total Loans Net (d)	578,953	607,880	625,556	3%	8%	578,953	625,556	8%
Acquired Collection Rights (e)	1,394	1,794	2,298	28%	65%	1,394	2,298	65%
Total Loans (d+e)	580,347	609,673	627,855	3%	8%	580,347	627,855	8%
Total Assets	1,003,031	1,023,894	1,052,365	3%	5%	1,003,031	1,052,365	5%
Total Deposits	614,625	652,027	661,675	1%	8%	614,625	661,675	8%
Total Liabilities	915,480	933,350	957,644	3%	5%	915,480	957,644	5%
Equity	87,551	90,544	94,721	5%	8%	87,551	94,721	8%

Financial Ratios - Bank	2Q17	1Q18	2Q18	1H17	1H18
Profitability:					
NIM (1)	5.8%	6.0%	6.4%	5.7%	6.2%
NIM after Provisions (2)	4.3%	4.3%	4.9%	4.4%	4.6%
ROE (3)	18.4%	20.9%	23.3%	18.5%	22.1%
ROA (4)	1.7%	1.8%	2.1%	1.7%	1.9%
Operation:					
Efficiency Ratio (5)	45.8%	45.1%	42.2%	46.7%	43.6%
Operating Efficiency Ratio (6)	3.1%	3.3%	3.2%	3.1%	3.3%
Average Liquidity Coverage Ratio for Banorte and SOFOM - Basel III (7)	91.5%	118.4%	116.3%	91.5%	116.29%
Asset Quality:					
Past Due Loan Ratio	1.8%	1.9%	2.0%	1.8%	2.0%
Coverage Ratio	146.2%	135.2%	131.9%	146.2%	131.9%
Past Due Loan Ratio w/o Banorte USA	1.8%	1.9%	2.0%	1.8%	2.0%
Coverage Ratio w/o Banorte USA	146.2%	135.2%	131.9%	146.2%	131.9%
Growth (8)					
Performing Loans (9)	13.1%	9.2%	7.8%	13.1%	7.8%
Core Deposits	11.2%	8.9%	11.0%	11.2%	11.0%
Total Deposits	10.6%	12.8%	7.7%	10.6%	7.7%
Capitalization:					
Net Capital/ Credit Risk Assets	18.2%	21.3%	21.5%	18.2%	21.5%
Total Capitalization Ratio	15.1%	17.6%	17.8%	15.1%	17.8%
Leverage					
Basic Capital/ Adjusted Assets	7.5%	8.6%	8.9%	7.5%	8.9%

1) NIM = Annualized Net Interest Income for the quarter / Average of Performing Assets.

2) NIM = Annualized Net Interest Income for the quarter adjusted for Credit Risks / Average of Performing Assets.

3) Net Income of the period annualized as a percentage of the quarterly average of Equity (excluding minority interest) for the same period.

4) Net Income of the period annualized as a percentage of the quarterly average of Total Assets (excluding minority interest) for the same period.

5) Non-Interest Expenses / Total Income.

6) Annualized Non-Interest Expenses of the quarter / Average of Total Assets.

7) CCL calculation is preliminary and will be updated once Banco de Mexico publishes official indicators.

8) Growth compared to the same period of the previous year.

9) Excludes Fobaproa / IPAB and proprietary portfolio managed by the Recovery Bank.

* As a result of changes to the B6 criterion Bank's Loan Book, starting on 1Q18 and retroactively for 2017, "Loan Recovery" and "Provisions Release" items previously under "Other Operating Income (Expenses)", were reclassified and now reconcile under "Preventive Provisions for Loan Losses".

° As of 1Q18 and retroactively for 2017, a component of Administrative Expenses from Banorte USA will now be reclassified under Fees Paid

Net Interest Income

Net Interest Income during the first half of 2018 amounted to Ps 30.37 billion, +14% higher vs. 1H17, as a result of growth in the banking business and stable funding costs. NII from loans and deposits grew +12%, and those from investments in securities and repos grew +21%.

During 2Q18, NII totaled Ps 15.63 billion, a +6% increase sequentially, as a result of a +4% increase in net interest income from loans and deposits, and from an +11% increase in investments in securities and repos.

Accumulated Net Interest Margin (NIM) in 1H18 totaled 6.2%, +51bp above 1H17, and in 2Q18 it totaled 6.4%, +40bp vs. 1Q18. Both indicators were driven by a better mix in the loan book and by the balance sheet re-pricing effect as a result of the higher interest rate cycle.

Additionally, **NIM adjusted for credit risk was 4.6%**, +19bp above 1H17, and **in 2Q18 it totaled 4.9%**, +55bp above sequentially.

Loan Loss Provisions

During 1H18 Loan Loss Provisions reached Ps 7.91 billion, up +30% YoY, driven by higher overall requirements from the loan book, particularly in the consumer (payroll and mortgage) portfolios, and by a reserve for a corporate exposure.

During 2Q18, Loan Loss Provisions reached Ps 3.76 billion, (9%) lower QoQ, on lower requirements for the wholesale loan books, as provisions for corporate exposures normalized.

Non-Interest Income

In 1H18, Non-Interest Income amounted to Ps 8.56 billion, +23% higher vs. 1H17, on higher service fees and trading income.

During 2Q18, Non-Interest Income reached Ps 4.26 billion, (1%) lower QoQ on lower Other Operating Income (Expenses) – this comparison was distorted by extraordinary income during 1Q18.

Revenues from core banking services during 1H18 (account management, fund transfers and electronic banking services) **grew +11% vs. 1H17, and +7% vs. 1Q18.**

Non-Interest Expenses

Accumulated Non-Interest Expenses were Ps 16.98 billion for 1H18, +8% higher vs. 1H17, as a result of good control in expenses.

During 2Q18 Non-Interest Expense declined (2%) vs. 1Q18 reaching Ps 8.40 billion, on lower Other Taxes and Non-Deductible Expenses, due to a reversal on fiscal provisions.

Both in the annual and quarterly comparison, the **Efficiency Ratio showed a remarkable improvement by declining to 43.6% during 1H18** from 46.7% in 1H17, and to **42.2% in 2Q18**, from 45.1% in 1Q18.

Net Income

Net Income during the first half of the year rose to Ps 10.01 billion, up +18% vs. 1H17, driven by positive traction in total revenues. **Net Income during 2Q17 totaled Ps 5.40 billion**, up +4% vs. 1Q18, driven by good performance in Total Revenues and by a reduction in provisions and operating expenses.

According to GFNorte's holding, **Bank's profits in 1H18 were Ps 9.83 billion**, +18% higher YoY. The bank contributed with 70% of the Group's accumulated results, while **during 2Q18 it totaled Ps 5.30 billion**, +17% QoQ, contributing with 74% of quarterly net income of the group.

1H18 ROE for the Bank reached 22.1%, 361bp higher vs. 1H17, while during **2Q18 it was 23.3%** vs. 20.9% in 1Q18.

ROA for 1H18 totaled 1.9%, up +22bp vs. 1H17; **during 2Q18 it reached 2.1%**, +30bp higher vs. 1Q18.

NPL Ratio

The Bank's **Non-Performing Loan Ratio in 2Q18 was 2.0%**, +18bp higher vs. 2Q17, and +6bp higher vs. 1Q18.

Capital

The Bank's capital ending balance was Ps 94.72 billion as of June 2018, showing an +8% increase vs. 2Q17, and +5% QoQ. The quarterly comparison benefited from net income generated during the quarter for a total of Ps 5.40 billion, which offset a valuation loss of Ps 934 million from marketable securities denominated in Pesos. Moreover, during the quarter, there were Ps 302 million registered as interest paid from capital notes in Retained Earnings.

Long Term Savings

Seguros Banorte

Income Statement and Balance Sheet Highlights - Insurance - Seguros Banorte (Million Pesos)	2Q17	1Q18	2Q18	Change		1H17	1H18	Change 1H17
				1Q18	2Q17			
Interest Income (Net)	254	338	359	6%	41%	428	697	63%
Premium Income (Net)	4,336	9,479	3,230	(66%)	(26%)	10,323	12,709	23%
Net Increase in Technical Reserves	463	3,954	(918)	(123%)	N.A.	2,384	3,035	27%
Damages, Claims and Other Obligations	2,602	2,912	3,022	4%	16%	4,927	5,934	20%
Technical Results	1,271	2,613	1,126	(57%)	(11%)	3,012	3,739	24%
Net Interest Income (NII)	1,524	2,951	1,485	(50%)	(3%)	3,440	4,436	29%
Other Fees (acquisition costs)	(469)	(952)	(370)	61%	(21%)	(1,033)	(1,321)	(28%)
Securities-Realized Gains	(5)	5	(0)	(106%)	(93%)	7	5	(30%)
Other Operating Income (Expenses)	172	192	252	31%	47%	400	444	11%
Total Operating Income	1,222	2,197	1,367	(38%)	12%	2,814	3,564	27%
Non Interest Expense	252	303	317	5%	26%	574	620	8%
Operating Income	718	1,895	1,049	(45%)	46%	2,241	2,944	31%
Taxes	295	544	296	(46%)	0%	678	840	24%
Subsidiaries' Net Income	316	335	370	10%	17%	685	704	3%
Minority Interest	(7)	(8)	(9)	(11%)	22%	(15)	(17)	(11%)
Net Income	985	1,677	1,115	(34%)	13%	2,232	2,792	25%
Shareholder's Equity	22,091	24,657	23,549	(4%)	7%	22,091	23,549	7%
Total Assets	49,353	61,795	58,928	(5%)	19%	49,353	58,928	19%
Technical Reserves	20,346	29,468	28,058	(5%)	38%	20,346	28,058	38%
Premiums sold	6,185	13,236	4,320	(67%)	(30%)	13,912	17,556	26%
Coverage ratio of technical reserves	1.3	1.2	1.2	(0.0 pp)	(0.1 pp)	1.3	1.2	(0.1 pp)
Solvency capital requirement coverage ratio	3.2	3.9	3.9	0.1 pp	0.7 pp	3.2	3.9	0.7 pp
Coverage ratio of minimum capital	229.2	255.9	229.0	(26.8 pp)	(0.1 pp)	229.2	229.0	(0.1 pp)
Claims ratio	68%	53%	73%	20.0 pp	5.6 pp	63%	62%	(0.7 pp)
Combined ratio	77%	61%	84%	22.7 pp	7.2 pp	72%	71%	(1.0 pp)
ROE	18.4%	28.6%	18.7%	(9.8 pp)	0.4 pp	21.3%	23.9%	2.6 pp
ROE ex-Afore	38.8%	65.5%	33.7%	(31.9 pp)	(5.1 pp)	47.4%	49.9%	2.5 pp

(*) The reported Solvency capital requirement coverage ratio of the period is preliminary.

Technical results for the first half of the year totaled Ps 3.73 billion, +24% vs. 1H17. They were mainly explained by a +23% increase in **Income from Retained Premiums during 1H18 equivalent to Ps 12.71 billion**, resulting from very good performance in the bancassurance business, as well as from new business origination. Damages, Claims and other Obligations posted +20% increase in part related to higher claims in the auto book.

Technical results during 2Q18 declined to Ps 1.13 billion, (57%) QoQ, as Income from Retained Premiums eased down (66%) from its seasonal increase during the first quarter of the year, when large remium renewlas were booked.

Acquisition Costs in 1H18 increased to (Ps 1.32) billion, +28% YoY due to the acquisition cost of policy renewals during 1Q18; therefore without this seasonal effect, they normalized (61%) **during 2Q18 reaching (Ps 370) million**.

Other Operating Income totaled Ps 444 million during 1H18, +11% YoY, and **Ps 252 million during 2Q18**, up +31% sequentially.

Non-Interest Expenses grew under control +8% during **1H 18 vs. 1H 17** and **only + 5% quarterly** vs. 1Q18.

Net Operating Income in 1H18 amounted to Ps 2.94 billion, +Ps 703 million vs. 1H17.

Seguros Banorte (including Afore XXI Banorte) reported net income of Ps 2.79 billion in 1H18, +25% higher vs. 1H17, and Ps 1.11 billion during 2Q18, (35%) lower vs. 1Q18.

Net Income for Seguros Banorte excluding Afore XXI Banorte totaled Ps 2.1 billion during 1H18, contributing with 15.0% of the group's results, and Ps 751 million during 2Q18, contributing with 10.4% of the group's quarterly results.

ROE for the consolidated insurance company was 23.9% in 1H18, +2.6pp higher vs. 1H17, while during 2Q18 it declined 18.7%, (9.8pp) sequentially, due to the seasonal effect of policy renewals during 1Q18. For Seguros Banorte, excluding Afore, this indicator totaled 49.9% for the first half of the year, +2.5pp YoY, and 33.7% during 2Q18.

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 2Q18 that involved any technical risk.*
- ii. Damages and claims, as well as the fulfillment with reinsurers and bonding companies according to their participation.
 - *In 2Q18 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 2Q18*
- iv. Transfer of risks through reinsurance and bonding contracts
 - *In the Damages and Life, books, eight important businesses were transferred to foreign reinsurers: three related to government, three related to the tourism sector, and two to the manufacturing sector.*
- v. Contingencies arising from non-fulfillment by reinsurers and bonding companies.
 - *There were no relevant issues related to non-fulfillment during 2Q18.*

Afore XXI Banorte

Afore XXI Banorte (Million Pesos)	2Q17	1Q18	2Q18	Change		1H17	1H18	Change 1H17
				1Q18	2Q17			
Net Income	632	670	739	10%	17%	1,370	1,409	3%
Shareholder's Equity	23,078	22,653	23,392	3%	1%	23,078	23,392	1%
Total Assets	24,500	24,451	25,235	3%	3%	24,500	25,235	3%
AUM (SIEFORE)	689,867	737,173	753,281	2%	9%	689,867	753,281	9%
ROE	11.1%	11.4%	12.8%	1.4 pp	1.7 pp	11.8%	12.0%	0.2 pp

Afore XXI Banorte posted net profits of Ps 1.41 billion in 1H18, +Ps 39 million higher vs. 1H17, mainly driven by a +9% increase in Total Revenue.

During 2Q18, Afore XXI Banorte posted net profits of Ps 739 million, +10% higher vs. 1Q18, on excellent results from SIEFORES (+Ps 62 million higher QoQ), as well as on higher Total Revenue.

ROE for the first half of the year was 12.0%, +19bps above 1H17. **During 2Q18, it reached 12.8%**, +144bp higher sequentially. Excluding goodwill, **Tangible ROE (ROTE) would have been 47.3% in 2Q18**, vs. 39.8% sequentially.

Afore XXI Banorte contributed with 5.0% of the Financial Group's profits in 1H18, and with 5.1% during 2Q18.

Assets under management as of June 2018 totaled Ps 753.3 billion, a +2% QoQ increase, and +9% vs. 2Q17.

Pensiones Banorte

Income Statement and Balance Sheet Highlights - Pensiones Banorte (Million Pesos)	2Q17	1Q18	2Q18	Change		1H17	1H18	Change 1H17
				1Q18	2Q17			
Interest Income (Net)	1,071	2,199	823	(63%)	(23%)	3,935	3,022	(23%)
Premium Income (Net)	2,354	2,350	2,591	10%	10%	4,333	4,941	14%
Net Increase in Technical Reserves	2,191	3,023	1,732	(43%)	(21%)	5,814	4,755	(18%)
Claims and Other Obligations	1,043	1,137	1,217	7%	17%	2,024	2,354	16%
Technical Results	(880)	(1,810)	(359)	80%	(59%)	(3,506)	(2,168)	38%
Net Interest Income (NII)	191	389	464	19%	N.A.	429	854	99%
Net Fees	-	-	(101)	N.A.	N.A.	-	(101)	N.A.
Securities-Realized Gains	146	(0)	2	N.A.	(99%)	235	1	(99%)
Other Operating Income (Expenses)	(4)	(0)	(5)	N.A.	29%	(6)	(6)	4%
Total Operating Income	333	389	359	(8%)	8%	658	748	14%
Non Interest Expense	77	98	95	(3%)	22%	155	193	24%
Operating Income	255	291	265	(9%)	4%	502	555	11%
Taxes	67	82	77	(6%)	15%	141	160	13%
Subsidiaries' Net Income	1	2	2	7%	21%	3	3	19%
Minority Interest	-	-	-	N.A.	N.A.	-	-	N.A.
Net Income	190	210	189	(10%)	(0%)	364	399	10%
Shareholder's Equity	2,513	3,238	3,430	6%	36%	2,513	3,430	36%
Total Assets	84,023	93,577	95,732	2%	14%	84,023	95,732	14%
Technical Reserves	80,488	89,233	91,022	2%	13%	80,488	91,022	13%
Premiums sold	2,354	2,350	2,591	10%	10%	4,333	4,941	14%
Coverage ratio of technical reserves	1.0	1.0	1.0	0.0 pp	0.0 pp	1.0	1.0	0.0 pp
Solvency capital requirement coverage ratio	22.4	28.9	26.9	(0.1 pp)	0.2 pp	22.4	26.9	4.5 pp
Coverage ratio of minimum capital	16.1	20.8	20.6	(0.0 pp)	0.3 pp	16.1	20.6	4.5 pp
ROE	31.4%	26.8%	22.7%	(4.1 pp)	(8.7 pp)	31.3%	24.7%	(6.6 pp)

During the first six months of the year, Pensiones Banorte reported profits of Ps 399 million, +10% higher YoY, mainly driven by a (18%) decline in technical reserves, and by a +14% increase from Premium Income.

During 2Q18, it declined (10%) QoQ to Ps 189 million, as a result of higher fees paid of Ps 101 million.

It is worth mentioning that there was a relevant decline in inflation which reduced the income from inflation-indexed securities in the investment portfolio, both in the annual and sequential comparison; therefore, UDI denominated valuation result – registered in Interest Income, and whose counterpart is registered in Technical Results - totaled Ps 1.14 billion in 1H18, lower than the Ps 2.32 billion charge during 1H17, and during 2Q18, it totaled (Ps 119) million, also lower than the Ps 1.26 billion registered in 1Q18.

In 1H18 Net Income from Pensiones Banorte represented 2.9% of the Financial Group's profits, and 2.6% during 2Q18.

ROE for the annuities business totaled 24.7% during 1H18, and 22.7% during 2Q18. A (6.6pp) decline vs. 1H17, and (4.1pp) vs. 1Q18.

Brokerage

Brokerage Sector (Million Pesos)	2Q17	1Q18	2Q18	Change		1H17	1H18	Change 1H17
				1Q18	2Q17			
Net Income	234	235	326	39%	39%	522	561	7%
Shareholder's Equity	2,708	3,277	2,764	(16%)	2%	2,708	2,764	2%
Assets Under Custody	828,254	820,639	863,277	5%	4%	828,254	863,277	4%
Total Assets	93,828	171,784	158,421	(8%)	69%	93,828	158,421	69%
ROE	32.8%	29.7%	43.1%	13.5 pp	10.4 pp	36.9%	37.0%	0.0 pp
Net Capital (1)	2,168	2,512	2,181	(13%)	1%	2,168	2,181	1%

1) Net capital structure: Tier 1 =Ps 2.2 billion, Tier 2 = Ps 0 million.

The Brokerage Sector (Casa de Bolsa Banorte and Operadora de Fondos Banorte) reported profits of Ps 561 million in 1H18, +7% vs. 1H17, driven by a +33% in fees, on higher commercial activity both at the Casa de Bolsa and Operadora de Fondos. Profits for 2Q18 were Ps 326 million, +39% higher vs. 1Q18, on higher margin and fees. Brokerage Net Income during the first half of the year accounted for 4.0% of the Group's total results, and 4.5% during the quarter.

Assets under Management

At the end of 2Q18 AUMs totaled Ps 863 billion, growing +4.2% YoY, and +5.2 vs. QoQ.

Mutual fund assets totaled Ps 177.15 billion, increasing +12.0% YoY and +8.9% QoQ. Assets held in fixed income funds totaled Ps 162.01 billion, +12.2% higher YoY, and 8.5% quarterly; while equity funds held assets amounting to Ps 15.1 billion, up +14.3% vs. 2Q17, and +4.6% vs. 1Q18. Banorte had a 7.36% share of the mutual fund market as of June 2018, comprised of 9.72% in fixed income funds and 2.0% in equity funds.

SOFOM and other Finance Companies

SOFOM & Other Finance Companies <i>(Million Pesos)</i>	2Q17	1Q18	2Q18	Change		1H17	1H18	Change
				1Q18	2Q17			1H17
Leasing and Factoring								
Net Income	178	191	289	51%	63%	360	481	34%
Shareholder's Equity	4,742	5,341	5,131	(4%)	8%	4,742	5,131	8%
Loan Portfolio (1)	26,295	30,754	30,221	(2%)	15%	26,295	30,221	15%
Past Due Loans	144	165	161	(2%)	12%	144	161	12%
Loan Loss Reserves	331	311	295	(5%)	(11%)	331	295	(11%)
Total Assets	26,606	31,295	30,736	(2%)	16%	26,606	30,736	16%
ROE	15.1%	14.6%	22.1%	7.5 pp	7.0 pp	15.6%	18.5%	2.9 pp
Warehousing								
Net Income	14	9	5	(52%)	(67%)	21	14	(34%)
Shareholder's Equity	205	235	240	2%	17%	205	240	17%
Inventories	1,309	594	1,058	78%	(19%)	1,309	1,058	(19%)
Total Assets	1,489	786	1,250	59%	(16%)	1,489	1,250	(16%)
ROE	28.0%	16.4%	7.7%	(8.7 pp)	(20.3 pp)	22.0%	12.0%	(9.9 pp)
Sólida Administradora de Portafolios								
Net Income	(104)	(279)	(153)	(45%)	48%	(738)	(432)	41%
Shareholder's Equity	3,999	3,205	2,823	(12%)	(29%)	3,999	2,823	(29%)
Loan Portfolio	5,229	3,647	3,256	(11%)	(38%)	5,229	3,256	(38%)
Past Due Loans	76	126	107	(15%)	41%	76	107	41%
Loan Loss Reserves	289	254	226	(11%)	(22%)	289	226	(22%)
Total Assets	17,134	14,774	14,383	(3%)	(16%)	17,134	14,383	(16%)
Ixe Servicios								
Net Income	(0.4)	(0.2)	(0.4)	69%	3%	(0.9)	(0.6)	34%
Shareholder's Equity	140	139	138	(0%)	(1%)	140	138	(1%)
Total Assets	140	139	139	(0%)	(1%)	140	139	(1%)
ROE	(1.0%)	(0.6%)	(1.1%)	(0.4 pp)	(0.0 pp)	(1.3%)	(0.9%)	0.4 pp

1) Includes operating lease portfolio of Ps 3.54 billion, and fixed assets of Ps 44 million, both registered in property, furniture and equipment (net).

Leasing and Factoring

Arrendadora y Factor Banorte reported profits of Ps 481 million in 1H18, up +34% vs. 1H17, mainly benefited from +16% higher risk adjusted net interest income, and a +15% annual growth in the loan book. During **2Q18**, reported Net Income totaled Ps 289 million, +51% vs. 1Q18, on better margin, lower credit provisions and higher non-interest income.

At the end of 2Q18, the **Past Due Loans Ratio was 0.5%**, and the **Coverage ratio was 183%**, (6pp) lower QoQ and (46pp) YoY. The **Capitalization ratio** as of June 2018 was **15.0%** considering total risk-weighted assets of Ps 34.20 billion.

Leverage ratio as of March 2018 and June 2018 was 15.28% and 14.94% respectively; considering adjusted assets of Ps 34.88 billion and Ps 34.27 billion in each case.

During 1Q18, Net Income from Leasing and Factoring accounted for 4.0% of the Group's total results.

Warehouse

In 1H18, Warehouse posted profits of Ps 14 million, a (34%) decline vs. 1S17 on operating expenses that were not offset by higher non-interest income. **During 2Q18 it posted profits of Ps 5 million**, (67%) lower vs. 1Q18. Almacenedora Banorte accounted for 0.10% of the Financial Group's profits during the period.

ROE for 2Q18 was 7.7%, (8.7pp) vs. 1Q18.

At the end of 2Q18, the Capitalization Ratio was 316% considering net capital of Ps 201 million and deposit certificates for sale issued in warehouses of Ps 1.27 billion. Almacenedora Banorte ranked third among the 14 warehouses of this sector in terms of profits generated.

Sólida Administradora de Portafolios

Sólida Administradora de Portafolios reported a net result of (Ps 432) million during 1H18, a 41% lower loss vs. 1H17, supported by a 15% improvement in margin, a +52% increase in fees and a favorable derivative valuation vs. 1H17: (Ps 247 million) in 1S17, vs. (Ps 7) million in 1H18.

Past Due Loan Ratio was 3.29% at the end of June 2018, (0.2 pp) vs. 1Q18. **Coverage ratio was 211.1%**, +9 pp higher vs. 1Q17.

The estimated Capitalization ratio in 2Q18 was 14.1%, (0.6pp) QoQ, and +0.7 pp YoY.

Leverage ratio as of March 2018 and June 2018 was 17.24% and 16.32%, respectively; considering adjusted assets of Ps 14.68 billion and Ps 14.03 billion in each case.

Recovery Banking

Income Statement Highlights - Recovery Banking

(Million Pesos)	1H17	1H18	Var.
Net Interest Income	(7)	(3)	(54%)
Loan Loss Provisions	0	1	310%
Non Interest Income	1,288	1,412	10%
Non Interest Expense	(568)	(595)	5%
Pre-tax Income & Subsidiaries	713	815	14%
Income Tax and Profit Sharing	(204)	(245)	20%
Net Income	509	570	12%

Assets Under Management (Million Pesos)	2Q18	ACCOUNTING IN THE BALANCE SHEET	ACCOUNTING IN THE INCOME STATEMENT
Banking Sector Portfolio- Banorte:	137,092	Banorte's Portfolio and Repossessed Assets	Net Interest Income and Other Revenues and Expenses
Loans purchased and managed:	26,747	Solida Asset Management and Banorte	Non Interest Income and Other Revenues and Expenses (Sólida / Banorte)
Investment Projects:	5,642	Solida Asset Management and Banorte	Non Interest Income
Total	169,481		

Net Income

Recovery Banking posted profits of Ps 570 million at the end of June 2018, up +12% YoY, on higher revenues driven by loan recoveries of Ps 40 million, a +Ps 33 million recovery in acquired portfolios, and +Ps 4 million higher fees collected from SHG project.

Assets Under Management

- The Recovery Bank managed total assets of Ps 137 billion in 2Q18, of which 27% were mortgage loans, 19% credit cards, 21% payroll loans, 14% relate to Crediactivo, 7% are auto loans, 6% are foreclosed assets, 3% relate to commercial loans and 3% to other loans.

Gross revenues in 2Q18 amounted to Ps 996 million, +10% higher YoY.

- The asset inventory managed by the Recovery Bank includes mortgages which make up 45%, 13% were assets managed on behalf of the Mexican mortgages agency SHF, 16% were real estate portfolios, 13% were loans to middle market companies and other commercial loans, and 13% were foreclosed assets and payments in kind.

Gross income from these portfolios was Ps 423 million in 2Q18, 46% higher YoY.

III. General Information

Infrastructure

INFRASTRUCTURE	2Q17	1Q18	2Q18
Employees (1)	28,376	29,792	29,620
Banorte - Ixe Branches	1,143	1,152	1,145
ATM's	7,409	7,937	8,026
POS's	157,019	169,405	172,804

1) Includes full time and third party employees from Banking and Afore

GFNORTE's Analyst Coverage

In compliance with requirements from BOLSA MEXICANA DE VALORES, S.A.B. DE C.V, the list of brokers who provide analysis coverage to Ticker GFNORTEO are:

BROKER	ANALYST	RECOMMENDATION	DATE
Actinver	Enrique Mendoza	Buy	13-Jul-18
Barclays	Benjamín Theurer	Buy	20-Oct-17
BBVA	Rodrigo Ortega	Buy	7-Mar-18
BOFA - Merrill Lynch	Mario Pierry	Buy	5-Jul-18
Bradesco	Alain Nicolau	Buy	26-Apr-18
Brasil Plural	Eduardo Nishio	Buy	27-Apr-18
BTG Pactual	Eduardo Rosman	Buy	27-Apr-18
BX+	José Eduardo Coello	Buy	15-Apr-18
Citi	Carlos Rivera	Buy	11-Jun-18
Credit Suisse	Marcelo Telles	Buy	26-Jul-18
GBM	Jorge Benitez	Buy	9-Jul-18
Goldman Sachs	Carlos Macedo	Buy	19-Jul-18
HSBC	Carlos Gómez	Buy	26-Apr-18
Intercam	Sofía Robles	Buy	20-Feb-18
Invex	Montserrat Antón	Buy	4-Jun-18
Itaú BBA	Thiago Batista	Buy	26-Apr-18
JP Morgan	Domingos Falavina	Buy	26-Apr-18
Morgan Stanley	Jorge Kuri	Buy	25-Jul-18
Nau	Iñigo Vega	Buy	7-Feb-18
Punto	Ana María Telleria	Buy	31-Mar-17
Santander	Claudia Benavente	Buy	5-Jul-18
UBS	Philip Finch	Buy	11-Jun-18
Scotia	Jason Mollin	Hold	12-Jun-18

Ratings

International Ratings - GFNorte

Rating Agency	Rated Institutions	Rating	Category	Date
Standard & Poor's	Banco Mercantil del Norte	Stable	Outlook	July, 2017
		BBB+	Counterparty credit - Long term foreign currency	
		BBB+	Counterparty credit - Long term local currency	
		A-2	Counterparty credit - Short term foreign currency	
		A-2	Counterparty credit - Short term local currency	
		BBB	Senior Unsecured Notes	
		BB	Subordinated Junior Notes (from the merged Ixe Banco)	
Fitch	Grupo Financiero Banorte	Stable / Negative	Outlook / Risk Watch	October, 2017
		Negative	Risk Watch	
		bbb+	Viability	
		BBB+	Long term foreign currency (IDR'S)	
		F2	Short term foreign currency (IDR'S)	
		5	Support Rating-GFNorte	
		NF (Not Floor)	Support Rating Floor - GFNorte	
	Banco Mercantil del Norte	Stable / Negative	Outlook / Risk Watch	
		bbb+	Viability	
		BBB+	Long term foreign currency	
		F2	Short term foreign Currency	
		C	Individual - Foreign Currency	
		BBB-	Support Rating Floor	
		2	Support Rating - Banco Mercantil del Norte	
		BB+ (EXP)	Long term foreign currency subordinated debt	
		BB	Subordinated Junior Notes (from the merged Ixe Banco)	
Moody's	Banco Mercantil del Norte	Negative	Outlook BFSR	September, 2016
		baa2	Baseline Credit Assessment	
		Negative	Outlook	
		A3	Long term local currency deposits*	
		A3	Long term foreign currency deposits	
		P-2	Short term local currency deposits*	
		P-2	Short term foreign currency deposits	
		A3	Long term foreign currency senior debt*	
		Baa3	Long term local currency subordinated debt	
		Baa2 (hyb)	Long term foreign currency subordinated debt	
		Ba1 (hyb)	Long term local currency junior subordinated debt	
		(P)Ba1 (hyb)	Long term foreign currency subordinated debt	
		Ba1	Long term foreign currency junior subordinated debt	
		baa2	Adjusted baseline credit assesment	
		A2 (cr)	Long term counterparty risk assesment	
		Prime-1 (cr)	Short term counterparty risk assesment	
	Arrendadora y Factor Banorte	Stable	Outlook	
		(P)P-2	Short term local currency issuer	
		(P)P-2	Short term local currency senior debt	

Domestic Ratings - GFNorte

Rating Agency	Rated Institutions	Rating	Category	Date
Standard & Poor's	Banco Mercantil del Norte	Stable	Outlook	March, 2017
		mxA-1+	National Scale Counterparty credit - Short term	
	Casa de Bolsa Banorte Ixe	mxAAA	National Scale Counterparty - Long term	
Fitch	Banco Mercantil del Norte	Stable / Negative	Outlook / Risk Watch	October, 2017
		AAA (mex)	National Scale Counterparty - Long term	
		F1+ (mex)	National Scale Counterparty - Short term	
		F1+ (mex)	Depo. Certi. y P.R.L.V. short Term	
	Casa de Bolsa Banorte Ixe	AA+ (mex)	Depo. Certi. y P.R.L.V. long term	
		Stable / Negative	Outlook / Risk Watch	
		F1+ (mex)	National Scale - Short term	
		AAA (mex)	National Scale - Long term	
	Arrendadora y Factor Banorte	F1+ (mex)	National Scale Counterparty - Short term	
		AAA (mex)	National Scale Counterparty - Long term	
		F1+ (mex)	National Scale - Unsecured Debt - Short term	
		AAA (mex)	National Scale - Unsecured Debt - Long term	
	Almacenadora Banorte	F1+ (mex)	National Scale Counterparty - Short term	
		AAA (mex)	National Scale Counterparty - Long term	
	Pensiones Banorte	Stable / Negative	Outlook / Risk Watch	
		AAA (mex)	National Scale	
	Seguros Banorte	Stable / Negative	Outlook / Risk Watch	
		AAA (mex)	Financial Strenght	
Moody's	Banco Mercantil del Norte	Negative	Outlook	June, 2016
		Aaa.mx	National Scale - Long term deposits	
		MX-1	National Scale - Short term deposits	
		Aa3.mx	Subordinated debt - Long term	
	Arrendadora y Factor Banorte	A1.mx	Junior Subordinated debt - Long term	
HR Ratings	Banco Mercantil del Norte	Stable	Outlook	May, 2016
		HR AAA	Long term debt	
		HR+1	Short term debt	
		HR AA+	Subordinated Debt Preferential	

Ownership on Subsidiaries

GFNorte Ownership of Subsidiaries	2Q18
Banco Mercantil del Norte, S. A.	98.2190%
Arrendadora y Factor Banorte, S.A. de C.V., SOFOM	100.0000%
Almacenadora Banorte, S.A. de C.V.	100.0000%
Casa de Bolsa Banorte, S.A. de C.V.	100.0000%
Operadora de Fondos Banorte, S.A. de C.V.	99.9990%
Ixe Servicios, S.A. de C.V.	100.0000%
Sólida Administradora de Portafolios, S.A. de C.V., SOFOM	99.4986%
Banorte Ahorro y Previsión, S.A. de C.V.	100.0000%

Holding Company Capital Structure

Holding Company Capital Structure	
Number of Shares (Million)	SERIES O As of June 2018
Number of Issued Shares	2,773.73
Number of Shares Outstanding	2773.73
Shares held in GFNorte's Treasury	0

Group's Main Officers

Group's Main Officers 2Q18	
Name	Current Position
José Marcos Ramírez Miguel	Chief Executive Officer, Grupo Financiero Banorte
BUSINESS UNITS	
Armando Rodal Espinosa	Managing Director – Wholesale Banking
Carlos Eduardo Martínez González	Managing Director – Retail Banking
Manuel Romo Villafuerte	Managing Director – Consumer Products
Fernando Solís Soberón	Managing Director – Long Term Savings
STAFF	
Rafael Arana de la Garza	Chief Operating Officer & Chief Financial Officer
Guillermo Chávez Eckstein	Chief Credit & Risk Officer
Isaías Velázquez González	Managing Director - Internal Audit

Integration of the Board of Directors

Board of Directors for the fiscal year 2018, appointed and approved in the Annual General Shareholders' Meeting held on April 27, 2018.

Grupo Financiero Banorte Board of Directors

PROPRIETARY

Carlos Hank González	Chairman
Juan Antonio González Moreno	
David Juan Villarreal Montemayor	
José Marcos Ramírez Miguel	
Everardo Elizondo Almaguer	Independent
Carmen Patricia Armendáriz Guerra	Independent
Héctor Federico Reyes-Retana y Dahl	Independent
Eduardo Livas Cantú	Independent
Alfredo Elías Ayub	Independent
Adrián Sada Cueva	Independent
Alejandro Burillo Azcárraga	Independent
José Antonio Chedraui Eguía	Independent
Alfonso de Angoitia Noriega	Independent
Olga María del Carmen Sánchez Cordero Dávila	Independent
Thomas Stanley Heather Rodríguez	Independent

SUBSTITUTE

Graciela González Moreno	
Juan Antonio González Marcos	
Carlos de la Isla Corry	
Clemente Ismael Reyes Retana Valdés	Independent
Alberto Halabe Hamui	Independent
Manuel Aznar Nicolín	Independent
Roberto Kelleher Vales	Independent
Robert William Chandler Edwards	Independent
Isaac Becker Kabacnik	Independent
José María Garza Treviño	Independent
Javier Braun Burillo	Independent
Humberto Tafolla Nuñez	Independent
Guadalupe Phillips Margain	Independent
Eduardo Alejandro Francisco García Villegas	Independent
Ricardo Maldonado Yáñez	Independent

IV. Financial Statements

Holding

Income Statement-Holding <i>(Million Pesos)</i>	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Income Subsidiaries	5,496	5,615	6,226	6,439	6,588	7,075
Interest Income	47	89	13	91	202	195
Interest Expense	-	-	-	-	-	-
Fund Transfers	-	-	-	-	-	-
Trading Income	-	-	-	-	-	-
Other Operating Income (Expenses)	0	0	0	0	0	-
Non-Interest Expense	27	25	28	39	25	26
Pre-Tax Income	5,516	5,678	6,212	6,491	6,765	7,244
Income Tax	-	-	-	-	-	-
Tax on Assets	-	-	-	-	-	-
Deferred Income Tax	(4)	(2)	(1)	15	4	59
Taxes	(4)	(2)	(1)	15	4	59
Net Income from Continuous Operations	5,520	5,680	6,213	6,475	6,762	7,185
Discontinued Operations	-	-	-	-	-	-
Net Income	5,520	5,680	6,213	6,475	6,762	7,185

Holding - Balance Sheet <i>(Million Pesos)</i>	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
ASSETS						
Cash and Due from Banks	21	40	48	6,081	6,263	0
Margin Accounts	-	-	-	-	-	-
Investment in Securities	-	-	-	-	-	-
Non-assigned Securities for Settlement	-	-	-	-	-	-
Debtor Balance in Repo Trans,net	1,451	611	3,613	4,915	4,816	5,667
Securities Lending	-	-	-	-	-	-
Transactions with Derivatives	-	-	-	-	-	-
Operations w/Derivatives & Securities	1,451	611	3,613	4,915	4,816	5,667
Valuation adjustments for Asset Coverage	-	-	-	-	-	-
Performing Loans	-	-	-	-	-	-
Past Due Loans	-	-	-	-	-	-
Gross Loan Portfolio	-	-	-	-	-	-
Preventive Loan Loss Reserves	-	-	-	-	-	-
Net Loan Portfolio	-	-	-	-	-	-
Acquired Collection Rights	-	-	-	-	-	-
Total Credit Portfolio	-	-	-	-	-	-
Benef.receiveab.securization transactions	-	-	-	-	-	-
Sundry Debtors & Other Accs Rec, Net	0	0	0	0	0	0
Inventories	-	-	-	-	-	-
Foreclosed Assets, Net	-	-	-	-	-	-
Real Estate, furniture & equipment, Net	-	-	-	-	-	-
Investment in Subsidiaries	127,454	121,286	124,613	121,961	128,314	130,032
Long-term assets held for sale	-	-	-	-	-	-
Deferred Taxes, Net	198	200	201	186	182	123
Goodwill and Intangibles	10,638	10,615	10,592	10,556	10,536	10,513
Other Assets Short and Long Term	-	-	-	-	-	-
Other Assets						
	138,291	132,101	135,407	132,704	139,032	140,669
TOTAL ASSETS	139,762	132,753	139,068	143,701	150,111	146,336

Holding - Balance Sheet <i>(Million Pesos)</i>	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
LIABILITIES						
Demand Deposits	-	-	-	-	-	-
Senior Unsecured Debt	-	-	-	-	-	-
Deposits	-	-	-	-	-	-
Due to Banks & Correspondents	-	-	-	-	-	-
Total Collateral sold	-	-	-	-	-	-
Total Operations w/ Derivatives & Securities	-	-	-	-	-	-
Margin Accounts Payable	-	-	-	-	-	-
Other Creditors & Accounts Payable	1	1	1	0	0	0
Subordinated Non Convertible Debt	-	-	-	-	-	-
Deferred Taxes, Net	-	-	-	-	-	-
Deferred Credits	-	-	-	-	-	-
TOTAL LIABILITIES	1	1	1	0	0	0
EQUITY						
Paid-in Capital	14,582	14,568	14,579	14,594	14,591	14,591
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-	-
Share Subscription Premiums	35,934	35,758	35,606	35,419	35,519	35,620
Subordinated Convertible Debentures	-	-	-	-	-	-
Subscribed Capital	50,516	50,326	50,185	50,013	50,110	50,211
Capital Reserves	4,870	4,827	5,095	5,491	5,379	5,379
Retained Earnings	82,129	69,718	69,710	69,412	92,801	82,929
Surplus (Deficit) of Secs Available for Sale	(2,731)	(2,442)	(2,389)	(2,369)	(3,488)	(4,629)
Results from Valuation of Hedging Secs	(1,790)	(1,943)	(1,884)	(3,588)	(2,103)	(2,170)
Result in the valuation reserve for unexpired risks variations in rates	82	68	65	96	77	79
Results from Conversions	1,660	1,616	1,613	1,684	1,618	1,753
Remeasurements defined benefits for employees	(494)	(618)	(741)	(926)	(1,045)	(1,163)
Surplus (Deficit) in Capital Restatement	-	-	-	-	-	-
Adjustments in the Employee's Pensions	-	-	-	-	-	-
Accumulated Effect of Deferred Taxes	-	-	-	-	-	-
Net Income	5,520	11,201	17,414	23,889	6,762	13,947
Earned Capital	89,245	82,426	88,881	93,688	100,002	96,126
Minority Interest	-	-	-	-	-	-
Total Equity	139,762	132,752	139,067	143,701	150,111	146,336
TOTAL LIABILITIES & EQUITY	139,762	132,753	139,068	143,701	150,111	146,336
Holding - Memorandum Accounts <i>(Million Pesos)</i>	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
TOTAL ON BEHALF OF THIRD PARTIES	-	-	-	-	-	-
Properties in Custody or Management	3,716	35,685	36,535	36,535	36,535	36,535
Collateral Received	1,452	607	3,612	4,913	4,812	5,663
Proprietary Transactions	5,168	36,292	40,147	41,448	41,347	42,198
TOTAL PROPRIETARY	5,168	36,292	40,147	41,448	41,347	42,198

Grupo Financiero Banorte

Income Statement -GFNorte (Million Pesos)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Interest Income	26,265	25,938	27,853	29,283	29,958	30,366
Interest Expense	9,783	10,984	11,657	11,517	12,311	13,132
Charged Fees	282	295	296	297	290	321
Fees Paid	144	167	174	210	239	255
Net Interest Income from interest & fees (NII)	16,620	15,082	16,319	17,854	17,698	17,299
Premium Income (Net)	7,784	6,507	5,156	5,596	11,632	5,614
Net Increase in Technical Reserves	5,544	2,654	1,482	2,965	6,976	814
Damages, Claims and Other Obligations	3,306	3,645	4,110	3,845	4,049	4,239
Net Interest Income (NII)	15,555	15,289	15,883	16,640	18,305	17,860
Preventive Provisions for Loan Losses	2,698	3,514	3,359	3,544	4,264	3,844
Net Interest Income Adjusted for Credit Risk	12,857	11,776	12,524	13,096	14,041	14,016
Fund Transfers	368	390	350	380	363	422
Account Management Fees	596	624	647	662	618	627
Electronic Banking Services	1,639	1,709	1,653	1,902	1,880	2,019
For Commercial and Mortgage Loans *	94	198	225	178	135	269
For Consumer and Credit Card Loans	999	1,055	1,096	1,146	1,120	1,158
Fiduciary	92	101	97	133	108	126
Income from Real Estate Portfolios	7	17	43	40	36	26
Mutual Funds	282	329	360	372	374	390
Trading & Financial Advising Fees	115	167	305	134	201	231
Other Fees Charged (1) *	264	205	263	306	289	281
Fees Charged on Services	4,455	4,795	5,040	5,252	5,124	5,549
Interchange Fees	722	762	739	875	880	986
Insurance Fees	379	269	384	186	725	144
Other Fees Paid	843	841	892	912	911	1,163
Fees Paid on Services	1,944	1,872	2,016	1,972	2,516	2,294
Service Fees	2,512	2,923	3,025	3,279	2,607	3,256
Currency and Metals	(151)	(15)	22	(9)	(123)	237
Derivatives	(195)	(56)	357	387	195	603
Negotiable Instruments	27	56	(153)	(639)	(55)	76
Valuation	(319)	(15)	225	(260)	17	916
Currency and Metals	520	523	234	452	613	354
Derivatives	281	73	(28)	(189)	39	(117)
Negotiable Instruments	255	381	197	328	198	69
Trading	1,056	977	402	592	850	305
Trading Income	737	961	628	331	866	1,221
Loan Recovery	3	3	2	5	3	2
Loan Portfolios	42	46	38	64	44	58
Income from foreclosed assets	21	(273)	255	156	80	68
Provisions Release	4	0	1	3	14	1
Losses and Estimates	(295)	(423)	(335)	(583)	(913)	(355)
Impairment of Assets	(428)	(10)	(189)	134	(173)	-
Lease Income	111	105	106	125	123	106
From Insurance	234	213	189	199	200	254
Other Operating Expense	341	443	173	596	1,233	266
Total Other Operating Income (Expense)	33	105	240	699	611	401
Total Non Interest Income	3,282	3,989	3,892	4,310	4,085	4,878
Total Operating Income	16,138	15,765	16,416	17,406	18,126	18,894
Personnel	3,512	3,285	3,206	3,445	3,535	3,850
Employee Profit Sharing (PTU)	101	101	101	88	106	106
Professional Fees	567	712	771	875	714	754
Administrative and Promotional Expenses	1,947	1,888	1,787	1,931	1,941	1,973
Rents, Depreciation & Amortization	1,306	1,274	1,233	1,245	1,347	1,386
Taxes other than income tax & non deductible	523	374	422	453	788	191
Contributions to IPAB/Fobaproa	634	636	668	696	725	726
Total Non Interest Expense	8,590	8,271	8,188	8,732	9,155	8,986
Operating Income	7,549	7,494	8,227	8,674	8,970	9,908
Subsidiaries' Net Income	263	335	291	375	357	409
Pre-Tax Income	7,812	7,828	8,519	9,049	9,327	10,317
Income Tax	2,070	2,015	2,184	2,200	2,343	2,627
Tax on Assets	-	-	-	-	-	-
Deferred Income Tax	210	59	34	276	128	396
Taxes	2,279	2,074	2,218	2,476	2,472	3,023
Net Income from Continuous Operations	5,532	5,754	6,300	6,573	6,856	7,294
Discontinued Operations	74	6	8	2	-	-
Minority Interest	(79)	(80)	(90)	(93)	(87)	(102)
Net Income	5,527	5,680	6,219	6,482	6,768	7,191

GFNorte - Balance Sheet <i>(Million Pesos)</i>	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
ASSETS						
Cash and Due from Banks	60,422	65,840	59,809	76,269	87,954	69,649
Margin Accounts	1,909	2,635	1,628	1,986	1,739	1,680
Negotiable Instruments	244,183	240,223	242,347	239,019	258,739	259,179
Securities Available for Sale	136,570	139,264	153,555	168,540	164,663	157,586
Securities Held to Maturity	85,347	87,127	91,188	95,310	97,981	98,689
Investment in Securities	466,100	466,614	487,090	502,870	521,382	515,454
Non-assigned Securities for Settlement	-	-	-	-	-	-
Debtor Balance in Repo Trans, net	2	0	231	679	595	187
Securities Lending	-	-	-	-	-	-
For trading purposes	22,780	20,387	18,983	25,520	24,404	28,796
For hedging purposes	387	216	94	205	293	134
Operations w/Derivatives & Securities						
Transactions with Derivatives	23,167	20,603	19,077	25,725	24,697	28,931
Operations w/Derivatives & Securities	23,168	20,604	19,308	26,403	25,291	29,118
Valuation adjustments for Asset Coverage	110	106	102	99	95	91
Commercial Loans	220,656	231,284	231,954	233,777	234,847	248,783
Financial Intermediaries' Loans	5,237	5,607	4,882	5,944	5,576	4,967
Consumer Loans	92,394	98,478	103,222	105,567	108,477	111,471
Mortgage Loans	119,310	124,206	130,084	135,405	139,779	145,351
Medium and Residential	115,226	120,197	126,120	131,563	135,952	141,629
low income housing	37	33	29	26	23	20
Loans acquired from INFONAVIT or FOVISSTE	4,048	3,975	3,934	3,816	3,804	3,702
Restructuring or improvement guaranteed by development banks or public trusts	-	-	-	-	-	-
Government Entities' Loans	131,551	134,423	131,460	134,905	134,017	130,087
Performing Loans	569,147	593,997	601,602	615,598	622,695	640,660
Commercial PDL's	5,893	5,739	5,731	6,719	6,913	7,116
Financial Intermediaries PDL's	344	0	0	0	1	0
Consumer PDL's	3,029	3,918	4,088	4,440	3,976	4,424
Mortgage PDL's	1,019	1,161	1,234	1,323	1,315	1,347
Medium and Residential	911	1,044	1,096	1,179	1,186	1,227
low income housing	1	1	1	1	1	1
Loans acquired from INFONAVIT or FOVISSTE	106	117	137	143	128	119
Restructuring or improvement guaranteed by development banks or public trusts	-	-	-	-	-	-
Government Entities PDL's	-	-	-	-	-	-
Past Due Loans	10,284	10,818	11,053	12,482	12,205	12,888
Gross Loan Portfolio	579,432	604,815	612,656	628,080	634,900	653,547
Preventive Loan Loss Reserves	14,235	16,119	16,205	16,122	16,674	17,161
Net Loan Portfolio	565,197	588,696	596,451	611,958	618,226	636,386
Acquired Collection Rights	2,082	1,986	2,593	2,477	2,315	2,781
Total Credit Portfolio	567,279	590,682	599,044	614,435	620,541	639,168
Account Receivables from Insurance and Annuities	1,620	1,769	1,879	1,904	1,879	2,133
Premium Debtors (Net)	8,406	8,223	6,519	4,031	11,026	8,866
Account Receivables from Reinsurance	7,189	8,878	9,285	8,717	13,682	14,044
Benef. receivab. securization transactions	151	152	177	141	162	149
Sundry Debtors & Other Accs Rec, Net	46,084	36,699	46,338	51,834	36,942	54,191
Inventories	399	1,309	1,204	783	594	1,058
Foreclosed Assets, Net	1,569	1,149	1,121	1,100	1,131	1,011
Real Estate, Furniture & Equipment, Net	15,770	15,981	16,896	18,171	17,871	18,089
Investment in Subsidiaries	12,875	13,104	13,395	13,771	12,953	13,328
Long-term assets held for sale	-	-	-	-	-	-
Deferred Taxes, Net	3,750	3,729	3,011	2,949	2,629	2,631
Goodwill and Intangibles	25,281	25,493	25,826	28,238	27,226	29,707
Other Assets Short and Long Term	3,253	2,709	2,488	448	431	275
Other Assets						
	126,347	119,194	128,140	132,085	126,524	145,484
TOTAL ASSETS	1,245,334	1,265,675	1,295,121	1,354,147	1,383,526	1,400,644

GFNorte - Balance Sheet <i>(Million Pesos)</i>	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
LIABILITIES						
Demand Deposits	365,031	366,429	375,201	393,308	387,601	401,870
Time Deposits-Retail	209,159	227,113	235,524	239,174	240,557	238,418
Time Deposits-Money Market	1,115	15,394	8,983	3,679	9,984	13,264
Global Account of deposits without movements	1,410	1,456	1,523	1,657	1,673	1,709
Senior Unsecured Debt	85	2,750	2,745	3,003	2,764	4,995
Deposits	576,800	613,142	623,976	640,821	642,579	660,257
Demand Loans	1,137	1,591	0	0	0	0
Short Term Loans	13,264	14,886	15,104	18,213	13,029	15,670
Long Term Loans	17,984	18,222	15,751	15,731	17,508	16,597
Due to Banks & Correspondents	32,385	34,698	30,856	33,944	30,537	32,267
Technical Reserves	97,016	100,982	103,550	107,794	118,660	119,065
Non-assigned Securities for Settlement	-	-	-	-	-	-
Creditor Balance in Repo Trans, Net	314,163	307,161	299,573	301,665	311,829	323,057
Secs to be received in Repo Trans, Net	-	-	0	-	-	-
Repos (Credit Balance)	2	0	54	3	1	2
Securities' Loans	-	-	-	-	-	-
Transactions with Derivatives	-	-	-	-	-	-
Other sold collateral	-	-	-	-	-	-
Total Collateral sold	2	0	54	3	1	2
For trading purposes	22,092	19,445	17,958	24,608	21,195	25,966
For hedging purposes	6,555	6,552	7,104	12,401	8,180	9,646
Operations w/ Derivatives & Securities						
Transactions with Derivatives	28,647	25,997	25,062	37,009	29,374	35,612
Total Operations w/ Derivatives & Securities	342,812	333,158	324,690	338,677	341,204	358,671
Valuation adjustments for financial liability coverage	-	-	-	-	-	-
Obligations in securitization transactions	-	-	-	-	-	-
Payable Accountsfor Reinsurance	2,526	3,348	3,185	1,255	4,075	3,507
Income Tax Payable	2,021	1,933	2,455	3,132	2,549	2,253
Profit Sharing Payable	494	222	320	405	127	216
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-	-
Creditors for settlement of transactions	6,609	6,956	10,616	16,047	28,512	5,488
Margin Accounts Payable	-	-	-	-	-	-
Other Creditors & Accounts Payable	23,072	20,612	21,812	31,615	30,270	35,573
Other Payable Accounts	32,196	29,722	35,203	51,198	61,458	43,530
Subordinated Non Convertible Debt	17,551	13,733	30,255	32,445	30,482	32,507
Deferred Taxes, Net	0	(0)	0	0	0	(0)
Deferred Credits	265	252	418	429	450	477
TOTAL LIABILITIES	1,101,552	1,129,036	1,152,133	1,206,564	1,229,446	1,250,281
EQUITY						
Paid-in Capital	14,578	14,564	14,576	14,591	14,588	14,588
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-	-
Share Subscription Premiums	36,098	35,932	35,780	35,592	35,692	35,793
Subordinated Convertible Debentures	-	-	-	-	-	-
Subscribed Capital	50,676	50,496	50,355	50,183	50,280	50,381
Capital Reserves	4,870	4,827	5,095	5,491	5,379	5,379
Retained Earnings	84,011	71,600	71,592	71,294	94,702	84,830
Surplus (Deficit) of Secs Available for Sale	(2,754)	(2,471)	(2,428)	(2,390)	(3,513)	(4,659)
Results from Valuation of Hedging Secs	(1,790)	(1,943)	(1,884)	(3,588)	(2,103)	(2,170)
Result in the valuation reserve for unexpired risks variations in rates	82	68	65	96	77	79
Results from Conversions	1,660	1,616	1,613	1,684	1,618	1,753
Remeasurements defined benefits for employees	(494)	(618)	(741)	(926)	(1,045)	(1,163)
Surplus (Deficit) in Capital Restatement	-	-	-	-	-	-
Adjustments in the Employee's Pensions	-	-	-	-	-	-
Accumulated Effect of Deferred Taxes	-	-	-	-	-	-
Net Income	5,527	11,207	17,426	23,908	6,768	13,960
Earned Capital	91,112	84,287	90,737	95,567	101,885	98,009
Minority Interest	1,994	1,856	1,896	1,832	1,916	1,973
Total Equity	143,782	136,639	142,988	147,583	154,081	150,363
TOTAL LIABILITIES & EQUITY	1,245,334	1,265,675	1,295,121	1,354,147	1,383,526	1,400,644

GFNorte - Memorandum Accounts (Million Pesos)	1Q17	2Q17	3Q17	4Q18	1Q18	2Q18
On behalf of Third Parties						
Customer's Banks	154	53	79	33	37	44
Dividends Receivable from Customers	-	-	-	-	-	-
Interest Receivable from Customers	-	-	-	-	-	-
Settlement of Customer Transactions	(3)	5	48	(64)	182	86
Customer Premiums	-	-	-	-	-	-
Settlement with Clients' Foreign Currency	-	-	-	-	-	-
Margin Accounts in Futures' Operations	-	-	-	-	-	-
Other Current Accounts	-	-	-	-	-	-
Customers' Current Account	150	58	128	(32)	219	129
Client Securities Received in Custody	642,019	670,333	678,718	663,995	657,387	686,453
Securities and Documents Received in Guarantee	-	-	-	-	-	-
Client Securities Abroad	-	-	-	-	-	-
Clients' Securities	642,019	670,333	678,718	663,995	657,387	686,453
Clients' Repurchase Operations	106,095	90,620	75,928	118,210	167,552	154,485
Clients' Repo Transactions w/ Securities	-	-	-	-	-	-
Collateral received in guarantee for customer accounts	106,060	90,585	75,949	118,175	167,518	154,451
Purchase of Futures & Forward Contracts, national	-	-	-	-	-	-
Sale of Futures and Forward Contracts, national	-	-	-	-	-	-
Clients' Option Purchase Operations	-	-	-	-	-	-
Clients' Option Sales Operations	-	-	-	-	-	-
Purchase Operations of derivatives	-	-	-	-	-	-
Clients' Sales Operations of derivatives	-	-	-	-	-	-
Trusts under Management	108,323	113,681	103,775	112,960	104,431	101,779
Transactions On Behalf of Clients	320,478	294,885	255,652	349,346	439,500	410,715
Investment Bank Trans. on behalf of Third (Net)	90,367	77,102	85,844	87,333	89,601	90,056
TOTAL ON BEHALF OF THIRD PARTIES	1,053,014	1,042,379	1,020,341	1,100,642	1,186,708	1,187,353
Endorsement Guarantees Granted	-	-	-	-	-	-
Loan Obligations	326,160	259,402	236,364	252,516	269,875	290,268
Trusts	271,144	279,574	269,077	276,410	267,263	264,320
Mandates	2,712	13,148	14,482	14,339	14,628	16,625
Properties in Trusts and Warrant	273,856	292,722	283,559	290,749	281,891	280,945
Properties in Custody or Management	475,934	553,930	559,611	561,016	577,678	590,176
Collateral Received	164,657	101,105	110,142	145,077	187,966	181,148
Collateral Received or sold or delivered	203,465	123,597	111,691	184,011	273,284	250,217
Drafts in Transit	-	-	-	-	-	-
Assets' Deposit	2,368	2,415	1,802	3,068	2,498	1,545
Letters of Credit to the Corporation as Guarantee	-	-	-	-	-	-
Securities to the Corporation for Custody	-	-	-	-	-	-
Government Secs of the Corp under Custody	-	-	-	-	-	-
Securities of the Corp given as Guarantee	-	-	-	-	-	-
Securities of the Corp Abroad	-	-	-	-	-	-
Settlement with FX of the Corp Abroad	-	-	-	-	-	-
Debts with the Contingency Fund	-	-	-	-	-	-
Contingent assets & Liabilities	63	73	111	100	119	131
Uncollected Accrued Interest from Past Due Loans	437	471	361	367	363	358
Investments of Retirement Savings Funds	-	-	-	-	-	-
Integration of the Credit Portfolio	-	-	-	-	-	-
Amounts Contracted in Derivatives	-	-	-	-	-	-
Proprietary Transactions	1,446,941	1,333,715	1,303,640	1,436,905	1,593,673	1,594,788
Repo Securities to be Received	-	-	-	-	-	-
(Minus) Repo Creditors	-	-	-	-	-	-
Net Repo Transactions	-	-	-	-	-	-
Repo Debtors	-	-	-	-	-	-
(Minus) Repo Securities to be Delivered	-	-	-	-	-	-
Net Repo Transactions	-	-	-	-	-	-
TOTAL PROPRIETARY	1,446,941	1,333,715	1,303,640	1,436,905	1,593,673	1,594,788

GFNORTE - CONSOLIDATED STATEMENT OF CASH FLOW**JANUARY 1, 2018 – JUNE 30, 2018***(Million Pesos)*

Net Income	13,960
Items charged to results that do not generate or require use of resources	
Depreciation	891
Technical Reserves	7,791
Provisions	(361)
Income taxes and deferred	5,494
Minority Interest	(575)
	13,240
	27,200
Change in items related to operations	
Change in Margin Accounts	306
Change in Investment in Securities	(12,585)
Change in repo debtors	492
Change in derivatives (assets)	(3,269)
Change in Loan Portfolio (net)	(24,419)
Change in purchased receivables (net)	(304)
Change in accounts receivable insurance and bonding institutions (net)	(230)
Change in debtor premiums (net)	(4,835)
Change in Reinsurance (net)	(5,328)
Change in benefits to receive from securitizations	(8)
Change in foreclosed assets (net)	89
Change in other operating assets (net)	(5,271)
Change in core deposits	19,435
Change in interbank loans and other entities	(1,684)
Change in repo creditors	21,392
Change in collateral pledged sold	(2)
Change in derivatives (liability)	1,358
Change in Technical Reserves (net)	3,480
Change in Reinsurance (net) (liability)	2,252
Change in subordinated debt with characteristics of liabilities	62
Change in other operating liabilities	(6,226)
Change in hedging instruments (the related hedged transaction activities)	(2,685)
Discontinued Operational Assets	0
Income Tax Payments	(5,949)
Net cash generated or used from operations	3,271
Investment Activities	
Charges for disposal of property, furniture and equipment	798
Payments for acquisition of property, furniture and equipment	(1,607)
Charges for disposal of subsidiaries, associated and agreements with mutual control	-
Payments for other permanent investments	-
Charges for cash dividends	1,205
Discontinued Operational Assets	-
Net cash generated or used from investment activities	396
Financing Activities	
Payments of cash dividends	(9,563)
Payments associated with the repurchase of proprietary shares	(115)
Payments of interests of subordinated debentures	(608)
Net cash flows from financing activities	(10,286)
Net Cash Increase (decrease) and equivalents value	(6,619)
Effects for changes in cash and equivalents value	(1)
Cash and cash equivalents at beginning of period	76,269
Cash and cash equivalents at end of period	69,649

GFNORTE - CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

JANUARY 1, 2018 – JUNE 30, 2018
(Million Pesos)

	CONTRIBUTED CAPITAL		EARNED CAPITAL									
	Fixed Paid-in Capital	Premium from sale of securities	Capital Reserves	Retained Earnings	Valuation Effects of Securities Available for Sale	Results from val of instrum Cash flow hedges	Results in the val. reserve for unexpired risks variations in rates	Results from Conversions	Remeasurements defined benefits for employees	Net Income	Minority Interest	Total Stockholders' Equity
Balance as of December 31, 2017	14,591	35,592	5,491	71,294	(2,390)	(3,588)	96	1,684	(926)	23,908	1,832	147,584
Changes stemming from stockholders' decisions												
Repurchase of payment plan based on shares payable in equity instruments	(3)	203	(112)		(9)							79
Capitalization of profits				23,908						(23,908)		0
Dividends Declared by the Ordinary General Shareholders' Meeting on June 1, 2018				(9,563)								(9,563)
INB's Sale Accounting Effect				(179)								(179)
Total	(3)	203	(112)	14,166	(9)	0	0	0	0	(23,908)	0	(9,663)
Changes stemming from profits												
Total profits:												
Net Income										13,960		13,960
Result from valuation of securities available for sale					(2,260)							(2,260)
Effect of subsidiaries, associates and mutual funds		(2)		(22)				69				45
Result from valuation of instruments of cash flow hedges						1,418						1,418
Result in valuation of current risk reserve due to changes in rates							(17)					(17)
Remeasurements defined benefits for employees									(237)			(237)
Interest of subordinated debentures				(608)								(608)
Total	0	(2)	0	(630)	(2,260)	1,418	(17)	69	(237)	13,960	0	12,301
Recognition of minority interest											141	141
Balance as of June 30, 2018	14,588	35,793	5,379	84,830	(4,659)	(2,170)	79	1,753	(1,163)	13,960	1,973	150,363

Bank

Income Statement - Bank (Million Pesos)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Interest Income	21,747	23,165	24,448	25,181	25,945	26,729
Interest Expense	8,614	9,831	10,515	10,415	11,254	11,168
Charged Fees	282	294	296	297	290	320
Fees Paid	143	165	171	207	237	253
Net Interest Income (NII)	13,272	13,463	14,057	14,856	14,744	15,628
Preventive Provisions for Loan Losses	2,658	3,433	3,343	3,450	4,149	3,759
Net Interest Income Adjusted for Credit Risk	10,614	10,030	10,715	11,406	10,596	11,869
Fund Transfers	368	390	350	380	363	422
Account Management Fees	614	639	662	681	639	650
Electronic Banking Services	1,639	1,709	1,653	1,902	1,880	2,019
For Commercial and Mortgage Loans	94	193	225	178	135	269
For Consumer Loans	997	1,052	1,093	1,143	1,117	1,155
Fiduciary	91	101	96	132	107	126
Income from Real Estate Portfolios	5	9	10	13	20	7
Trading & Financial Advising Fees	-	-	-	-	-	-
Trading & Financial Advising Fees	1	1	1	1	1	1
Other Fees Charged (1) *	473	464	521	557	580	587
Fees Charged on Services	4,282	4,557	4,611	4,986	4,842	5,235
Interchange Fees	722	762	739	875	880	986
Insurance Fees	-	-	-	-	-	-
Other Fees Paid	802	779	836	871	864	999
Fees Paid on Services	1,524	1,541	1,576	1,746	1,744	1,985
Net Fees	2,758	3,016	3,036	3,240	3,099	3,250
Foreign Exchange	(124)	(11)	22	(16)	(116)	231
Derivatives	16	(49)	368	402	199	605
Negotiable Instruments	(63)	26	(130)	(554)	(31)	41
Valuation	(172)	(34)	260	(168)	52	877
Currency and Metals	520	523	234	452	613	354
Derivatives	281	73	(28)	(189)	39	(117)
Negotiable Instruments	64	149	87	50	103	17
Trading	865	745	292	314	755	254
Trading Income	693	711	552	145	807	1,131
Loan Recovery	-	-	-	-	-	-
Loan Portfolios	30	30	25	47	29	36
Income from foreclosed assets	12	(266)	229	151	70	87
Provisions Release	-	-	-	-	-	-
Losses and Estimates	(280)	(325)	(267)	(361)	(715)	(337)
Impairment of Assets	(58)	(9)	(9)	(8)	-	-
Lease Income	8	8	19	13	15	3
From Insurance	-	-	-	-	-	-
Other Operating Expense	285	333	158	502	993	95
Total Other Operating Income (Expenses)	(3)	(230)	155	344	391	(116)
Total Non-Interest Income	3,448	3,496	3,743	3,729	4,297	4,265
Total Operating Income	14,062	13,526	14,457	15,135	14,892	16,134
Personnel	3,361	3,127	3,048	3,272	3,370	3,679
Employee Profit Sharing (PTU)	99	99	99	85	104	104
Professional Fees	463	612	655	726	606	621
Administrative and Promotional Expenses	1,749	1,765	1,649	1,797	1,784	1,826
Rents, Depreciation & Amortization	1,219	1,184	1,155	1,158	1,272	1,311
Taxes other than income tax & non-deductible expenses	458	337	358	394	724	126
Contributions to IPAB/Fobaproa	634	636	668	696	725	726
Total Non-Interest Expense	7,984	7,760	7,634	8,127	8,585	8,394
Operating Income	6,078	5,766	6,823	7,007	6,307	7,740
Subsidiaries' Net Income	14	17	(6)	37	25	49
Pre-Tax Income	6,092	5,783	6,817	7,044	6,332	7,790
Income Tax	1,541	1,509	1,755	1,977	1,591	2,112
Deferred Income Tax	320	89	78	219	123	285
Taxes	1,861	1,597	1,833	2,196	1,714	2,397
Net Income from Continuous Operations	4,232	4,185	4,985	4,848	4,618	5,392
Discontinued Operations	74	6	8	2	-	-
Minority Interest	0	(0)	(0)	(0)	(0)	(0)
Net Income	4,305	4,191	4,993	4,850	4,618	5,392

Bank - Balance Sheet (Million Pesos)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
ASSETS						
Cash and Due from Banks	60,405	65,822	59,618	76,063	87,771	69,226
Margin Accounts	1,909	2,635	1,628	1,986	1,739	1,680
Negotiable Instruments	150,913	159,894	174,661	122,065	85,206	95,500
Securities Available for Sale	106,886	110,750	126,881	152,910	150,133	145,572
Securities Held to Maturity	6,245	6,202	6,849	6,834	6,836	6,770
Investment in Securities	264,044	276,846	308,392	281,810	242,175	247,842
Non-assigned Securities for Settlement	-	-	-	-	-	-
Debtor Balance in Repo Trans,net	2	0	20	5	1	0
Securities Lending	-	-	-	-	-	-
For trading purposes	22,738	20,352	18,959	25,511	24,399	28,794
For hedging purposes	387	216	94	205	293	134
Operations w/Derivatives & Securities	-	-	-	-	-	-
Transactions with Derivatives	23,125	20,568	19,053	25,716	24,692	28,929
Operations w/Derivatives & Securities	23,126	20,568	19,073	25,721	24,693	28,929
Valuation adjustments for Asset Coverage	110	106	102	99	95	91
Commercial Loans	199,150	208,717	209,711	210,431	211,079	224,216
Financial Intermediaries' Loans	21,122	23,538	22,517	22,875	24,843	22,887
Consumer Loans	90,824	93,999	99,186	101,995	105,358	108,725
Mortgage Loans	119,310	124,206	130,084	135,405	139,779	145,351
Medium and Residential	115,226	120,197	126,120	131,563	135,952	141,629
low income housing	37	33	29	26	23	20
Loans acquired from INFONAVIT or FOVISSSTE	4,048	3,975	3,934	3,816	3,804	3,702
Restructuring or improvement guaranteed by development banks or public trusts	-	-	-	-	-	-
Government Entities' Loans	130,183	133,394	130,617	132,816	131,014	128,397
Loans granted as Federal Agent	-	-	-	-	-	-
Performing Loans	560,589	583,853	592,114	603,522	612,074	629,576
Commercial PDL's	5,677	5,570	5,566	6,540	6,723	6,930
Financial Intermediaries PDL's	344	0	0	0	1	0
Consumer PDL's	2,993	3,867	3,987	4,329	3,875	4,342
Mortgage PDL's	1,019	1,161	1,234	1,323	1,315	1,347
Medium and Residential	911	1,044	1,096	1,179	1,186	1,227
low income housing	1	1	1	1	1	1
Loans acquired from INFONAVIT or FOVISSSTE	106	117	137	143	128	119
Restructuring or improvement guaranteed by development banks or public trusts	-	-	-	-	-	-
Government Entities PDL's	-	-	-	-	-	-
Past Due Loans	10,034	10,598	10,788	12,192	11,914	12,619
Gross Loan Portfolio	570,622	594,452	602,902	615,714	623,988	642,196
Preventive Loan Loss Reserves	13,805	15,499	15,628	15,551	16,108	16,639
Net Loan Portfolio	556,818	578,953	587,274	600,163	607,880	625,556
Acquired Collection Rights	1,477	1,394	2,021	1,925	1,794	2,298
Total Credit Portfolio	558,294	580,347	589,295	602,088	609,673	627,855
Benef. receivab. securization transactions	151	152	177	141	162	149
Sundry Debtors & Other Accs Rec, Net	36,363	26,519	35,953	37,492	27,055	43,581
Inventories	-	-	-	-	-	-
Foreclosed Assets, Net	1,182	791	755	752	754	704
Real Estate, Furniture & Equipment, Net	12,120	12,306	12,777	13,474	13,720	13,893
Investment in Subsidiaries	199	119	113	150	175	192
Long-term assets held for sale	-	-	-	-	-	-
Deferred Taxes, Net	3,602	3,651	3,146	3,517	3,189	3,302
Goodwill and Intangibles	10,775	10,805	10,918	13,051	12,639	14,870
Other Assets Short and Long Term	2,914	2,364	2,137	81	57	53
	67,306	56,707	65,977	68,658	57,750	76,743
TOTAL ASSETS	975,193	1,003,031	1,044,085	1,056,423	1,023,894	1,052,365

Bank - Balance Sheet (Million Pesos)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
LIABILITIES						
Demand Deposits	366,454	367,839	376,822	394,995	389,330	403,109
Time Deposits-Retail	209,212	227,186	235,605	245,288	248,275	238,597
Time Deposits-Money Market	1,115	15,394	8,983	3,679	9,984	13,264
Global Account of deposits without movements	1,410	1,456	1,523	1,657	1,673	1,709
Senior Unsecured Debt	-	2,750	2,745	3,003	2,764	4,995
Deposits	578,191	614,625	625,678	648,622	652,027	661,675
Demand Loans	1,137	1,591	0	0	0	0
Short Term Loans	7,204	7,557	7,610	8,441	6,971	7,528
Long Term Loans	8,702	8,495	6,520	6,797	6,520	6,489
Due to Banks & Correspondents	17,043	17,642	14,130	15,238	13,491	14,017
Non-assigned Securities for Settlement	-	-	-	-	-	-
Creditor Balance in Repo Trans, Net	210,936	218,158	228,696	190,363	150,684	175,344
Secs to be received in Repo Trans, Net	-	-	-	-	-	-
Repos (Credit Balance)	2	0	0	3	1	2
Securities' Loans	-	-	-	-	-	-
Transactions with Derivatives	-	-	-	-	-	-
Other sold collateral	-	-	-	-	-	-
Total Collateral sold	2	0	0	3	1	2
For trading purposes	22,092	19,445	17,958	24,608	21,195	25,966
For hedging purposes	6,555	6,552	7,104	12,401	8,180	9,646
Operations w/ Derivatives & Securities	-	-	-	-	-	-
Transactions with Derivatives	28,647	25,997	25,062	37,009	29,374	35,612
Total Operations w/ Derivatives & Securities	239,585	244,155	253,758	227,375	180,059	210,958
Valuation adjustments for financial liability coverage	-	-	-	-	-	-
Obligations in securitization transactions	-	-	-	-	-	-
Payable Accounts for Reinsurance	-	-	-	-	-	-
Income Tax Payable	1,477	1,143	1,351	1,940	1,794	1,121
Profit Sharing Payable	494	222	320	405	127	216
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-	-
Creditors for settlement of transactions	6,516	6,828	9,904	15,871	28,150	4,856
Margin Accounts Payable	-	-	-	-	-	-
Other Creditors & Accounts Payable	19,290	17,026	18,544	27,981	26,757	31,837
Other Payable Accounts	27,777	25,218	30,119	46,196	56,828	38,031
Subordinated Non Convertible Debt	17,551	13,733	30,255	32,445	30,482	32,507
Deferred Taxes, Net	-	-	-	-	-	-
Deferred Credits	142	107	258	485	464	456
TOTAL LIABILITIES	880,289	915,480	954,198	970,361	933,350	957,644
EQUITY						
Paid-in Capital	18,105	18,105	18,105	18,105	18,105	18,105
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-	-
Share Subscription Premiums	180	294	420	648	750	852
Subordinated Convertible Debentures	-	-	-	-	-	-
Subscribed Capital	18,285	18,399	18,525	18,753	18,855	18,957
Capital Reserves	11,509	13,013	13,013	13,013	13,013	14,847
Retained Earnings	62,685	49,462	46,400	38,959	56,788	54,641
Surplus (Deficit) of Secs Available for Sale	(1,139)	(752)	(402)	4	(1,068)	(2,002)
Results from Valuation of Hedging Secs	(1,827)	(1,982)	(1,923)	(3,653)	(2,141)	(2,209)
Result in the valuation reserve for unexpired risks variations in rates	-	-	-	-	-	-
Results from Conversions	1,579	1,544	1,540	1,591	1,542	1,661
Remeasurements defined benefits for employees	(503)	(629)	(755)	(943)	(1,063)	(1,184)
Surplus (Deficit) in Capital Restatement	-	-	-	-	-	-
Adjustments in the Employee's Pensions	-	-	-	-	-	-
Accumulated Effect of Deferred Taxes	-	-	-	-	-	-
Net Income	4,305	8,496	13,489	18,339	4,618	10,010
Earned Capital	76,609	69,152	71,362	67,309	71,689	75,764
Minority Interest	10	0	0	0	0	0
Total Equity	94,904	87,551	89,887	86,062	90,544	94,721
TOTAL LIABILITIES & EQUITY	975,193	1,003,031	1,044,085	1,056,423	1,023,894	1,052,365

Bank - Memorandum Accounts (Million Pesos)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Investment Banking transactions for third parties, net	90,367	77,102	85,844	87,333	89,601	90,056
TOTAL ON BEHALF OF THIRD PARTIES	90,367	77,102	85,844	87,333	89,601	90,056
Proprietary Transactions						
Endorsement Guarantees Granted	-	-	-	-	-	-
Loan Obligations	287,187	217,510	194,370	213,098	230,194	252,633
Trusts	271,144	279,574	269,077	276,410	267,263	264,320
Mandates	2,712	13,148	14,482	14,339	14,628	16,625
Properties in Trusts and Warrant	273,856	292,722	283,559	290,749	281,891	280,945
Properties in Custody or Management	321,987	359,766	360,273	363,730	377,497	376,146
Collateral Received	158,596	97,317	101,413	133,904	174,273	167,571
Collateral Received or sold	94,204	30,833	32,285	62,240	99,167	89,256
Drafts in Transit	-	-	-	-	-	-
Deposits of assets	-	-	-	-	-	-
Letters of Credit to the Corporation as Guarantee	-	-	-	-	-	-
Securities to the Corporation for Custody	-	-	-	-	-	-
Government Secs of the Corp under Custody	-	-	-	-	-	-
Securities of the Corp given as Guarantee	-	-	-	-	-	-
Securities of the Corp Abroad	-	-	-	-	-	-
Settlement with FX of the Corp Abroad	-	-	-	-	-	-
Debts with the Contingency Fund	-	-	-	-	-	-
Contingent assets & liabilities	63	73	111	100	119	131
Uncollected Accrued Interest from Past Due Loans	436	470	359	365	361	357
Investments of Retirement Savings Funds	-	-	-	-	-	-
Integration of the Credit Portfolio	-	-	-	-	-	-
Amounts Contracted in Derivatives	-	-	-	-	-	-
Proprietary Transactions	1,136,328	998,692	972,371	1,064,187	1,163,501	1,167,038
Repo Securities to be Received	-	-	-	-	-	-
(Minus) Repo Creditors	-	-	-	-	-	-
Net Repo Transactions	-	-	-	-	-	-
Repo Debtors	-	-	-	-	-	-
(Minus) Repo Securities to be Delivered	-	-	-	-	-	-
Net Repo Transactions	-	-	-	-	-	-
TOTAL PROPRIETARY	1,136,328	998,692	972,371	1,064,187	1,163,501	1,167,038

BANORTE - CONSOLIDATED STATEMENT OF CASH FLOW**JANUARY 1, 2018 – JUNE 30, 2018***(Million Pesos)*

Net Income	10,010
Items charged to results that do not generate or require use of resources	
Depreciation	813
Provisions	(362)
Income taxes and deferred	4,112
Minority Interest	(75)
	4,488
	14,498
Change in items related to operations	
Change in Margin Accounts	306
Change in Investment in Securities	31,961
Change in repo debtors	5
Change in derivatives (assets)	(3,276)
Change in Loan Portfolio (net)	(25,383)
Change in purchased receivables (net)	(374)
Change in accounts receivable insurance and bonding institutions (net)	(8)
Change in debtor premiums (net)	48
Change in Reinsurance (net)	(7,877)
Change in benefits to receive from securitizations	13,053
Change in foreclosed assets (net)	(1,227)
Change in other operating assets (net)	(15,019)
Change in core deposits	(2)
Change in interbank loans and other entities	1,359
Change in repo creditors	62
Change in collateral pledged sold	(7,292)
Change in derivatives (liability)	(1,240)
Change in Technical Reserves (net)	0
Change in Reinsurance (net) (liability)	(4,609)
Change in subordinated debt with characteristics of liabilities	0
Change in other operating liabilities	0
Change in hedging instruments (the related hedged transaction activities)	0
Discontinued Operational Assets	(5,015)
Income Tax Payments	0
Net cash generated or used from operations	(5,015)
Investment Activities	
Charges for disposal of property, furniture and equipment	33
Payments for acquisition of property, furniture and equipment	(1,265)
Charges for disposal of subsidiaries, associated and agreements with mutual control	0
Charges for cash dividends	30
Net cash generated or used from investment activities	(1,202)
Financing Activities	
Payments of cash dividends	0
Payments of interests of subordinated debentures	(619)
Net cash flows from financing activities	(619)
Net Cash Increase (decrease) and equivalents value	(6,836)
Effects for changes in cash and equivalents value	(1)
Cash and cash equivalents at beginning of period	76,063
Cash and cash equivalents at end of period	69,226

BANORTE - CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

JANUARY 1, 2018– JUNE 30, 2018

(Million Pesos)

	CONTRIBUTED CAPITAL		EARNED CAPITAL								
	Fixed Paid-in Capital	Premium from sale of securities	Capital Reserves	Retained Earnings	Valuation Effects of Securities Available for Sale	Results from val of instrum Cash flow hedges	Results from Conversions	Remeasurements defined benefits for employees	Net Income	Minority Interest	Total Stockholders' Equity
Balance as of December 31, 2017	18,105	648	13,013	38,959	4	(3,653)	1,590	(943)	18,339	0	86,062

Changes stemming from stockholders' decisions

Capitalization of profits				18,339					(18,339)		0
Creation of Reserves according to Annual General Ordinary Shareholders Meeting held on April 27, 2018.			1,834	(1,834)							0
Payment plan based on equity-settle shares in equity instruments		204									204
INB's Sale Accounting Effect				(183)							(183)
Total	0	204	1,834	16,322	0	0	0	0	(18,339)	0	21

Changes stemming from profitsTotal profits:

Net Income									10,010		10,010
Result from valuation of securities available for sale					(2,006)						(2,006)
Effect of subsidiaries, associates and mutual funds				(3)							(3)
Conversion accumulated effect							71				71
Result from valuation of instruments of cash flow hedges						1,444					1,444
Remeasurements defined benefits for employees				(18)				(241)			(259)
Interest of subordinated debentures				(619)							(619)
Total	0	0	0	(640)	(2,006)	1,444	71	(241)	10,010	0	8,638
Recognition of minority interest											0
Saldos al 30 de Junio de 2018	18,105	852	14,847	54,641	(2,002)	(2,209)	1,661	(1,184)	10,010	0	94,721

Seguros Banorte

Income Statement - Insurance - Seguros Banorte (Million Pesos)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Interest Income	179	252	290	284	338	359
Interest Expense	5	(2)	(3)	-	-	-
Premium Income (Net)	5,986	4,336	3,302	3,581	9,479	3,230
Net Increase in Technical Reserves	1,920	463	(1,004)	(389)	3,954	(918)
Damages, Claims and Other Obligations	2,325	2,602	3,051	2,762	2,912	3,022
Net Interest Income	1,916	1,524	1,548	1,493	2,951	1,485
Fees Charged on Services	-	-	-	-	-	-
Fees Paid on Services	564	469	577	398	952	370
Securities-Valuation Gains	-	-	-	-	-	-
Securities Trading	12	(5)	16	19	5	(0)
Trading Income	12	(5)	16	19	5	(0)
From Insurance	232	213	188	199	194	250
Losses and Estimates	(7)	(43)	(39)	(209)	(6)	(2)
Other Operating Income (Expense)	3	2	2	5	5	3
Total Other Operating Income (Expenses)	228	172	152	(5)	192	252
Total Non-Interest Income	(324)	(302)	(409)	(384)	(754)	(118)
Total Operating Income	1,592	1,222	1,139	1,110	2,197	1,367
Personnel	84	90	96	106	93	97
Employee Profit Sharing (PTU)	1	1	1	2	1	1
Professional Fees	60	56	59	62	57	67
Administrative and Promotional Expenses	101	66	84	97	84	90
Rents, Depreciation & Amortization	38	38	39	41	41	41
Taxes other than income tax & non-deductible expenses	38	(0)	21	24	27	21
Contributions to IPAB/Fobaproa	-	-	-	-	-	-
Total Non-Interest Expense	322	252	300	332	303	317
Operating Income	1,270	970	839	778	1,895	1,049
Subsidiaries' Net Income	369	316	306	316	335	370
Pre-Tax Income	1,639	1,287	1,145	1,094	2,229	1,419
Income Tax	387	298	256	141	590	299
Deferred Income Tax	(4)	(4)	(28)	27	(46)	(4)
Taxes	384	295	228	169	544	296
Net Income from Continuous Operations	1,255	992	917	925	1,685	1,123
Discontinued Operations	-	-	-	-	-	-
Minority Interest	(8)	(7)	(7)	(8)	(8)	(9)
Net Income	1,247	985	910	917	1,677	1,115

Insurance - Seguros Banorte - Balance Sheet <i>(Million Pesos)</i>	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
ASSETS						
Cash and Due from Banks	55	37	58	69	81	105
Margin Accounts	-	-	-	-	-	-
Negotiable Instruments	11,834	13,264	13,996	15,509	17,777	17,140
Securities Available for Sale	2,232	2,093	2,103	1,505	1,188	906
Securities Held to Maturity	(0)	-	-	(0)	(0)	-
Investment in Securities	14,066	15,356	16,099	17,013	18,965	18,046
Debtor Balance in Repo Trans,net	1,150	927	1,153	2,235	2,261	1,354
Securities Lending	-	-	-	-	-	-
Transactions with Derivatives	-	-	-	-	-	-
Operations w/Derivatives & Securities	1,150	927	1,153	2,235	2,261	1,354
Valuation adjustments for Asset Coverage	-	-	-	-	-	-
Acquired Collection Rights	-	-	-	-	-	-
Account Receivables	360	480	562	558	500	710
Premium Debtors (Net)	8,319	8,105	6,401	3,916	10,913	8,666
Account Receivables from Reinsurance	7,189	8,878	9,285	8,717	13,682	14,044
Benef.receiveab.securization transactions	-	-	-	-	-	-
Sundry Debtors & Other Accs Rec, Net	-	-	-	-	-	-
Inventories	-	-	-	-	-	-
Real Estate, Furniture & Equipment, Net	337	330	331	363	353	363
Investment in Subsidiaries	12,551	12,867	13,173	13,495	12,655	13,024
Long-term assets held for sale	-	-	-	-	-	-
Deferred Taxes, Net	134	134	158	127	169	169
Goodwill and Intangibles	1,891	2,152	2,386	2,706	2,121	2,354
Other Assets Short and Long Term	85	86	87	93	94	92
	30,866	33,033	32,384	29,975	40,488	39,423
TOTAL ASSETS	46,137	49,353	49,694	49,292	61,795	58,928

Insurance - Seguros Banorte - Balance Sheet <i>(Million Pesos)</i>	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
LIABILITIES						
Technical Reserves	18,623	20,346	20,426	21,426	29,468	28,058
Total Operations w/ Derivatives & Securities	-	-	-	-	-	-
Valuation adjustments for financial liability coverage	-	-	-	-	-	-
Obligations in securitization transactions	-	-	-	-	-	-
Payable Accounts for Reinsurance	2,526	3,348	3,185	1,255	4,075	3,507
Income Tax Payable	409	702	952	1,087	630	923
Profit Sharing Payable	-	-	-	-	-	-
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-	-
Creditors for settlement of transactions	-	-	-	-	-	-
Margin Accounts Payable	-	-	-	-	-	-
Other Creditors & Accounts Payable	2,770	2,413	2,172	2,111	2,518	2,446
Other Payable Accounts	3,179	3,115	3,124	3,198	3,147	3,369
Subordinated Non Convertible Debt	-	-	-	-	-	-
Deferred Taxes, Net	397	394	390	386	383	379
Deferred Credits	66	60	58	60	65	65
TOTAL LIABILITIES	24,791	27,262	27,183	26,326	37,138	35,379
EQUITY						
Paid-in Capital	13,766	13,766	13,766	13,766	13,766	13,766
Provision for future capital increase not formalized by its governing entity	-	-	-	-	-	-
Share Subscription Premiums	-	-	-	-	-	-
Subordinated Convertible Debentures	-	-	-	-	-	-
Subscribed Capital	13,766	13,766	13,766	13,766	13,766	13,766
Capital Reserves	1,499	1,789	1,789	1,789	1,789	2,195
Retained Earnings	4,419	3,879	3,379	2,889	6,948	4,332
Surplus (Deficit) of Secs Available for Sale	31	52	58	45	68	68
Results from Valuation of Hedging Secs	-	-	-	-	-	-
Result in the valuation reserve for unexpired risks variations in rates	82	68	65	96	77	79
Results from Conversions	-	-	-	-	-	-
Remeasurements defined benefits for employees	-	-	-	-	-	-
Surplus (Deficit) in Capital Restatement	-	-	-	-	-	-
Adjustments in the Employee's Pensions	-	-	-	-	-	-
Accumulated Effect of Deferred Taxes	-	-	-	-	-	-
Net Income	1,247	2,232	3,142	4,059	1,677	2,792
Earned Capital	7,278	8,020	8,433	8,878	10,560	9,465
Minority Interest	302	305	312	323	330	318
Total Equity	21,346	22,091	22,511	22,967	24,657	23,549
TOTAL LIABILITIES & EQUITY	46,137	49,353	49,694	49,292	61,795	58,928

Information by Segments

GFNorte - Income Statement as of June '18

(Million Pesos)

	Holding	Banorte	Ahorro y Previsión	Arrendadora y Factor	Almacenadora	Casa de Bolsa Banorte
Interest Income	396	53,284	3,739	1,166	30	4,980
Premium Income (Net)	-	-	17,632	-	-	-
Interest Expense	-	22,911	-	732	0	4,787
Net Increase in Technical Reserves	-	-	7,791	-	-	-
Damages, Claims and Other Obligations	-	-	8,288	-	-	-
Net Interest Income (Nil)	396	30,372	5,291	434	30	192
Preventive Provisions for Loan Losses	-	7,907	-	40	-	-
Net Interest Income Adjusted for Credit Risk	396	22,465	5,291	395	30	192
Loan Origination Fees	-	10,078	-	14	-	725
Fees Paid	-	3,729	1,422	35	0	85
Trading Income	-	1,938	6	(0)	-	150
Other Operating Income (Expenses)	0	275	438	429	21	19
Non Interest Income	0	18,121	2,477	476	21	1,289
Total Operating Income	396	40,586	7,769	871	51	1,481
Administrative and Promotional Expenses	50	16,979	795	115	30	447
Operating Income	346	14,047	3,519	688	21	554
Subsidiaries' Net Income	13,663	75	704	-	0	0
Pre-Tax Income	14,010	14,122	4,224	688	21	554
Income Tax	-	3,703	894	177	7	128
Deferred Income Tax	63	409	110	29	(0)	27
Net Income from Continuous Operations	13,947	10,010	3,219	481	14	399
Discontinued Operations	-	-	-	-	-	-
Minority Interest	-	(0)	(13)	(0)	-	-
Net Income	13,947	10,010	3,206	481	14	399

GFNorte - Income Statement as of June '18

(Million Pesos)

	Operadora de Fondos Banorte	IXE Servicios	Sólida Administradora de Portafolios	Total	Charges Intercompany Eliminations	Credits Intercompany Eliminations	Final Balance
Interest Income	14	1	332	63,941	3,006	-	60,935
Premium Income (Net)	-	-	-	17,632	385	-	17,247
Interest Expense	-	-	494	28,925	-	2,987	25,938
Net Increase in Technical Reserves	-	-	-	7,791	-	-	7,791
Damages, Claims and Other Obligations	-	-	-	8,288	-	-	8,288
Net Interest Income (Nil)	14	1	(162)	36,569	-	-	36,165
Preventive Provisions for Loan Losses	-	-	161	8,108	-	-	8,108
Net Interest Income Adjusted for Credit Risk	14	1	(323)	28,462	-	-	28,057
Loan Origination Fees	764	-	73	11,653	980	-	10,673
Fees Paid	535	-	0	5,806	-	996	4,810
Trading Income	-	-	(7)	2,087	-	-	2,087
Other Operating Income (Expenses)	0	0	(149)	1,034	26	5	1,012
Non Interest Income	1,299	0	(455)	23,228	1,006	1,010	21,240
Total Operating Income	1,313	1	(778)	51,689	1,006	1,010	49,297
Administrative and Promotional Expenses	20	2	113	18,551	378	789	18,141
Operating Income	223	(1)	(518)	18,879	-	-	18,879
Subsidiaries' Net Income	1	-	(15)	14,429	13,663	-	765
Pre-Tax Income	224	(1)	(534)	33,307	-	-	19,644
Income Tax	62	-	-	4,971	-	-	4,971
Deferred Income Tax	0	-	(101)	537	-	13	524
Net Income from Continuous Operations	162	(1)	(432)	27,800	-	-	14,149
Discontinued Operations	-	-	-	-	-	-	-
Minority Interest	-	-	-	(14)	176	-	(190)
Net Income	162	(1)	(432)	27,786	18,615	4,776	13,960

GFNorte - Balance Sheet as of June 30 '18

(Million Pesos)

ASSETS	Holding	Banorte	Ahorro y Previsión	Arrendadora y Factor	Almacenadora	Casa de Bolsa Banorte
Cash and Due from Banks	0	69,226	251	34	0	938
Margin Accounts	-	1,680	-	-	-	-
Investment in Securities	-	247,842	111,930	0	-	155,817
Negotiable Instruments	-	95,500	19,725	-	-	143,954
Securities Available for Sale	-	145,572	980	0	-	11,139
Securities Held to Maturity	-	6,770	91,225	-	-	724
Debtor Balance in Repo Trans, net	5,667	0	1,385	-	-	-
Transactions with Derivatives For trading purposes	-	28,794	-	-	-	-
Transactions with Derivatives For hedging purposes	-	134	-	-	-	-
Valuation adjustments for Asset Coverage	-	91	-	-	-	-
Gross Loan Portfolio	-	627,855	-	26,334	-	-
Net Loan Portfolio	-	625,556	-	26,334	-	-
Performing Loans	-	629,576	-	26,468	-	-
Commercial Loans	-	224,216	-	24,158	-	-
Financial Intermediaries' Loans	-	22,887	-	613	-	-
Government Entities' Loans	-	128,397	-	1,690	-	-
Consumer Loans	-	108,725	-	6	-	-
Mortgage Loans	-	145,351	-	-	-	-
Medium and Residential	-	141,629	-	-	-	-
Low income housing	-	20	-	-	-	-
Loans acquired from INFONAVIT or FOVISSSTE	-	3,702	-	-	-	-
Past Due Loans	-	12,619	-	161	-	-
Commercial PDL's	-	6,930	-	161	-	-
Financial Intermediaries PDL's	-	0	-	-	-	-
Consumer PDL's	-	4,342	-	0	-	-
Mortgage PDL's	-	1,347	-	-	-	-
Medium and Residential	-	1,227	-	-	-	-
Low income housing	-	1	-	-	-	-
Loans acquired from INFONAVIT or FOVISSSTE	-	119	-	-	-	-
Preventive Loan Loss Reserves	-	16,639	-	295	-	-
Acquired Collection Rights	-	2,298	-	-	-	-
Account Receivables from Insurance and Annuities	-	-	2,133	-	-	-
Premium Debtors (Net)	-	-	8,866	-	-	-
Account Receivables from Reinsurance	-	-	14,044	-	-	-
Benef.receiveab.securization transactions	-	149	-	-	-	-
Sundry Debtors & Other Accs Rec, Net	0	43,581	0	536	106	1,025
Inventories	-	-	-	-	1,058	-
Foreclosed Assets, Net	-	704	-	23	-	-
Real Estate, Furniture & Equipment, Net	-	13,893	385	3,592	66	54
Investment in Subsidiaries	130,032	192	13,025	-	0	1
Long-term assets held for sale	-	-	-	-	-	-
Deferred Taxes, Net	123	3,302	-	-	3	-
Total other Assets	10,513	14,922	2,450	216	17	149
Goodwill	9,683	1,387	-	-	-	-
Intangible	831	13,482	2,357	216	4	33
Other Assets	-	53	93	-	13	116
TOTAL ASSETS	146,336	1,052,365	154,471	30,736	1,250	157,985

GFNorte - Balance Sheet as of June 30 '18

(Million Pesos)

ASSETS	Operadora de Fondos Banorte	IXE Servicios	Sólida Administradora de Portafolios	Total	Charges Intercompany Eliminations	Credits Intercompany Eliminations	Final Balance
Cash and Due from Banks	209	35	82	70,776	291	1,418	69,649
Margin Accounts	-	-	-	1,680	-	-	1,680
Investment in Securities	-	-	9	515,598	208	351	515,454
Negotiable Instruments	-	-	-	259,179	-	-	259,179
Securities Available for Sale	-	-	9	157,700	-	114	157,586
Securities Held to Maturity	-	-	-	98,719	208	237	98,689
Debtor Balance in Repo Trans, net	-	-	17	7,070	-	6,883	187
Transactions with Derivatives For trading purposes	-	-	2	28,796	-	-	28,796
Transactions with Derivatives For hedging purposes	-	-	-	134	-	-	134
Valuation adjustments for Asset Coverage	-	-	-	91	-	-	91
Gross Loan Portfolio	-	-	3,513	657,702	-	18,534	639,168
Net Loan Portfolio	-	-	3,030	654,920	-	18,534	636,386
Performing Loans	-	-	3,149	659,193	-	18,534	640,660
Commercial Loans	-	-	409	248,783	-	-	248,783
Financial Intermediaries ' Loans	-	-	-	23,500	-	18,534	4,967
Government Entities ' Loans	-	-	-	130,087	-	-	130,087
Consumer Loans	-	-	2,741	111,471	-	-	111,471
Mortgage Loans	-	-	-	145,351	-	-	145,351
Medium and Residential	-	-	-	141,629	-	-	141,629
Low income housing	-	-	-	20	-	-	20
Loans acquired from INFONAVIT or FOVISSSTE	-	-	-	3,702	-	-	3,702
Past Due Loans	-	-	107	12,888	-	-	12,888
Commercial PDL 's	-	-	25	7,116	-	-	7,116
Financial Intermediaries PDL 's	-	-	-	0	-	-	0
Consumer PDL 's	-	-	82	4,424	-	-	4,424
Mortgage PDL 's	-	-	-	1,347	-	-	1,347
Medium and Residential	-	-	-	1,227	-	-	1,227
Low income housing	-	-	-	1	-	-	1
Loans acquired from INFONAVIT or FOVISSSTE	-	-	-	119	-	-	119
Preventive Loan Loss Reserves	-	-	226	17,161	-	-	17,161
Acquired Collection Rights	-	-	483	2,781	-	-	2,781
Account Receivables from Insurance and Annuities	-	-	-	2,133	-	-	2,133
Premium Debtors (Net)	-	-	-	8,866	-	-	8,866
Account Receivables from Reinsurance	-	-	-	14,044	-	-	14,044
Benef.receivab.securization transactions	-	-	-	149	-	-	149
Sundry Debtors & Other Accs Rec, Net	168	4	9,248	54,669	61	539	54,191
Inventories	-	-	-	1,058	-	-	1,058
Foreclosed Assets, Net	-	-	284	1,011	201	201	1,011
Real Estate, Furniture & Equipment, Net	0	98	-	18,089	212	212	18,089
Investment in Subsidiaries	108	-	101	143,459	767	130,898	13,328
Long-term assets held for sale	-	-	-	-	-	-	-
Deferred Taxes, Net	0	-	811	4,239	458	2,066	2,631
Total other Assets	0	1	315	28,584	2,453	1,054	29,983
Goodwill	-	-	-	11,070	2,453	876	12,646
Intangible	0	1	315	17,239	-	178	17,061
Other Assets	-	-	-	275	-	-	275
TOTAL ASSETS	485	139	14,383	1,558,150	4,650	162,156	1,400,644

GFNorte - Balance Sheet as of June 30 '18

(Million Pesos)

LIABILITIES & EQUITY	Holding	Banorte	Ahorro y Previsión	Arrendadora y Factor	Almacenadora	Casa de Bolsa Banorte
Deposits	-	661,675	-	-	-	-
Demand Deposits	-	403,109	-	-	-	-
Time Deposits	-	251,861	-	-	-	-
Time Deposits-Retail	-	238,597	-	-	-	-
Time Deposits-Money Market	-	13,264	-	-	-	-
Senior Unsecured Debt	-	4,995	-	-	-	-
Cuenta global de captación sin movimientos	-	1,709	-	-	-	-
Due to Banks & Correspondents	-	14,017	-	24,291	993	-
Immediate Redemption Loans	-	0	-	-	-	-
Short Term Loans	-	7,528	-	14,183	993	-
Long Term Loans	-	6,489	-	10,108	-	-
Technical Reserves	-	-	119,080	-	-	-
Non-assigned Securities for Settlement	-	-	-	-	-	-
Creditor Balance in Repo Trans, Net	-	175,344	-	-	-	154,596
Collateral sold or pledged as collateral	-	2	-	-	-	0
Transactions with Derivatives for trading purposes	-	25,966	-	-	-	-
Transactions with Derivatives for hedging purposes	-	9,646	-	-	-	-
Valuation adjustments for financial liability coverage	-	-	-	-	-	-
Payable Accounts for Reinsurance	-	-	3,507	-	-	-
Other Payable Accounts	0	38,031	3,588	1,177	18	816
Income Tax Payable	-	1,121	927	146	3	41
Profit Sharing Payable	-	216	-	-	-	-
Creditors for settlement of transactions	(0)	4,856	-	-	-	680
Creditors for collateral received in cash	-	11,304	-	-	-	-
Other Creditors & Accounts Payable	0	20,534	2,661	1,031	14	96
Subordinated Non Convertible Debt	-	32,507	-	-	-	-
Deferred Taxes, Net	-	-	1,275	6	-	136
Deferred Credits	-	456	65	132	-	1
TOTAL LIABILITIES	0	957,644	127,515	25,605	1,011	155,549
EQUITY						
Subscribed Capital	50,211	18,957	20,944	526	87	1,429
Paid-in Capital	14,591	18,105	15,740	526	87	1,354
Share Subscription Premiums	35,620	852	5,204	-	-	75
Contributions for future capital increases agreed by the governing body	-	-	-	-	-	-
Earned Capital	96,126	75,764	5,745	4,600	152	1,008
Capital Reserves	5,379	14,847	309	526	54	216
Retained Earnings	82,929	54,641	2,181	3,603	85	142
Surplus (Deficit) of Secs Available for Sale	(4,629)	(2,002)	(26)	(10)	-	128
Results from Valuation of Hedging Secs	(2,170)	(2,209)	-	-	-	-
Result in the valuation reserve for unexpired risks variations in rates	79	-	74	-	-	-
Results from Conversions	1,753	1,661	-	-	-	122
Surplus (Deficit) in Capital Restatement	-	-	-	-	-	-
Remeasurements defined benefits for employees	(1,163)	(1,184)	-	-	-	-
Net Income	13,947	10,010	3,206	481	14	399
Capital Mayoritario	146,336	94,721	26,689	5,126	240	2,436
Minority Interest	-	0	267	5	0	-
Total Equity	146,336	94,721	26,956	5,131	240	2,436
TOTAL LIABILITIES & EQUITY	146,336	1,052,365	154,471	30,736	1,250	157,985

GFNorte - Balance Sheet as of June 30 '18

(Million Pesos)

LIABILITIES & EQUITY	Operadora de Fondos Banorte	IXE Servicios	Sólida Administradora de Portafolios	Total	Charges Intercompany Eliminations	Credits Intercompany Eliminations	Final Balance
Deposits	-	-	-	661,675	1,418	-	660,257
Demand Deposits	-	-	-	403,109	1,239	-	401,870
Time Deposits	-	-	-	251,861	179	-	251,683
Time Deposits-Retail	-	-	-	238,597	179	-	238,418
Time Deposits-Money Market	-	-	-	13,264	-	-	13,264
Senior Unsecured Debt	-	-	-	4,995	-	-	4,995
Cuenta global de captación sin movimientos	-	-	-	1,709	-	-	1,709
Due to Banks & Correspondents	-	-	11,493	50,795	18,527	-	32,267
Immediate Redemption Loans	-	-	-	0	-	-	0
Short Term Loans	-	-	11,493	34,197	18,527	-	15,670
Long Term Loans	-	-	-	16,597	-	-	16,597
Technical Reserves	-	-	-	119,080	236	221	119,065
Non-assigned Securities for Settlement	-	-	-	-	-	-	-
Creditor Balance in Repo Trans, Net	-	-	-	329,940	6,883	-	323,057
Collateral sold or pledged as collateral	-	-	-	2	-	-	2
Transactions with Derivatives for trading purposes	-	-	-	25,966	-	-	25,966
Transactions with Derivatives for hedging purposes	-	-	-	9,646	-	-	9,646
Valuation adjustments for financial liability coverage	-	-	-	-	-	-	-
Payable Accounts for Reinsurance	-	-	-	3,507	-	-	3,507
Other Payable Accounts	158	0	64	43,853	386	64	43,530
Income Tax Payable	15	0	-	2,253	-	-	2,253
Profit Sharing Payable	-	-	-	216	-	-	216
Creditors for settlement of transactions	-	-	-	5,537	49	-	5,488
Creditors for collateral received in cash	-	-	-	11,304	-	-	11,304
Other Creditors & Accounts Payable	143	-	64	24,543	338	64	24,269
Subordinated Non Convertible Debt	-	-	-	32,507	-	-	32,507
Deferred Taxes, Net	-	-	-	1,416	1,416	-	-
Deferred Credits	-	-	2	655	178	-	477
TOTAL LIABILITIES	158	0	11,560	1,279,041	29,045	285	1,250,281
EQUITY							
Subscribed Capital	112	144	6,701	99,112	49,053	322	50,381
Paid-in Capital	112	144	6,698	57,358	42,770	-	14,588
Share Subscription Premiums	-	-	4	41,754	6,282	322	35,793
Contributions for future capital increases agreed by the governing body	-	-	-	-	-	-	-
Earned Capital	215	(6)	(3,879)	179,725	85,031	3,316	98,009
Capital Reserves	22	2	117	21,473	16,094	-	5,379
Retained Earnings	31	(7)	(741)	142,864	61,337	3,303	84,830
Surplus (Deficit) of Secs Available for Sale	-	-	(2,822)	(9,361)	(4,702)	-	(4,659)
Results from Valuation of Hedging Secs	-	-	(1)	(4,380)	(2,210)	-	(2,170)
Result in the valuation reserve for unexpired risks variations in rates	-	-	-	153	74	-	79
Results from Conversions	-	-	-	3,536	1,783	-	1,753
Surplus (Deficit) in Capital Restatement	-	-	-	-	-	-	-
Remeasurements defined benefits for employees	-	-	-	(2,347)	(1,184)	-	(1,163)
Net Income	162	(1)	(432)	27,786	13,839	13	13,960
Capital Mayoritario	327	138	2,823	278,837	134,084	3,637	148,390
Minority Interest	-	-	-	272	-	1,701	1,973
Total Equity	327	138	2,823	279,109	134,084	5,339	150,363
TOTAL LIABILITIES & EQUITY	485	139	14,383	1,558,150	163,129	5,623	1,400,644

V. Appendix

Accounting & Regulatory Changes

Numbers in this section are stated in million pesos.

Changes to rating methodologies for non-revolving consumer and mortgage portfolios.

On January 6th, 2017, the CNBV issued a resolution modifying the provisions regarding the rating methodologies for non-revolving consumer and mortgage portfolios which continue to have an expected loss approach and incorporate more recent information of the industry performance to the new variables incorporated. The main change in both methodologies is that, in addition to analyzing the credit history of the borrower with the current lender, it also requires analysis of the credit behavior of the borrower with other Institutions according to information from Sociedades de Información Crediticia. This new methodologies came into effect on June 1st, 2017.

The financial effect applied to Banorte at the end of June 2017 was Ps 1.054 billion and derived from the new provision methodologies minus the provisions of the previous methodologies. The accounting record of this financial effect was an increase in the estimated credit risk of Ps 1.054 billion (liabilities), a deferred tax increase of Ps 316 million (assets) and a decrease in prior years' income of Ps 725 million (stockholders' equity).

Main changes in the accounting criterion NIF D-3 "Employee Benefits".

On December 31st, 2015, the CNBV issued a resolution amending provisions corresponding to the application of the "NIF D-3 Employee Benefits". This provision is intended to publicize transitory articles that identify the options that institutions have to recognize accounting effects as a result of the new NIF-D-3.

Under the above, the Group took the option set forth in the third transitional article; consisting of progressively registering in equity the formula changes referred to in paragraphs a) and b) of paragraph 81.2 of the NIF D-3 "Employees' Benefits", issued by the "Consejo Mexicano de Normas de Información Financiera, A.C.", which became effective on January 1st, 2016 and promptly reported to the CNBV in accordance with the deadlines set in the provisions.

The registration of balances in paragraphs a) and b) of paragraph 81.2 of the NIF D-3, started in 2016 recognizing 20% of the balances in that year and an additional 20% in each of the subsequent years, up to 100% in a maximum period of 5 years.

The total amounts to register regarding paragraphs a) and b) of paragraph 81.2 of the NIF D-3 were determined using the corporate bond discount rate for market valuation, of the Defined Benefits Obligation in accordance with the new NIF D-3, in the following terms:

- I. The amendments balance of the unrecognized plan, is recognized progressively, registering 20% annually the "results from prior years" line, using as a counterpart the "Provision for employee benefits" account, corresponding to the liability line "Other creditors & accounts payable", as follows:

Discount rate	Total balance to be applied	20% annual application	Progressive recognition as of 2Q18
Corporate bonds	\$183.0	\$36.6	\$91.5

- II. In the case of an accumulated balance of gains or losses of the unrecognized plan (broker approach), its perceived progressively, registering 20% in 2016, and increasing the "Provision for employee benefits" account, corresponding to the liability line "Other creditors & accounts payable", using as a counterpart the "Measurements of defined benefits for employees" of the "Earned Capital" line as follows:

Discount rate	Total balance to be applied	20% annual application	Progressive recognition as of 2Q18
Corporate bonds	\$2,728.7	\$545.7	\$1,364.3

The 20% annual application is registered proportionally each month in 2018.

The amounts that would have been registered and presented in the balance sheet as of June 30th, 2018, if the aforementioned option in the affected lines had not been implemented are:

Other short and long term assets ⁽¹⁾	(1,181)
Total assets	1,399,417

Results from prior years	84,739
Measurements of defined benefits for employees	(2,527)
Total equity	148,907
Total liabilities plus equity	1,399,417

1. Under this line, the "Provision for employee benefits" account is netted to show "Net assets for defined benefits" driven by the institutions' prepayments. (if the balance were negative, this would be presented under Different creditors and other accounts payable).

Early termination of support programs for mortgage loan debtors

On June 30, 2010, the Federal Government, through the SHCP (Tax Authority), and Credit Institutions, signed an agreement to early terminate support programs for mortgage loan debtors; therefore, as of January 1, 2011, the Holding entity absorbed the discount that was early-applied to mortgage loan debtors that were enrolled in the program.

The agreement established a set of payment obligations by the Federal Government which were payable in 5 equal annual amortizations ending on June 1, 2015, on which Banorte received Ps 29 million, including monthly interest from the day after the cutoff date until the ending month before the payment date.

As of June 30, 2018, the remaining balance of CETES ESPECIALES which have not been repurchased by the Federal Government amounts to Ps 532 million, with maturities between 2022 and 2027.

Early adoption of changes to criterion B-6 "Bank Loan portfolio"

The Resolution that modifies the general provisions applicable to Credit Institutions published by the CNBV on December 27, 2017, includes modifications to criterion B-6 Credit Portfolio, which require that the following items be recorded by decreasing "Preventive Estimation for Credit Risks" item, instead of registering it under "Other Income (Expenses) of the Operation":

- Surplus of Credit Reserves,
- Recovered Credits

The above mentioned modifications will be effective as of January 1, 2019; however, Credit Institutions have an option to adopt them in advance, that is one day after they were published. In this regard Banorte decided to follow this early adoption.

As of June 30, 2018, Banorte has posted Ps 201 million under Preventive Provisions for Loan Losses, and Ps 847 million related to excess loan reserves and loan recoveries, which as of December 2017 were posted under Other Operating Income (Expenses).

For comparison purposes, the accounting change was applied to the quarterly information for 2017, as follows:

	1Q17	2Q17	3Q17	4Q17
Other Operating Income(Expenses)				
Original Balance	619	653	820	1,119
Reclassified Balance	49	109	252	701
	570	544	568	418
Preventive Reserves for Credit Risks				
Original Balance	3,268	4,058	3,927	3,961
Reclassified Balance	2,698	3,514	3,359	3,544
	570	544	568	418

New Financial Reporting Standards

Regarding the Normas de Información Financiera (NIF) issued by the Mexican Council for Research and Development of Financial Reporting Standards (CINIF), which have not yet been enforced, the Financial Group is waiting for the CNBV to publish the final version of the Resolution draft amending the general provisions applicable to Credit Institutions that we received on August 7, 2017, and which includes amendments to the accounting criteria to incorporate the future adoption of the mentioned NIF as of January 1st, 2019.

The final publication of the Resolution may include some clarifications in the application of the NIF through criterion A-2 "Application of Special Standards" derived from the recommendations and comments that the Credit Institutions made through the Association of Banks from Mexico to the CNBV, considering that Credit Institutions carry out specialized operations.

To date, we are in process of analyzing the impact that such NIF may have on the financial statements, which we will inform at the time considering the final version of the project once it is published in the DOF, and in accordance with the requirements of the NIF B-1 "Accounting Changes and Corrections of Errors".

The NIFs issued and coming into force in January 1st 2019 are:

- NIF B-17 "Determination of Reasonable Value".
- NIF C-3 "Accounts Receivable".
- NIF C-9 "Provisions, contingencies and commitments".
- NIF C-16 "Impairment of financial instruments receivable".
- NIF C-19 "Financial instruments payable".
- NIF C-20 "Financial instruments receivable principal and interest".
- NIF D-1 "Income from contracts with customers".
- NIF D-2 "Costs for contracts with customers", disclose for each one of them.

Loan Portfolio Sales to Sólida

As instructed by the CNBV in the document 601-II-323110, we show the integration of the loan portfolio sold in 1Q03 by Banorte to its subsidiary Solida Administradora de Portafolios, S.A. de C.V. The Purpose of this sale was to concentrate the portfolio in this unit as it had been managing the collections of these loans previously. This was a one-time operation and not a permanent transfer procedure of the Solida's portfolio.

On February, 2003 Banorte sold Ps 1.92 billion (Ps 1.861 billion in past due loans and Ps 64 million in Performing loans) of its own portfolio (including interests) to its subsidiary, Solida Administradora de Portafolios, S.A. de C.V. for Ps 378 million. The transaction was done based on August 2002 figures, and therefore the final figure that affected the February balance was Ps 1.86 billion, once the collections made since August 2002 are considered. The past due portfolio, as well as Ps 1.577 billion in associated loan reserves, were cancelled.

(Million of Nominal Pesos)	Local Currency			Foreign Currency (USD)			Total		
	ago-02	mar-18	jun-18	ago-02	mar-18	jun-18	ago-02	mar-18	jun-18
Commercial	5	0	0	5	0	0	10	0	0
Consumer	0	0	0	0	0	0	0	0	0
Mortgage	54	19	5	0	0	0	54	19	5
Performing Loans	59	19	5	5	0	0	64	19	5
Commercial	405	184	184	293	1	1	698	185	185
Consumer	81	71	71	0	0	0	81	71	71
Mortgage	1,112	193	208	0	0	0	1,112	193	208
Non Performing Loans	1,598	448	463	293	1	1	1,891	449	465
TOTAL LOANS	1,657	467	469	298	1	1	1,955	468	470
Commercial	326	184	184	246	1	1	572	185	185
Consumer	77	71	71	0	0	0	77	71	71
Mortgage	669	193	208	0	0	0	669	193	208
Loan Loss Reserves (1)	1,072	448	463	246	1	1	1,318	449	465

(1) Reserve requirements according to the banking sector's rating methodology (*) There was a reserve difference of Ps \$32 million as of June 2018.

(*) The dollar portfolio and reserves are re-expressed in pesos.

(*) Local Currency includes UDIS valued at the new exchange rate.

(*) Banorte has the 99.9% of the participation in the capital of Sólida

In 2Q18 the Loan portfolio showed changes due to charge offs and discounts of Ps 0.1 million and foreclosed assets for Ps 0.2 million; during the quarter there were neither collections nor restructurings. In the Loan loss provisions, there were changes of Ps 1.0 million. No transfers to performing loans or to past due loans were made.

As instructed by the CNBV in document 601-II-323110 for purposes of determining financial indicators and a general disclosure referred to regulations, we show the integration of the Banorte's portfolio including the portfolio which was sold to Solida Administradora de Portafolios, S.A. de C.V.

	Local Currency (1)		Foreign Currency (USD) (2)		Total	
(Million of Nominal Pesos)	mar-18	jun-18	mar-18	jun-18	mar-18	jun-18
Performing Loans						
Commercial	324,498	327,630	42,438	47,890	366,936	375,520
Financial Intermediaries' Loans	0	0	0	0	0	0
Consumer	105,358	108,725	0	0	105,358	108,725
Mortgage	139,798	145,357	0	0	139,798	145,357
Performing Loans	569,654	581,711	42,438	47,890	612,093	629,601
Non Performing Loans						
Commercial	5,414	5,505	1,495	1,611	6,909	7,116
Consumer	3,946	4,413	0	0	3,946	4,413
Mortgage	1,508	1,555	0	0	1,508	1,555
Non Performing Loans	10,868	11,473	1,495	1,611	12,363	13,084
TOTAL LOANS	580,522	593,185	43,934	49,501	624,456	642,685
Loan Loss Reserves	15,654	14,718	923	1,016	16,576	15,734
Net Loan Portfolio	564,869	578,467	43,011	48,485	607,880	626,952
Loan Loss Reserves					134.08%	120.25%
% Past Due Loans					1.98%	2.04%

1. Includes UDIS.

2. The dollar portfolio and reserves are re-expressed in pesos.

Notes to Financial Statements

FINANCIAL INSTRUMENTS AND VALUATION EFFECTS 2Q18

(Million Pesos)

Negotiable Instruments	Book Value	Interest	Unrealized gain (loss)	Market Value
Government Securities	220,424	1,649	157	222,230
Unrestricted	12,848	220	(14)	13,054
BONDES D	0	0	0	0
BONDES M	(764)	1	(7)	(770)
BPA	1	0	0	1
BREMS	-	-	-	-
Government Securities	(120)	1	2	(117)
Municipalities Securities	0	0	0	1
UDI Securities	-	-	-	-
CETES	10,833	213	(32)	11,014
CETES (Special)	-	-	-	-
Government Eurobonds	11	0	0	11
Udibonds	2,886	5	23	2,914
Restricted	207,576	1,429	171	209,177
BONDES D	44,886	113	(2)	44,997
BONDES M	1,154	1	(6)	1,149
BPA	150,478	1,297	128	151,903
BREMS	-	-	-	-
Government Securities	3,533	9	(5)	3,537
Municipalities Securities	-	-	-	-
UDI Securities	10	0	0	10
CETES	1,782	-	(1)	1,782
CETES (Special)	-	-	-	-
Government Eurobonds	-	-	-	-
Udibonds	5,734	10	56	5,799
	-	-	-	-
Banking Securities	34,402	89	23	34,514
Unrestricted	2,970	1	(0)	2,970
Bank Acceptances	-	-	-	-
Bank Bonds	(10)	-	-	(10)
Development Bank Securities	5	0	(0)	5
Bank Securities	62	0	(0)	62
Deposit Certificates	2	0	0	2
Structured Notes	-	-	-	-
Other Banking Securities	247	0	(0)	247
Promissory Notes	2,663	1	0	2,663
Restricted	31,433	88	23	31,544
Bank Acceptances	-	-	-	-
Bank Bonds	10	-	-	10
Development Bank Securities	3,246	9	0	3,256
Bank Securities	11,987	32	23	12,042
Deposit Certificates	15,463	45	(1)	15,507
Structured Notes	-	-	-	-
Other Banking Securities	727	2	0	730
Promissory Notes	-	-	-	-
	-	-	-	-
Private Securities	2,027	2	406	2,435
Unrestricted	1,893	1	407	2,301
Shares	524	-	320	845
Investment Company Shares	952	-	38	990
ADRs	-	-	-	-
Stock Certificates BORHIS	-	-	-	-
Corporate Stock Certificates	406	1	50	457
Trust Stock Certificates	7	-	(1)	6
Private Eurobonds	3	0	(0)	3
Infrastructure and Real Estate Trusts	-	-	-	-
Subordinated Debt	-	-	-	-
Other Banking Securities	-	-	-	-
CP	-	-	-	-
Restricted	135	1	(1)	134
Shares	5	-	(0)	5
Stock Certificates BORHIS	-	-	-	-
Corporate Stock Certificates	129	1	(1)	129
Trust Stock Certificates	-	-	-	-
Private Eurobonds	-	-	-	-
Other Banking Securities	-	-	-	-
Reasonable value adjustment Ixe Bank Acq	-	-	-	-
Total	256,854	1,740	586	259,179

FINANCIAL INSTRUMENTS AND VALUATION EFFECTS 2Q18*(Million Pesos)*

Securities Held for Sale	Book Value	Interest	Unrealized gain (loss)	Market Value
Government Securities	127,378	1,960	(1,481)	127,858
Unrestricted	32,471	358	(507)	32,322
BONDES D	-	-	-	-
BONDES M	371	1	(35)	337
BPA	-	-	-	-
BREMS	7,778	26	-	7,805
Government Securities	54	1	12	67
Municipalities Securities	160	3	41	204
UDI Securities	-	-	-	-
CETES	1,686	-	(0)	1,685
CETES (Special)	-	-	-	-
Government Eurobonds	22,422	326	(524)	22,224
Udibonds	-	-	-	-
Restricted	94,907	1,603	(974)	95,536
BONDES D	11,185	15	16	11,216
BONDES M	-	-	-	-
BPA	51,179	1,221	16	52,416
BREMS	-	-	-	-
Government Securities	5,330	20	8	5,358
Municipalities Securities	-	-	-	-
UDI Securities	-	-	-	-
CETES	99	-	(0)	99
CETES (Special)	-	-	-	-
Government Eurobonds	27,114	346	(1,014)	26,446
Udibonds	-	-	-	-
Banking Securities	4,234	16	(2)	4,248
Unrestricted	4,234	16	(2)	4,248
Bank Acceptances	-	-	-	-
Bank Bonds	-	-	-	-
Development Bank Securities	-	-	-	-
Bank Securities	94	2	33	129
Deposit Certificates	3,701	14	(4)	3,711
Structured Notes	440	-	(31)	409
Other Banking Securities	-	-	-	-
Promissory Notes	-	-	-	-
Restricted	-	-	-	-
Bank Acceptances	-	-	-	-
Bank Bonds	-	-	-	-
Development Bank Securities	-	-	-	-
Bank Securities	-	-	-	-
Deposit Certificates	-	-	-	-
Structured Notes	-	-	-	-
Other Banking Securities	-	-	-	-
Promissory Notes	-	-	-	-
Private Securities	30,453	267	(5,241)	25,480
Unrestricted	28,609	251	(5,174)	23,687
Shares	4,525	-	(4,442)	84
Investment Company Shares	3,591	-	222	3,812
ADRs	-	-	-	-
Stock Certificates BORHIS	115	0	(81)	34
Corporate Stock Certificates	6,656	43	(543)	6,156
Trust Stock Certificates	-	-	-	-
Private Eurobonds	13,722	208	(330)	13,600
Infrastructure and Real Estate Trusts	-	-	-	-
Subordinated Debt	-	-	-	-
Other Banking Securities	-	-	-	-
CP	-	-	-	-
Restricted	1,844	16	(67)	1,793
Shares	-	-	-	-
Stock Certificates BORHIS	-	-	-	-
Corporate Stock Certificates	186	3	(1)	188
Trust Stock Certificates	-	-	-	-
Private Eurobonds	1,658	12	(66)	1,604
Other Banking Securities	-	-	-	-
Reasonable value adjustment Ixe Bank Acq	-	-	-	-
Total	162,066	2,244	(6,724)	157,586

FINANCIAL INSTRUMENTS AND VALUATION EFFECTS 2Q18

(Million Pesos)

Securities Held to Maturity	Book Value	Interest	Unrealized gain (loss)	Market Value
Government Securities	92,021	223	-	92,243
Unrestricted	88,490	206	-	88,696
BONDES D	-	-	-	-
BONDES M	-	-	-	-
BPA	-	-	-	-
BREMS	-	-	-	-
Government Securities	1,705	23	-	1,728
Municipalities Securities	2,112	42	-	2,154
UDI Securities	227	2	-	229
CETES	-	-	-	-
CETES (Special)	532	-	-	532
Government Eurobonds	-	-	-	-
Udibonds	83,913	140	-	84,053
Restricted	3,531	16	-	3,547
BONDES D	-	-	-	-
BONDES M	-	-	-	-
BPA	-	-	-	-
BREMS	-	-	-	-
Government Securities	-	-	-	-
Municipalities Securities	2,573	15	-	2,588
UDI Securities	0	0	-	0
CETES	-	-	-	-
CETES (Special)	-	-	-	-
Government Eurobonds	-	-	-	-
Udibonds	958	2	-	959
Banking Securities	1,212	712	-	1,923
Unrestricted	1,212	712	-	1,923
Bank Acceptances	-	-	-	-
Bank Bonds	-	-	-	-
Development Bank Securities	-	-	-	-
Bank Securities	732	14	-	746
Deposit Certificates	300	565	-	865
Structured Notes	180	132	-	312
Other Banking Securities	-	-	-	-
Promissory Notes	-	-	-	-
Restricted	-	-	-	-
Bank Acceptances	-	-	-	-
Bank Bonds	-	-	-	-
Development Bank Securities	-	-	-	-
Bank Securities	-	-	-	-
Deposit Certificates	-	-	-	-
Structured Notes	-	-	-	-
Other Banking Securities	-	-	-	-
Promissory Notes	-	-	-	-
Private Securities	3,946	606	-	4,552
Unrestricted	1,430	598	-	2,028
Shares	-	-	-	-
Investment Company Shares	-	-	-	-
ADRs	-	-	-	-
Stock Certificates BORHIS	-	-	-	-
Corporate Stock Certificates	1,430	598	-	2,028
Trust Stock Certificates	-	-	-	-
Private Eurobonds	-	-	-	-
Infrastructure and Real Estate Trusts	-	-	-	-
Subordinated Debt	-	-	-	-
Other Banking Securities	-	-	-	-
CP	-	-	-	-
Restricted	2,516	8	-	2,524
Shares	-	-	-	-
Stock Certificates BORHIS	-	-	-	-
Corporate Stock Certificates	2,516	8	-	2,524
Trust Stock Certificates	-	-	-	-
Private Eurobonds	-	-	-	-
Other Banking Securities	-	-	-	-
Reasonable value adjustment lxe Bank Acq	(29)	-	-	(29)
Total	97,149	1,540	-	98,689

REPURCHASE AGREEMENT OPERATIONS 2Q18*(Million Pesos)*

Repo Debtors			Repo Creditors		
	MV Repo Debtors	VM Collateral received sold in Repo Trans	Debtor Balance	Creditor Balance	MV Repo Creditors
Government securities	88,703	88,518	187	2	289,758
Banking securities	6,511	6,511	-	0	28,281
Private Securities	742	742	0	-	5,018
Total	95,957	95,771	187	2	323,057

**DERIVATES FINANCIAL INSTRUMENTS
OPERATIONS 2Q18***(Million Pesos)*

Creditor Balance	
Instrument	Fair Value
Futures	
TIIE 28 Futures	-
Forward	-
Fx Forward	51
Options	-
Rate options	825
Fx options	325
Warrants	6
Swaps	-
Rate swap	23,911
Fx swap	3,679
Negotiable Total	28,796
Options	
Rate Options	9
Fx options	-
Swaps	-
Rate swap	87
Fx swap	39
Hedging total	134
Position total	28,931

**DERIVATES FINANCIAL INSTRUMENTS
OPERATIONS 2Q18
(Million Pesos)**

Debtor Balance	
Instrument	Fair Value
Futures	
TIIE 28 Futures	-
Forward	-
Fx Forward	273
Options	-
Rate options	735
Fx options	326
Swaps	-
Rate swap	20,898
Fx swap	3,734
Negotiable Total	25,966
Swaps	
Rate swap	374
Fx swap	9,272
Hedging total	9,646
Position total	35,612

NOTIONAL PRINCIPAL AMOUNT IN DERIVATIVE OPERATIONS 2Q18 - Banorte
(Million Pesos)

PRODUCT	TYPE	UNDERLYING	NOTIONAL	OPERATIONS
FX Forwards	Purchases	Exchange Rate (USD/MXN)	21,013	86
FX Forwards	Sales	Exchange Rate (USD/MXN)	1,095	97
FX Forwards	Purchases	Exchange Rate (CAD/MXN)	0	0
FX Forwards	Sales	Exchange Rate (CAD/MXN)	0	0
FX Forwards	Purchases	Exchange Rate (EUR/MXN)	0	0
FX Forwards	Sales	Exchange Rate (EUR/MXN)	0	0
FX Options	Purchases	Exchange Rate (Dollar)	11,530	18
FX Options	Sales	Exchange Rate (Dollar)	15,469	16
Interest Rate Options	Purchases	TIIE	62,430	136
Interest Rate Options	Sales	TIIE	55,019	603
Interest Rate Options	Purchases	LIBOR	7,669	33
Interest Rate Options	Sales	LIBOR	7,329	32
Interest Rate Swaps	USD LIBOR	LIBOR	459,355	4,093
Interest Rate Swaps	MXN TIIE	TIIE	2,197,391	5,051
Interest Rate and FX Swaps	CS USDMXN	FIX/VARIABLE	0	0
Interest Rate and FX Swaps	CS USDMXN	VARIABLE/VARIABLE	54,043	81
Interest Rate and FX Swaps	CS USDMXN	FIX/FIX	22,162	52
Interest Rate and FX Swaps	CS EURMXN	FIX/FIX	8,251	64
Interest Rate and FX Swaps	CS GBPMXN	FIX/FIX	2,900	12

LOAN PORTFOLIO*(Million Pesos)*

	Local Currency		UDIS		Foreign Currency		Total	
	2Q17	2Q18	2Q17	2Q18	2Q17	2Q18	2Q17	2Q18
Performing Loans								
Commercial Loans	192,760	197,903	0	-	38,524	50,880	231,284	248,783
Financial Intermediaries' Loans	5,607	4,967	0	-	0	(0)	5,607	4,967
Consumer Loans	98,478	111,471	0	-	0	-	98,478	111,471
Mortgage Loans	124,035	145,208	170	144	0	-	124,206	145,351
Government Entities' Loans	131,861	123,904	0	2,901	2,562	3,282	134,423	130,087
Total	552,741	583,452	170	3,045	41,085	54,162	593,997	640,660
Past Due Loans								
Commercial Loans	5,688	5,507	0	0	51	1,609	5,739	7,116
Financial Intermediaries' Loans	0	0	0	-	0	-	0	0
Consumer Loans	3,918	4,424	0	-	0	-	3,918	4,424
Mortgage Loans	1,143	1,333	18	14	0	0	1,161	1,347
Government Entities' Loans	-	-	-	-	-	-	-	-
Total	10,749	11,264	18	14	51	1,609	10,818	12,888
Total Proprietary Loans	563,490	594,717	188	3,059	41,136	55,771	604,815	653,547

**COST OF BALANCES OF FINAPE, FOPYME, MORTGAGE UDIS AND
MORTGAGE FOVI LOAN PORTFOLIOS AS OF 2Q18- GFNorte**
(Million Pesos)

	TOTAL	
	PERIOD COST	BALANCE OF LOAN PORTFOLIO
FINAPE	-	-
FOPYME	-	-
Mortgage UDIS	3.3	0.0
Mortgage FOVI	-	-
	3.3	0.0

DEFERRED TAXES 2Q18*(Million Pesos)*

ASSETS	INCOME TAX	NET
Global Loss Reserves Loan Portfolio	4,992	4,992
Non deductible provisions and cumulative income	888	888
Excess of accounting value over fiscal value on Repossessed Assets	1,146	1,146
Diminishable profit sharing	154	154
Fees received in advance	1,113	1,113
Effects from valuation of instruments	739	739
Tax losses pending amortization	928	928
Provisions for possible loss in loans	509	509
Loss on sale of foreclosed assets and credits	-	-
State Tax on Assets Deferred	-	-
Loss on sale of foreclosed assets and credits	-	-
Loss on sale of foreclosed assets and credits	3	3
Total Assets	10,470	10,470
LIABILITIES		
Pension Funds Contribution	(593)	(593)
Loan Portfolio Acquisitions	(319)	(319)
Projects to be capitalized	(4,229)	(4,229)
Intangibles' amortizations	(1)	(1)
Effects from valuation of instruments	(2,046)	(2,046)
Intangibles' amortizations	(586)	(586)
Unrealized Loss on Securities held for Sale	(65)	(65)
Total Liabilities	(7,839)	(7,839)
Assets (Liabilities) Accumulated Net	2,631	2,631

LONG TERM DEBT AS OF JUN 30, 2018 - BANCO MERCANTIL DEL NORTE*(Million Pesos)*

TYPE OF DEBT	CURRENCY	DATE OF ISSUE	ORIGINAL AMOUNT	ORIGINAL AMOUNT (VALUED)	CURRENT AMOUNT	TERM	RATE	MATURITY	INTEREST PAYMENT
Non Convertible Subordinated Bonds Q Banorte 08U	UDIS	11-mar-08	447	1,749	2,689	20 years	4.950%	15-feb-28	Semestral
Non-Preferred Non-Cumulative Subordinated Fixed Rate Notes due 2020 (IXEGB40 141020)	USD	14-oct-10	120	1,484	2,363	10 years	9.25%	14-oct-20	Semestral
Non Convertible Subordinated Bonds 2016 (BANOC36 311004)	USD	04-oct-16	500	9,607	9,846	15 years	5.750%	04-oct-31	Semestral
Perpetual 5-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes (BANORT 6 7/8 PERP)	USD	06-jul-17	350	6,725	6,892	Perpetual	6.875%	NA	Quarterly
Perpetual 10-Year Callable Subordinated Non-Preferred Non-Cumulative Tier 1 Capital Notes (BANORT 7 5/8 PERP)	USD	06-jul-17	550	10,568	10,830	Perpetual	7.625%	NA	Quarterly
Public Swiss Franc Fixed Rate Senior Unsecured Debt 2018 (BANO589)	CHF	14-jun-18	100	1,983	1,983	3.5 years	0.875%	14-dic-21	Semestral

BANK AND OTHER ENTITIES LOANS' AS OF 2Q18*(Million Pesos)*

	LOCAL CURRENCY	FOREIGN CURRENCY	TOTAL
Loans from Foreign Banks generated from foreign country	-	20	20
Loans from Development Banks	7,784	6,290	14,074
Loans from Public Funds	10,309	830	11,139
Call Money & Loans from Banks	25,068	-	25,068
Loans from Fiduciary Funds	92	-	92
Provisions for Interest	402	-	402
	43,655	7,140	50,795
Eliminations			(18,527)
Total			32,268

**CORE DEPOSITS AND DUE TO BANKS & CORRESPONDENTS -
INTEREST RATES 2Q18**
CORE DEPOSITS (BANORTE)**Demand Deposits**

Local Currency and UDIs	0.92%
Foreign Currency	0.03%

Time Deposits - Retail

Local Currency and UDIs	5.94%
Foreign Currency	0.23%

Time Deposits - Money Market

Local Currency and UDIs	6.25%
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DUE TO BANKS & CORRESPONDENTS (BANORTE)**Immediate Redemption Loans**

Local Currency and UDIs	7.92%
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Public Funds and Development Banks

Local Currency and UDIs	11.11%
Foreign Currency	3.77%

MAIN CREDIT LINES RECEIVED 2Q18 (BANORTE)*Million pesos*

	2Q17	1Q18	2Q18	Change vs. 2Q17	Change vs.2Q18
Banxico (Monetary Regulation Deposits)	33,449	33,449	33,449	0%	0%
Banxico (Repos with the System of Payments)	53,517	57,349	57,637	8%	1%
Call Money	111,531	119,301	119,301	7%	0%
TOTAL	198,497	210,099	210,387	6%	0%

TRADING INCOME 2Q18*Million Pesos*

Trading income	Consolidated
Securities - Unrealized gains	818
Negotiable instruments	14
Derivative instruments - Negotiation	809
Derivative instruments - Hedging	(5)
Impairment loss or revaluation increase	0
Result from foreign exchange valuation	115
Result from valuation of precious metals	(1)
Result from purchase/sale of securities and derivatives	188
Negotiable instruments	301
Securities held for sale	(35)
Securities held to maturity	0
Derivative instruments - Hedging	(78)
Result from purchase/sale of foreign exchange	965
Result from purchase/sale of precious metals	1
Total	2,087

Risk Management

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

1. OBJECTIVES, SCOPE AND RISK MANAGEMENT FUNCTIONS

GFNorte's Risk Management main objectives are:

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

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

Credit Risk: revenue volatility due to constitution of provisions for impaired loans, and potential losses on borrower or counterparty defaults.

Market Risk: revenue volatility due to market changes, which affect the valuation of book positions for active, liabilities or contingent liabilities operations, such as: interest rates, spread over yields, exchange rates, price indices, etc.

Liquidity Risk: potential loss by the impossibility of renewing liabilities or securing resources in normal conditions, and by early or forced sale of assets at unusual discounts to meet their obligations.

Operational Risk: loss resulting from inadequate or failed internal processes, employees, internal systems or external events. This definition includes Technology Risk and Legal Risk. Technology Risk, groups all those potential losses from damage, interruption, disruption or failures resulting from use of or reliance on hardware, software, systems, applications, networks and any other information distribution channel, while the Legal Risk involves the potential loss by sanctions for noncompliance with laws and administrative or judicial decisions unfavorable related to GFNorte's operations.

Concentration Risk: potential loss by high and disproportional exposure to particular risk factors within a single category or among different risk categories.

Likewise, regarding unquantifiable risks, Risk Management's Manual in GFNorte establish specific objectives for:

Reputational Risk: potential loss in the performance of Institution's activities, due to an inappropriate or unethical perception of the different stakeholders, internal or external, on their solvency and viability.

1.1 Risk Management – Structure and Corporate Governance

Regarding the structure and organization for a comprehensive Risk Management, the Board of Directors is responsible for authorizing policies and overall strategies such as:

- GFNorte's Risk Appetite.
- Comprehensive Risk Management Framework.
- Risk exposure limits, risk tolerance levels and mechanisms for corrective actions.
- Contingency Plan and the Contingency Funding Plan.
- The outcome of the internal and regulatory capital adequacy scenarios.

The Board of Directors designates the CPR (Risk Policy Committee) as accountable for managing the risks that GFNorte is exposed to, in order to ensure that operations comply with objectives, policies and procedures established by Risk Management.

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

The CPR is integrated by members and deputies of the Board, the CEO, the Managing Directors of the Group's Entities, the Risk Managing Director and the Audit Managing Director, the latter participates with voice but no vote.

Moreover, the Assets and Liabilities Committee (ALCO) and the Capital and Liquidity Group, analyze, monitors, and decide regarding interest rate risks in the balance sheet, the financial margin, liquidity and net capital of the Institution.

The Unit for the Comprehensive Risk Management (UAIR by its acronym in Spanish) is in charge of the Risk Management Department (DGAR), and among its functions, is responsible to identify measure, monitor, limit, control, report and disclose the different types of risk to which the GFNorte is exposed to.

The DGAR reports to CPR, in compliance with the regulation related to its independence from the Business areas.

1.2 Scope and Nature of GFNorte's Risk Management

The Risk Management function extends to all subsidiaries that comprise GFNorte. Depending on the line of business of each of the Businesses, Credit, Concentration, Market, Liquidity and Operational Risks are measured, managed and controlled.

For this purpose, DGAR relies on different information and risk measurement systems, which comply with regulatory standards and align with the best international practices in Risk Management's matters. It's worth mentioning that information and reports contained and produced in the risk systems are constantly backed up following institutional procedures in IT security matters. Furthermore, risk systems enclose transactions susceptible to Credit, Market, Liquidity and Operational Risks, processed through revised models and methodologies, thus generating periodic reports for each one of these risks.

At GFNorte, there are policies and procedures for hedging, risk mitigation and compensation strategies for each type of risk in and off balance, all of them enclosed in models, methodologies and procedures for Risk Management. Within these policies, there are certain variables that must be considered for risk mitigation, such as: general features, loan to value, legal terms, instrumentation and hedging level. These policies and procedures also consider collateral execution as a risk compensation mechanism in the case of non-fulfillment by debtors. As part of the strategies and processes for monitoring the coverage or mitigation effectiveness for each type of risk, there are limits for each one of them (Credit, Market, Liquidity and Operational Risks), which are continuously monitored, as well as established procedures for the documentation of excesses and its causes, and the corrective actions implemented to return to acceptable risk levels.

2. CREDIT RISK

Credit risk is the risk of clients, issuers or counterparts not fulfilling their payment obligations. Therefore, proper management is essential to maintain loan quality of the portfolio.

The objectives of Credit Risk Management at GFNorte are:

- Comply with the Risk Appetite defined by the Board of Directors.
- Improve the quality, diversification and composition of the loan portfolio in order to optimize the risk- reward ratio.
- Provide Executive Management with reliable, timely information to assist decision making regarding funding.
- Provide Business Areas with clear and sufficient tools to support and monitor funding placement.
- Create economic value for shareholders through an efficient Credit Risk Management.
- Define and update the regulatory framework for the Credit Risk Management.
- Comply with the information requirements that the authorities establish regarding Credit Risk Management.
- Perform Risk Management in accordance with the best practices, implementing models, methodologies, procedures and systems based on best practices worldwide.

- Measure Institution's vulnerability to extreme conditions and consider those results for decisions making.

GFNorte's Risk Management policies are:

- Grant and Manage Retail Credit Risk according to best market practices through Parametric Models aimed to identify risk, minimize losses and increase loan origination with quality.
- Grant and Manage Wholesale Loans to companies and other entities, according to best market practices through a credit strategy including Target Markets and Risk Acceptance Criteria, identifying and managing risk through Loan Rating and Early Alerts methodologies.
- Monitor and control asset quality through Loan Classification System which provides treatment and general actions for defined situations, as well as departments or officers responsible for carrying out such actions.
- Surveillance and Control through Global and Specific Limits, loan rating policies and Credit Risk models that identifies expected and unexpected losses at specific confidence intervals.
- Inform and disclose Credit Risks to risk taking areas, CPR, Board of Directors, Financial Authorities and Investors.
- Define faculties for Credit Risks taking at Institution.

In order to comply with objectives and policies, a series of strategies and procedures have been defined including origination, analysis, approval, management, monitoring, recovery and collections.

2.1 Credit Risk Scope and Methodology

2.1.1 Individual Credit Risk

GFNorte segments the loan portfolio into two large groups: retail loans and wholesale loans.

The individual Credit Risk for retail loans is identified, measured and controlled through a parametric system (scoring) that includes models for each of the SME (small and medium enterprises) and consumer products (mortgage, auto, payroll, personal loans and credit cards).

Individual risk for wholesale loans is identified, measured and controlled through Objective Markets, Criteria for Risk Acceptance, Early Alerts and GFNorte's Internal Risk Rating (CIR Banorte).

The Objective Markets, Criteria for Risk Acceptance and Early Alerts are tools that, together with the Internal Risk Rating, are part of GFNorte's Loan Strategy and support the estimated level of Credit Risk.

The Target Markets are categories of economic activity by region, backed by economic research and loan behavior analysis as well as by expert opinions, where GFNorte is interested in granting loans.

The Risk Acceptance Criteria are parameters that describe different types of risks by industry, in order to estimate the risk taking when granting loans to customers based on their economic activity. The types of risk observed in the Risk Acceptance Criteria are: Financial, Operation, Market, Enterprise's life cycle, Legal and Regulatory Risks, besides credit experience and management quality.

Early Alerts are a set of criteria based on borrower information and indicators, as well as their environment, as a mechanism for timely prevention and identification of a probable deterioration in the loan portfolio, thereby enabling Institution to take prompt preventive actions to mitigate Credit Risk.

Banorte's CIR is a borrower's rating methodology which assesses quantitative and qualitative criteria in order to determine credit quality. CIR applies to commercial loans equal to or greater than the equivalent of four million investment units (UDIS) in Mexican pesos equivalent on the qualification date.

2.1.2 Portfolio Credit Risk

GFNorte developed a portfolio Credit Risk methodology that, besides including international standards for identifying, measuring, controlling and monitoring, has been adapted to function within the context of the Mexican Financial System.

This Credit Risk methodology provides current value of the entire loan's portfolio at GFNorte, that is, the loan exposure, in order to monitor risk concentration levels through risk ratings, geographical regions, economic activities, currency and type of product in order to observe the portfolio's profile and take action to improve diversification, which will maximize profitability with the lowest risk.

The model considers the loan portfolio exposure directly to the balance of each loan, whereas for the financial instruments' portfolio, considers the present value of the instruments and their future cash flows. This exposure is sensible to changes in the market, thereby facilitating estimations under different economic scenarios

The methodology, besides loan exposure, takes into consideration the probability of default, recovery level associated to each client and the classification of the debtor based on the Merton model. The probability of default is the probability that the debtor will not fulfill his/her debt obligation with the institution according to the originally agreed terms and conditions. The probability of default is based on transition matrixes estimated by GFNorte based on the migration of the debtors through different risk rating levels. The recovery ratio is the percentage of total exposure that is estimated to be recovered if the debtor defaults. The classification of the debtor, based on the Merton model, associates the debtor's future behavior to loan and market factors on which his "credit health" depends, as determined by statistical techniques.

The results of this methodology, are risk measures such as the expected and unexpected loss at a one-year horizon. The expected loss is the average of credit portfolio's loss distribution, which is used to measure the following year's expected loss due to default or variations in debtors' credit quality. The unexpected loss is an indicator of the loss in extreme scenarios and is measured as the difference between the maximum losses given the distribution of losses, at a specific confidence level that for GFNorte's is 99.95% and expected loss.

These results are used as a tool for better decision-making in granting loans and in the diversification of the portfolio, according to GFNorte's strategy. The individual risk identification tools and the portfolio Credit Risk methodology are periodically verified and updated to in order to include the application of new techniques that may support or strengthen them.

2.1.3 Credit Risk of Financial Instruments

Credit Risk Management of financial instruments is managed through a series of key pillars with a robust framework of policies for origination, analysis, authorization and management.

Origination policies define the types of eligible negotiable financial instruments, as well as the methodology for assessing Credit Risk of the different types of originators / issuers and counterparts. Credit Risk is allocated through: a risk rating obtained with an internal methodology, evaluations of external rating agencies or a combination of both. Maximum parameters of operation are also defined depending on the type of originator / issuer or counterpart, rating and type of operation.

The Loan Committee authorizes operation lines with financial instruments for clients and counterparties in accordance with authorization policies. The authorization request is submitted by the business area and other areas involved in the operation, with all the relevant information for analysis by the Committee who, if considered appropriate, issues its authorization. Nevertheless, the UAIR is empowered to authorize counterparty credit lines (mainly financial entities) that comply with certain criteria through a parametric methodology approved by the CPR.

In the specific case of derivatives contracts, and in line with best practices, a methodology for calculating potential exposure of credit lines is used, which are analyzed and approved within the Credit Committee and are monitored on daily and monthly basis in the CPR, where guarantee analysis for derivative transaction is held both for clients and financial counterparties.

The National Credit Committee holds the minimum faculty to approve credit lines for derivatives (in case of applying facilities, the UAIR will hold the faculty). For these transactions, the use of derivatives with margin calls shall be privileged in order to mitigate the risk of potential exposure to these transactions.

To determine the lines of credit adversely correlated (Wrong Way Risk "WWR") a potential exposure adjustment is considered.

On an individual level, the risk concentration on financial instruments is managed on a continuous basis, establishing and monitoring maximum parameters of operation for each counterparty or issuer depending on the qualification and type of operation. There are defined risk diversification policies for portfolios, for economic groups and internal groups. Additionally, the concentration of counterparty type or issuer, size of financial institutions and the region in which it operates, are monitored so that an appropriate diversification is obtained and undesired concentrations are avoided.

Credit Risk is measured through a rating associated with the issuer, security or counterparty which has a previously assigned risk level based on two fundamentals:

- 1) The probability of nonfulfillment of the issuer, security or counterparty, which is expressed as a percentage between 0% and 100% where the better the rating or lower rate differential vs. the instrument of an equivalent government bond, the lower the probability of non-fulfillment and vice versa.
- 2) The loss given default that could be experienced with respect of the total of the operation in the event of non-fulfillment, is expressed as a percentage between 0% and 100% where the better the guarantees or credit structures, the smaller the loss given default and vice versa. To mitigate Credit Risk and to reduce the loss given default in the event of non-fulfillment, the counterparties have signed ISDA contracts and agreements to net out, in which credit lines and the use of collateral to mitigate loss in the event of non-fulfillment are implemented.

2.2 Credit Risk Exposure

As of June 30, 2018 the total amount of the exposure subject to the Standard Method to estimate the Capital Ratio is the following:

Gross Exposures subject to the Standard Method (Million pesos)	Banorte	Arrendadora y Factor*	Sólida	Total Loans
Commercial	173,466	24,319	434	198,219
YoY Revenues or Sales < 14 MM UDIS	62,732	781	409	63,921
YoY Revenues or Sales >= 14 MM UDIS	110,735	23,538	25	134,298
States or Municipalities	84,112	91	0	84,203
Decentralized Federal Government Agencies and State Companies	44,285	1,600	0	45,885
Projects with own source of payment	57,700	0	0	57,700
Financial Institutions	22,887	613	0	23,500
Mortgage	146,698	0	0	146,698
Consumer	113,067	6	2,823	115,896
Credit Card	37,033	0	0	37,033
Non-revolving	76,034	6	2,823	78,863
Total Loans subject to the Standard Method	642,215	26,629	3,256	672,101
Eliminations				(18,553)
Total Loans				653,547

*Excludes operating leases

For transactions subject to Credit Risk, the Institution uses external ratings issued by the rating agencies S&P, Moody's, Fitch, HR Ratings, Verum, DBRS Ratings México and A.M. Best America Latina. Only ratings issues by rating agencies are considered, and are not assigned based on comparable assets.

2.2.1 Loan Portfolio

GFNorte's Credit Risk loan portfolio as of June 2018 presented an exposure of Ps 653,547 million, higher in Ps18,647 million or +2.9% QoQ and Ps 48,733 million or +8.1% YoY.

Variations per product of GFNorte's total portfolio are:

Product / Segment (Million pesos)	Total Loan			Var. vs 1Q18		Var. vs 2Q17	
	2Q17	1Q18	2Q18	\$	%	\$	%
Government	134,423	134,017	130,087	(3,930)	(2.9%)	(4,335)	(3.2)%
Commercial	133,252	143,107	146,871	3,765	2.6%	13,620	10.2%
Mortgage	125,367	141,094	146,698	5,604	4.0%	21,331	17.0%
Corporate	109,378	104,230	113,995	9,765	9.4%	4,617	4.2%
Payroll	51,771	55,479	56,511	1,032	1.9%	4,740	9.2%
Credit Card	33,633	36,059	37,033	974	2.7%	3,400	10.1%
Auto Loans	16,992	20,915	22,352	1,436	6.9%	5,360	31.5%
Total Loans	604,815	634,900	653,547	18,647	2.9%	48,733	8.1%

Subsidiary (Million pesos)	Loans		Distressed Portfolio		Total	Total Reserves
	Performing	Past-due	Performing	Past-due		
Banorte*	609,448	5,856	1,594	6,763	623,662	16,469
Arrendadora y Factoraje	26,467	13	0	148	26,629	292
Sólida	3,149	82	0	25	3,256	225
Accounting Records						174
Total Loans	639,065	5,951	1,594	6,937	653,547	17,161

* Banorte's total loans include eliminations for (Ps 18,553)

Total reserves of Ps 17,161 million, include rating reserves of Ps 16.99 billion and accounting records (to reserve 100% overdue interests, valuation, negative debts in the Credit Bureau and registered in recoveries) of Ps 174 million.

GFNorte's performing, past-due and distressed portfolios in 2Q18 grouped by sector and subsidiary are detailed in the two following tables:

Sector (Million pesos)	Loans		Distressed		Total Loans	Reserves		QoQ Charge offs	Days Past-Due**
	Performing	Past-Due	Performing	Past-Due		2Q18	Var vs 1Q18		
Government	130,086	0	1	0	130,087	714	14	0	0
Services*	58,857	28	228	508	59,621	769	(22)	90	207
Commerce	48,867	57	370	1,637	50,931	1,257	118	164	330
Construction	40,330	30	123	2,356	42,839	1,305	(117)	28	1,502
Manufacturing	39,751	32	174	1,989	41,946	1,274	98	17	250
Top 5 Sectors	317,891	147	895	6,490	325,424	5,320	91	298	
Other Sectors	64,351	33	699	447	65,530	1,043	90	32	
Mortgage	145,351	1,347	0	0	146,698	946	(13)	400	
Consumer	111,471	4,424	0	0	115,896	9,678	339	2,700	
Accounting Records						174			
Total Group	639,065	5,951	1,594	6,937	653,547	17,161	507	3,430	

* Includes Financial, Real Estate and Other Services

**Days past due from Non-Performing Loans.

Sector/Subsidiary (Million pesos)	Banorte*	AyF	Sólida	Total Loans
Government	128,397	1,690	0	130,087
Services**	55,159	4,462	0	59,621
Commerce	46,322	4,200	409	50,931
Construction	38,645	4,169	25	42,839
ConstructionManufacturing	32,631	9,315	0	41,946
Top 5 Sectors	351,152	23,837	434	325,424
Remaining	322,509	2,792	2,823	328,124
Total Loans	623,662	26,629	3,256	653,547

* Banorte's total loans include eliminations for (Ps 18,553)

** Includes Financial and Real Estate services

As of 2Q18, GFNorte's performing, past due and distressed portfolios grouped by federal entity and subsidiary are detailed in the following two tables:

	Federal Entities	Loans		Distressed		Total Loans	Total Reserves
	(Million pesos)	Performing	Past-Due	Performing	Past-Due		
1	Ciudad de México	179,483	1,614	750	3,195	185,042	5,427
2	Nuevo León	103,045	607	140	1,853	105,644	2,673
3	Estado de México	53,302	662	202	361	54,527	1,545
4	Jalisco	37,416	361	42	187	38,005	835
5	Tamaulipas	20,963	185	23	128	21,299	486
6	Sinaloa	19,752	151	31	107	20,041	370
7	Coahuila	16,610	115	18	84	16,826	316
8	Veracruz	16,280	280	60	144	16,765	515
9	Sonora	15,962	75	18	25	16,080	291
10	Chihuahua	15,533	135	12	62	15,742	370
	Top 10	478,346	4,184	1,295	6,145	489,970	12,828
	Other Federal Entities	160,719	1,767	299	792	163,577	4,159
	Accounting Records						174
	Total Loans	639,065	5,951	1,594	6,937	653,547	17,161

* Banorte's total loans include eliminations for (Ps 18,553)

As of 2Q18, GFNorte's performing, past due and distressed portfolios grouped by term are detailed below:

Remaining Term	Portfolio		Distressed		Total Loans	Total Reserves
(Million pesos)	Performing	Past-Due	Performing	Past-Due		
0 - 1 years	86,921	2,459	178	5,213	94,771	7,587
1 - 5 years	116,989	514	610	1,423	119,537	2,405
5 - 10 years	95,887	147	806	127	96,968	1,022
> 10 years	309,651	2,735	0	0	312,387	5,455
Banorte*	609,448	5,856	1,594	6,763	623,662	16,469
Leasing and Factoring	26,467	13	0	148	26,629	292
Sólida	3,149	82	0	25	3,256	225
Accounting Records						174
Total Loans	639,065	5,951	1,594	6,937	653,547	17,161

* Banorte's total loans include eliminations for (Ps 18,553)

The total distressed portfolio is Ps 8,531 million. Below is the quarterly balance of loan loss provisions for this portfolio:

Loan Loss Reserves for Distressed Portfolio (Million pesos)	2Q18			
	Banorte	Arrendadora y Factor	Sólida	GFNorte
Initial Loan Loss Provisions	3,580	94	15	3,689
Charged to results	399	8	0	407
Loans' write offs	106	12	0	119
FX changes	53	0	0	53
Adjustments in Credit Risk	240	(4)	0	236
Received in lieu of payment	0	0	0	0
Write-offs, charge-offs and discounts	(287)	(20)	0	(307)
Final Loan Loss Reserves	3,692	82	15	3,790
Loan Recoveries	42	0	0	42

2.2.2 Exposure to Financial Instruments

As of June 30, 2018, exposure to Credit Risk for Securities Investments of Banco Mercantil del Norte was Ps 246.21 billion, of which 99.3% is rated higher or similar to A+(mex) on a local scale, placing them in investment grade and the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 10% of the Tier 1 Capital as of March 2018. Additionally, the exposure of investments with the same counterparty other than the Federal Government that represents a higher or similar concentration to 5% of the Net Capital as of March 2018 has higher or similar rating to AA- (mex) and is comprised of (*average considered term, amount in million pesos and average return to annualized maturity*): market and bond certificates from Pemex to 5 years and 6 months totaling Ps 14.16 million at 4.8%, and certificates of deposit and stock certificates from Scotiabank for 1 year and 10 months, totaling Ps 7.05 billion at 8.2%.

For Derivatives operations, the exposure of the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 1% of the Tier 1 Capital as of March 2018.

Exposure to Credit Risk for Securities Investments of Casa de Bolsa Banorte was Ps 155.18 billion, of which 100% is rated higher or similar to A+(mex) on a local scale, placing them in investment grade and the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 30% of the Capital as of March 2018. Additionally, the exposure of investments with the same counterparty other than the Federal Government that represents a higher or similar concentration to 5% of the Capital as of March 2018 has a higher or similar rating to A+(mex) and are comprised of (*average considered term, amount in million pesos and average return to annualized maturity*): market certificates of PEMEX for 1 year and 5 months totaling Ps 1.59 billion at 7.9%; market certificates of CFE for 1 year and 7 months totaling Ps 1.33 billion at 8.3%; market certificates from Banobras, for 2 years and 6 months, totaling Ps 1.24 billion at 8.0%; market certificates of HSBC Mexico for 5 months for Ps 1.06 billion at 8.0%; ; bonds of Deutsche Bank for 4 years and 11 months totaling Ps 564 million at 11.1%; market certificates from Bancomext for 2 years totaling Ps 401 million at 8.0%; market certificates of Banco Inbursa for 7 months for Ps 306 million at 8.1%; market certificates from Nafinsa for 1 year and 9 months totaling \$200 million at 8.0%; market certificates of Banco Interacciones for 1 year and 3 months totaling Ps 187 million at 9.0%; bonds of CABEL for 8 months totaling Ps 173 million at 8%. In the case of derivatives, there are no operations.

Arrendadora y Factor Banorte had an exposure to Securities Investments and Derivatives of 0.

Sólida Administradora de Portafolios had an exposure to securities for Ps 9 million. 100.0% of them are shares. Its exposure to derivatives was Ps 2 million with private counterparties.

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

Position (Million Pesos)	2Q18	2Q18 Average
Forwards	(12)	(7)
FX Swaps	(218)	(66)
FX	2	2
Options	99	145
Swaps with Interest Rates IRS	3,988	3,925
Cross Currency Swap (CCIRS)	(9,258)	(9,338)
Total	(5,399)	(5,340)
Positive Fair Value (Positive Fair Value)	10,712	10,458
Netting Effect*	16,111	15,798
Delivered Guarantees(-) /Received(+)	0	0
Cash	(3,734)	(3,653)

* Difference between the positive fair value (not considering the net positions) and the portfolio market value.
Transactions performed at the clearing house are not included, as they are not subject to counter party risk.

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

(Million Pesos)	Potential Risk		Current Risk	
Financial Counterparties	2Q18	2Q18 Average	2Q18	2Q18 Average
FWD			10	6
FX SWAP	1,301	740	(218)	(66)
FX			2	2
OPTIONS	1,040	1,012	742	713
INTEREST RATE SWAP	15,001	14,550	5,533	5,352
CCS	1,270	1,109	(9,236)	(9,311)
Total	5,458	4,980	(3,168)	(3,305)
Clients (Non-Financial)	2T18	Promedio 2T18	2T18	Promedio 2T18
FWD	33	30	(22)	(13)
OPTIONS	34	34	(642)	(568)
INTEREST RATE SWAP	710	759	(1,545)	(1,427)
CCS	26	27	(23)	(27)
Total	802	846	(2,232)	(2,035)

Based on conditions established in derivative agreements, tolerance levels of exposure are considered according to the rating of involved entities. The following table presents the amount of guarantees to be delivered, in case of a rating downgrade (it's worth noting that with most counterparties we've migrated to zero threshold, thus, guarantees to be delivered do not depend on credit rating but to market movements).

Net Cash Outflows (Million pesos)	2Q18	2Q18 Average
Cash Outflow with 1-notch Downgrade	0	0
Cash Outflow with 2-notch Downgrade	0	0
Cash Outflow with 3-notch Downgrade	0	0

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

Rating (Thousand pesos)	2Q18	2Q18 Average
AAA/AA-	0	0
A+/A-	(1,867)	(2,031)
BBB+/BBB-	(1,323)	(1,286)
BB+/BB-	(772)	(773)
B+/B-	0	0
CCC/C	(1)	(1)
SC	(1,436)	(1,249)
Total	(5,399)	(5,340)

2.3 Credit Collaterals

Collaterals represent the second credit recovery source when its coverage, through the predominant activity of the applicant, is compromised. Collaterals may be real or personal.

The main types of real collaterals are the following:

- Civil Mortgage
- Industrial Mortgage
- Regular Pledge
- Pledge w/o possession transfers
- Pledge / Pledge Bond
- Pledge Bond
- Caution Securities
- Securities Pledge
- Management and Payments Trust
- Development Funds

For assets granted in guarantee, the Company has policies and procedures to monitor and make periodic inspection visits to ensure the existence, legitimacy, value and quality of the guarantees accepted as an alternative credit support. Furthermore, when guarantees are securities, there are policies and procedures to monitor its market's valuation and require additional guarantees if needed.

The covered loan portfolio by type of collateral is as follows:

Collateral Type (Million pesos)	2Q18			
	Banorte	Arrendadora y Factor**	Sólida	GFNorte*
Total Loan Portfolio	642,215	26,629	3,256	653,547
Covered Loan Portfolio by type of collateral				
Real Financial Guarantees	24,652	0	0	24,652
Real Non-Financial Guarantees	347,098	6,127	25	353,251
Pari Passu	21,102	0	0	21,102
First Losses	29,484	0	0	29,484
Personal Guarantees	15,977	7,702	0	23,680
Total Loan Portfolio Covered	438,313	13,830	25	452,168

*Total Loans includes eliminations for (Ps 18,553).

** Excludes pure leasing

2.4 Expected Loss

As of June 30, 2018, Banco Mercantil del Norte's total portfolio was Ps 642.21 billion. The expected loss represents 2.3% and the unexpected loss is 4.0% with respect to the total portfolio. The average expected loss is 2.3% during the period April– June 2018.

Regarding Casa de Bolsa Banorte, the credit exposure of investments is Ps 155.18 billion and the expected loss represents 0.01% of the exposure. The average expected loss is 0.01% between April–June 2018.

The total portfolio of Arrendadora and Factor, including pure leasing is Ps 30.18 billion. The expected loss represents 0.8% and the unexpected loss is 3.7% of the total portfolio. The average expected loss represents 0.8% during the April – June 2018 period.

The total portfolio of Sólida Administradora de Portafolios was Ps 3.26 billion. The expected loss of the portfolio represents 11.5% and the unexpected loss 12.0%, both with respect to the total portfolio. The average expected loss for the period of April – June 2018 was 11.4%.

2.5 Risk Diversification

In December 2005, the CNBV issued “General Dispositions Applicable to Credit Institutions regarding to Risk Diversification”. These guidelines state that the institutions must carry-out an analysis of their borrowers and/or loans to determine the amount of “Common Risk”; also, the institutions must have the necessary information and documentation to prove that the person or group of persons represent common risk in accordance with the assumptions established in those Rules.

In compliance with the risk diversification regulation in asset and liability operations, Banco Mercantil del Norte submits the following information (million pesos):

Tier 1 as of March 31, 2018		97,855
I. Financings whose individual amounts represent more than 10% of basic equity:		
<u>Loan Operations</u>		
Number of financings		0
Total amount of financings		0
% in relation to Tier 1		0%
<u>Money Market Operations</u>		
Number of financings		0
Total amount of financings		0
% in relation to Tier 1		0%
<u>Overnight Operations</u>		
Number of financings		1
Total amount of financings		9,805
% in relation to Tier 1		10%
II. Maximum amount of financing with the 3 largest debtors and common risk groups:		41,703

In compliance with the risk diversification regulation in asset and liability operations, Leasing and Factoring (Arrendadora y Factor Banorte) submits the following information (million pesos):

Equity as of March 31, 2018		5,336
I. Financings whose individual amounts represent more than 10% of equity(group level):		
<u>Loan Operations</u>		
Number of financings		45
Total amount of financings		4,815
% in relation to Equity		90%
<u>Money Market Operations</u>		
Number of financings		0
Total amount of financings		0
% in relation to Equity		0%
<u>Overnight Operations</u>		
Number of financings		0
Total amount of financings		0
% in relation to Equity		0%
II. Maximum amount of financing with the 3 largest debtors and common risk groups:		7,274

In compliance with the risk diversification regulation in asset and liability operations, Sólida Administradora de Portafolios submits the following information (million pesos):

Equity as of March 31, 2018	3,205
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I. Financings whose individual amounts represent more than 10% of equity:

Loan Operations

Number of financings	1
Total amount of financings	409
% in relation to Equity	13%

Money Market Operations

Number of financings	0
Total amount of financings	0
% in relation to Equity	0%

Overnight Operations

Number of financings	0
Total amount of financings	0
% in relation to Equity	0%

II. Maximum amount of financing with the 3 largest debtors and common risk groups:	626
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3. MARKET RISK (Bank and Brokerage House)

GFNorte's objectives regarding Market Risk are:

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

GFNorte's Market Risk Policies are:

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

3.1 Market Risk Methodology

Market Risk Management is controlled through a series of fundamental pillars, highlighting the use of models and methodologies such as Value at Risk (VaR), Back Testing and Stress Testing, which are used to measure the risk of traded products and portfolios in the financial markets.

Risk management is supported by a framework of policies and manuals through which the implementation and monitoring on market risk limits, the disclosure of the aforementioned risk metrics and its tracking regarding the established limits, are set.

Key risk ratios are disclosed in monthly reports to the Risk Policy Committee and through a daily report to top executives at the Institution, related to the Market Risk risk-taking.

3.2 Market Risk Exposure

Exposure of the Institution's financial portfolios to Market Risk is quantified using the standard methodology in the industry known as Value at Risk (VaR).

The VaR model considers a one day horizon base, and considers a non-parametric historical simulation with a 99% confidence level and 500 historical observations on risk factors. Furthermore, it considers all the positions (money market, treasury, equities, FX and derivatives for trading purposes) classified for accounting purposes as trading assets, both on and off the balance sheet.

The average VaR of the portfolio for 2Q18 was Ps 39.2 million (Ps 3.9 million higher than the average VaR from last quarter).

The result shows that the Bank's potential loss will be above Ps 39.2 million in one out of a hundred days.

VaR Million Pesos	Average 2Q18
VaR Total	39.2
Net Capital	115,510
VaR/Net Capital	0.03%

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

Risk Factor Million Pesos	2Q18	Average 2Q18
Rates	45.3	39.2
FX	9.8	17.9
Equity	8.0	6.9
Diversification Effect	(21.1)	(24.8)
Bank's Total VaR	42.0	39.2

VaR for 2Q18 was Ps 42 million. The contribution to VaR for each risk factor is:

Risk Factor Million Pesos	2Q18	Average 2Q18
Rates	44.2	36.3
FX	1.2	0.8
Equity	(3.5)	2.5
Diversification Effect	0.1	(0.4)
Bank's Total VaR	42.0	39.2

VaR by risk factor is determined by simulating 500 historical scenarios to each risk factor and assessing instruments by their main risk factor. It is important to note that all positions classified as trading were considered, positions classified as held to maturity and available for sale were excluded.

The proportion by market risk factor excluding the diversification effect is:

Risk Factor	2Q18
Rates	61%
FX	28%
Equity	11%

3.2.1 Sensitivity Analysis and Stress Testing under extreme conditions

Since VaR indicates the potential losses under normal market conditions, Banorte complements its risk analysis enforcing tests under extreme conditions known as Stress Testing. This is presented to the Risk Policy Committee on monthly basis with the main objective of assessing the impact on the Institution's positions of extreme movements in risk factors.

3.2.2 Backtesting

In order to validate the effectiveness and accuracy of the VaR, a monthly Back testing analysis is presented to the Risk Policy Committee. Through this analysis, it is possible to compare losses and gains observed with respect to the estimated Value at Risk and if necessary make the required adjustments to the parameter.

3.2.3 Value at Risk Casa de Bolsa (VaR)

The average VaR of the portfolio for 2Q18 was Ps 25.6 million, +Ps 14.7 million higher vs. 1Q18.

The result shows that potential loss will be above Ps 25.6. million in one out of a hundred days.

VaR Million Pesos	Average 2Q18
Total VaR	25.6
Net Capital	2,181
VaR/Net Capital	1.17%

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

Risk Factor (Million Pesos)	2Q18	Average 2Q18
Rates	28.0	26.2
FX	0	0
Equity	1.9	1.8
Diversification effect	(2.5)	(2.4)
Casa de Bolsa Total VaR	27.4	25.6

VaR at the end of 2Q18 was Ps 27.4 million.

The VaR by risk factor is determined by simulating 500 historical scenarios and performing a grouping of instruments by their main risk factor. It is important to note that all positions classified as trading were taken into account, excluding the held-to-maturity position and available for sale, were taken into account.

Concentration by Market Risk factor is in domestic interest rates

3.2.4 Sensitivity Analysis and Stress Testing under extreme conditions

Since VaR indicates the potential losses under normal market conditions, Casa de Bolsa Banorte complements its risk analysis enforcing tests under extreme conditions known as Stress Testing. This is presented to the Risk Policy Committee on a monthly basis with the main objective of assessing the impact on the Institution's positions of extreme movements in risk factors

3.2.5 Back testing

In order to validate the effectiveness and accuracy of the VaR, a monthly Back testing analysis is presented to the Risk Policy Committee. Through this analysis it is possible to compare losses and gains observed with respect to the estimated Value at Risk and if necessary make the required adjustments to the parameter.

4. BALANCE AND LIQUIDITY RISK

GFNorte's Balance and Liquidity Risk objectives are:

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

GFNorte's Liquidity Risk Policies are:

- Establishment of specific global limits of Balance and Liquidity Risk Management.
- Measurement and monitoring of Balance and Liquidity Risk.
- Information and disclosure of Liquidity Risk to risk-taking areas, CPR, Board of Directors, Financial Authorities and to public investors.

4.1 Liquidity Risk Methodology and Exposure

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

4.2 Profile and Funding Strategy

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

Funding Source (Million Pesos)	1Q18	2Q18	Change vs. 1Q18
Demand Deposits			
Local Currency ⁽¹⁾	339,175	349,568	3.1%
Foreign Currency ⁽¹⁾	51,850	55,733	7.5%
Demand Deposits	391,025	405,301	3.7%
Time Deposits – Retail			
Local Currency ⁽²⁾	179,903	184,723	2.7%
Foreign Currency	18,999	21,750	14.5%
Core Deposits	589,927	611,774	3.7%
Money Market			
Local Currency ⁽³⁾	59,390	45,430	(23.5%)
Foreign Currency ⁽³⁾	0	1,984	100.0%
Banking Sector Deposits	649,317	659,188	1.5%

1. Includes balance of the Global Deposits without Movement.

2. Includes eliminations among subsidiaries

3. Money Market & Time Deposits

4.3 Liquidity Coverage Ratio (LCR)

The LCR measures Liquidity Risk through the relationship between Liquid Assets and Net Cash Outflows in the next 30 days, under a regulatory stress scenario.

The LCR is an indicator designed to ensure that the institution has sufficient liquidity to meet its short term obligations, under an extreme scenario using exclusively high quality liquid assets as source of funding.

The following table presents the average evolution of LCR components in 2Q18.

LCR Components <i>(Million Pesos)</i>		Bank and Sofomes	
		Unweighted amount (Average)	Weighted amount (Average)
COMPUTABLE LIQUID ASSETS			
1	Total Computable Liquid Assets	NA	108,793
CASH DISBURSEMENTS			
2	Unsecured retail financing	346,594	24,003
3	Stable financing	213,125	10,656
4	Less stable financing	133,469	13,347
5	Unsecured wholesale financing	234,915	88,743
6	Operational Deposits	136,065	30,145
7	Non-Operational Deposits	97,356	57,104
8	Unsecured debt	1,494	1,494
9	Secured wholesale financing	226,914	19,903
10	Additional Requirements:	251,401	16,142
11	Disbursements related to derivatives and other guarantee requirements	59,650	5,456
12	Disbursements related to losses from debt financing	0	0
13	Lines of credit and liquidity	191,750	10,686
14	Other contractual financing obligations	0	0
15	Other contingent financing liabilities	0	0
16	TOTAL CASH DISBURSEMENTS	NA	148,792
CASH INFLOWS			
17	Cash Inflows for secured operations	61,851	371
18	Cash Inflows for unsecured operations	64,247	51,253
19	Other Cash Inflows	3,754	3,754
20	TOTAL CASH INFLOWS	NA	55,378
		Adjusted amount	
21	TOTAL COMPUTABLE LIQUID ASSETS	NA	108,793
22	TOTAL NET CASH DISBURSEMENTS	NA	93,413
23	LIQUID COVERAGE RATIO	NA	116.29%

During 2Q18, the average LCR for the Bank and Sofomes was 116.29%, and at **the end of 2Q18 the LCR was 101.13%** the aforementioned levels are above the Risk Appetite and the regulatory minimum standards. These results show that Banorte can meet all of its short-term obligations in a crisis scenario¹.

4.4 Evolution of LCR Components

The evolution of the LCR components comparing 1Q18 and 2Q18 is presented in the following table:

LCR Component (Million Pesos)	1Q18	2Q18	Var. vs. 1Q18
Liquid Assets	112,632	89,354	(20.7%)
Cash Inflows	31,454	50,210	59.6%
Cash Outflows	139,826	138,565	(0.9%)

The Liquid Assets that compute in the LCRs for the Bank and Sofomes between 1Q18 and 2Q18 are distributed as follows:

Type of Asset (Million Pesos)	1Q18	2Q18	Var. vs. 1Q17
Total	112,632	89,354	(20.7%)
Level I	103,820	80,537	(22.4%)
Level II	8,812	8,816	0.0%
Level II A	7,166	7,171	0.1%
Level II B	1,646	1,646	(0.0%)

Liquid assets decreased in the quarterly comparison in 1Q18 and 2Q18, due to the federal government securities exchange in foreign currency as part of a long term repo operation.

4.5 LCR Result's Main Causes

Variations in the LCR between 1Q18 and 2Q18 are mainly due to the decrease in the position of liquid assets in foreign currency, derived from a foreign currency repo operation in which Mexican federal government bonds were transferred as guarantee. Additionally, there is an increase in cash inflows due to the increase in the liquidity of the bank from the aforementioned repo transaction.

4.6 Liquidity Risk in foreign currency

For Liquidity Risk quantification and monitoring, in the specific case of the foreign currency denominated portfolio, Banorte uses the criteria established by Banco de México for the assessment of the foreign currency Liquidity Coefficient.

The Liquidity Coefficient in foreign currencies should be interpreted as the ability of the institution to meet its liquidity mismatches with liquid assets, both in foreign currency.

4.7 Exposure to Derivatives and possible Margin calls

Banorte applies the regulatory methodology to determine cash outflows for derivatives. At the end of 2Q18, estimated outflows for derivatives were as follows:

¹ The Liquidity Coverage Ratio information is preliminary and is subject to Banco de Mexico's affirmation.

Derivatives Cash Outflows (Million Pesos)	1Q18	2Q18	Var. vs. 1Q18
Net cash outflows at market value and for potential future exposure	4,379	4,379	0.0%
Cash outflows for a 3 notch credit rating downgrade.	0	0	0%

The former measurement shows that potential outflows for derivatives may represent a liquidity requirement up to Ps 4.379 billion, stable vs 1Q18 .

4.8 Liquidity Gaps

As part of the liquidity analysis for the Bank, 30 days liquidity gaps for the Institution's assets and liabilities (obligations) are analyzed. Results for the Bank at the end of 2Q18 are presented in the following table.

Concept (Million Pesos)	1Q18	2Q18	Var. vs. 1Q18
Cumulative 30 day Gap	(62,067)	(45,572)	(26.6%)
Liquid Assets	86,897	88,958	2.4%

Mismatch among inflows and outflows (gaps) for the next 30 days are covered with liquid assets. In addition, a more granular breakdown of the liquidity gaps is presented, remaining as follows for 2Q18:

Concept (Million pesos)	1 day	7 days	1 month	3 months	6 months	12 months
Natural Gap	(7,710)	(17,224)	(20,638)	8,214	(10,556)	(6,345)
Accumulated Gap	(7,710)	(24,934)	(45,572)	(37,357)	(47,913)	(54,259)

4.9 Stress Testing under liquidity extreme conditions

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

4.10 Contingency Funding Plan

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

4.11 Balance Risk

The structural risk in the balance sheet or interest rate is managed using tools such as the sensitivity analysis to changes in domestic, foreign and real rates, obtaining the impact thereof on the net interest margin. In the sensitivity analysis, it is included assumptions on deposits according to a model of stability

As part of the rate risk mitigation actions, the Institution has policies and limits for portfolio hedging at a fixed rate. The compliance of the above is reported to the CPR on a monthly basis.

In the table below, the effect on net interest income of a movement of 100 basis points over the rates is shown, which considers available for sale, that as of 2Q18 amounted to Ps 145.57 billion and in average during 2Q18 to Ps 149.22 billion.

(Million Pesos)	1Q18	2Q18	Var. vs. 1Q18
Margin Sensitivity	944	1,090	15.5%

4.12 Subsidiaries

Balance and Liquidity Risk Management processes for the Bank and its Sofomes are centralized in GFNorte's Credit and Risk Management General Direction. To monitor Sofomes' liquidity, an analysis of the balance sheet structural behavior is conducted, as well as funding diversification. Furthermore, a liquidity gap analysis is performed. Specifically for the Brokerage House, regulatory liquidity requirements are monitored.

The following table shows the composition of the gap indicators for the Bank's subsidiaries and Sofomes at the end of 2Q18.

Liquidity Ratio (Million Pesos)	Casa de Bolsa Banorte	Arrendadora y Factor	Sólida
Cumulative 30 days Gap	1,329	(2,721)	(4,183)
Liquid assets	1,627	33	82

5. OPERATIONAL RISK

GFNorte has a formal Operational Risk department headed by the "Deputy Managing Director of Financial and Operational Risk", reporting directly to the Chief Risk Officer.

Operational Risk is defined as the potential loss due to failures or deficiencies in internal controls, errors in operation processing and storing or in data transmitting, as well as to adverse administrative and judicial rulings, fraud or theft (this definition includes Technological and Legal Risk).

The objectives of Operational Risk Management are: a) Enable and support the organization to reach its institutional objectives through prevention and management of operational risks; b) To ensure that the existing operational risks and the required controls are properly identified, assessed and in line with the risk strategy established by the organization; and c) To ensure that operational risks are properly quantified in order to adequately allocate capital per Operational Risk.

5.1 Policies, Objectives and Guidelines

As part of the Institutional regulations, there are documented policies, objectives, guidelines, methodologies and responsible areas in Operating Risk management.

The Operational Risk Management Directors maintains close communication and coordination with the Regulatory Comptrollership in order to facilitate effective Internal Control in which proper procedures and controls are established for mitigating Operating Risk among the processes, and provide monitoring through the Internal Audit Department.

The Regulatory Comptrollership, as part of the Internal Control System, carries out the following activities to mitigate risk: a) Internal control validations; b) Institutional regulations management and control; c) Monitoring of operating processes' internal control by means of control indicators reports, that are reported by the process comptrollers in the various areas; d) Money Laundering Prevention process management; e) Control and monitoring of the regulatory provisions; and f) Analysis and assessment of the operating processes and projects with the participation of the responsible Directors of each process in order to ensure adequate internal control.

5.2 Quantitative and Qualitative Measuring Tools

5.2.1 Operational Losses Database

In order to record operating loss events, the Institution owns a system that enables, the central information supplier areas, to directly record such events online, which are classified by Type of Event in accordance with the following categories:

Internal Fraud: Losses derived from a type of action intended to defraud; unlawfully assets appropriation; or sidestep regulations, laws or company policies (excluding diversity/discrimination events) in which at least one company party is involved.

External Fraud: Losses derived from a type of action intended to defraud; unlawfully assets appropriation; or sidestep the laws, caused by a third party.

Labor Relations and Safety in the Workplace: Losses caused by acts incompatible with the legislation or labor agreements regarding hygiene or safety, the payment of personal damage claims, or cases associated with diversity/discrimination.

Customers, Products & Business Practices: Losses caused by involuntary noncompliance or negligence of a professional obligation to specific customers (including fiduciary and adjustment requirements), or due to the nature or design of a product.

Natural Disasters and Other Events: Losses caused by damage or harm to material assets as a consequence of natural disasters or other events.

Incidences in the Business and Systems Failures: Losses caused by incidences in the business and systems failures.

Process Execution, Delivery and Management: Losses caused by errors in operations processing or management, as well as relations with commercial counterparties and suppliers.

This historical Database provides the statistics of the operational events in which the institution has incurred to determine their trends, frequency, impact and distribution. Moreover, the Database will enable, in the future, to own enough information to estimate capital requirements as per Advances Models.

5.2.2 Legal and Fiscal Contingencies Database

For recording and monitoring legal, administrative and tax issues that may arise from adverse ruling, an internal system called "Legal Risk Issues Monitoring System" (SMARL by its acronym in Spanish) was developed. This system enables the central data supplying areas to record such events directly and on-line, which are then classified by company, sector and legal issue, among others.

As part of GFNorte's Legal Risk Management, legal and fiscal contingencies are estimated by the attorneys that process the cases, determining its risk level based on an internal methodology. This allows to constitute necessary reserves in a determined term (according to lawsuit's term) to face such Contingencies.

5.3 Risk Management Model

GFNorte has defined objectives, which are achieved through different plans, programs and projects. Compliance with such objectives may be adversely affected due to operating risks, therefore it is imperative to provide a methodology for managing them within the organization. Consequently, Operating Risk Management is now an institutional policy defined and supported by senior management.

To perform Operating Risk Management, each of the operating risks involved in the processes must be identified in order to analyze them. In this regard, the risks identified by the Regulatory Comptrollership with the support of Process Comptrollership, are processed in order to eliminate or mitigate them (seeking to reduce their severity or frequency) and if the case, defining tolerance levels. Currently, work is being done on developing a new Institution Operating Risk Management Model and the technological tools needed to implement it.

5.4. Required Capital Calculation

In accordance with the current Capitalization for Operational Risk Regulations, the Institution has adopted the Alternative Basic Model, which is estimated and reported periodically to the authorities.

5.5. Information and Reporting

The information generated by the Database and the Management Model is processed periodically to report to the Risk Policies Committee and the Board of Directors regarding the main operating events that were detected, the trends, identified risks and their mitigating strategies. Reporting is also done regarding the status of the main Operating Risk mitigation initiatives implemented by the various areas of the organization.

5.6 Technological Risk

Technological Risk is defined as all potential losses from damage, interruption, alteration or failures derived from the use of or dependence on hardware, software, systems, applications, networks and any other information distribution channel in the rendering of banking services to the customers. This risk forms an inherent part of Operating Risk, which is why its management is handled collectively throughout the entire organization.

To address the Operating Risk associated with information integrity, and "Integrity Committee" has been created. Its objectives are to align security and information control efforts under a prevention focus, to define new strategies, policies, processes or procedures and to provide solutions to information security issues that affect or may affect the Institutional patrimony.

The functions established by the CNBV for Technology Risk Management are performed by the Institution under regulatory and Integrity Committee guidelines.

To address the Operating Risk caused by high impact external events, GFNorte has a Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) based on a same-time data replication system at an alternate computer site. All the above, covers the backup and recovery of the Institution's critical applications in the event or any relevant operating contingency.

5.7 Legal risk

Legal Risk is defined as the potential loss from failure to comply with the applicable legal and administrative provisions, the issuance of indisputable unfavorable court rulings and the application of penalties regarding the operations that the institution performs.

The Legal Risk must be measured as an inherent part of Operating Risk in order to understand and estimate its impact. Therefore, those legal issues which result in actual operating losses of the SMARL system are later recorded in the SCERO a database of operational events.

Based on the statistics of the current legal issues and real loss events, the Institution can identify specific legal or operating risks, which are analyzed in order to eliminate or mitigate them in an attempt to reduce or limit their future occurrence or impact.

6. SECURITIZATIONS EXECUTED BY GFNORTE

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

GFNorte has accomplished the following securitizations:

- On October 11th, 2006, Fincasa Hipotecaria (Fincasa), now merged with Banorte, held the irrevocable trust for the issuance of market certificates No. 563, issuer code FCASACB, whose underlying assets are mortgages originated and transferred by Fincasa.
- On December 13th, 2006, Banorte held the irrevocable trust for the issuance of market certificates No. 583, issuer code BNORCB, whose underlying assets are mortgages originated and transferred by Banorte.

- On November 5th, 2007, Banorte held the irrevocable trust for the issuance of market certificates No. 477, issuer code BNTECB, whose underlying assets are loans originated and transferred by Banorte to federal entities, states and municipalities, as well as trusts in which any of such entities act as trustees.

In accordance with criterion C-1 *Recognition and Disposal of Financial Assets*, these assets were written off from the Institution's balance sheet as a sale, given that conditions for the risk's and benefit's transfer inherent in the ownership of the financial assets were met. The Institution is not responsible for assumed or retained risks with respect to trust assets, its sole responsibility is the fulfilment of its obligations in the trust agreement and administration contract.

The Institution is responsible that each of the assigned loans meets the eligibility criteria, at the time of their respective assignment. If the trust, the common representative, the financial guarantor, identify any non-eligible loans, they may require Banorte to replace such loan or if replacement is not possible, to make payment for the "non-replaced ineligible loan" in question. If Banorte identifies any non-eligible loan, it must notify and replace or make the corresponding payment.

Particularly in Trust 477, operations with derivatives are carried out, specifically swaps, in order to reduce exposure to exchange rate and interest rate risks. The Institution assumes the counterparty risk generated by these operations, however these operations are only carried out with institutions of recognized solvency. The Trust's policy is to only carry out derivative instrument operations for the sole purpose of coverage, never for speculation.

The Institution's Board of Directors has no pre-determined policies for the issuance of securitizations, authorization for any new issuance must be requested.

The Institution does not participate in securitizations of third party positions.

There are several risk factors for securitizations that may affect trusts. If these risks materialize, payment to market certificates' holders could be adversely affected. The main risks which these financial instruments are exposed to are credit, market, liquidity and operational risk, which have been detailed in previous sections.

To monitor the quality of Credit Risk exposure of financial instruments arising from securitized assets, the Institution estimates expected loss within one-year time horizon. Likewise, in order to monitor exposure to market risk, the value at risk is calculated with a one-day time horizon and a 99% confidence level, for these instruments.

Banco Mercantil del Norte is the settlor and trustee of trusts for the securitizations carried out. At the same time it acts as underwriter on each issue, offering bonds to investors. Additionally, the Institution also carries out the duties of administrator in each of the trusts.

On the other hand, the Institution also acts as an investor by acquiring titles of market certificates issued by the trusts set up for securitizations. By June 30, 2018 Grupo Financiero Banorte had the following position in securities and securitization amounts carried out by the same Institution:

Securitization (Million pesos)	Banorte		Insurance		Total GFNorte	
	Securities	Amount	Securities	Amount	Securities	Amount
91_BNTECB_07	50,763,776	1,967	500,000	19	51,263,776	1,986
91_BNTECB_07-2	563,059	19	-	-	563,059	19
97_FCASACB_06U	-	-	-	-	-	-

The following shows the proportion of securities held by Grupo Financiero Banorte, in relation to the total issued for each series:

Securitization (Million pesos)	Issued Securities	Banorte	Insurance	Total GFNorte	Total Clients
91_BNTECB_07	52,313,776	97.0%	1.0%	98.0%	2.0%
91_BNTECB_07-2	1,113,059	50.6%	0.0%	50.6%	49.4%
97_FCASACB_06U	1,351,386	0.0%	0.0%	0.0%	100.0%

Ratings assigned by each rating agency at the end of the quarter for each market certificate issued by the aforementioned trusts are as follows:

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

As of June 30, 2018 the amounts of the underlying assets of each securitization were:

Securitization (Million pesos)	Amount		
	Performing	Past-Due	Total
91_BNTECB_07	\$2,703	\$0	\$2,703
91_BNTECB_07-2			
97_FCASACB_06U	\$109	\$135	\$244

There are no impaired assets in trust 477.

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

Concept (Million Pesos)	Balance	Capital Requirement
Securitizations with Risk Level 1 (weighted 20%)	1,967	31
Securitizations with Risk Level 2 (weighted 50%)	19	1
Securitizations with Risk Level 3 (weighted 100%)	0	0
Securitizations with Risk Level 4 (weighted 350%)	0	0
Securitizations with Risk Level 4, 5, 6 or not rated (weighted 1250%)	0	0

*Excludes the position in Seguros Banorte

No securitization position is registered in memorandum accounts and no maintained securitization position is deducted from basic capital.

Securitizations trusts 563 and 477 consider early amortization provisions. The institution has not made revolving securitizations or resecuritizations operations during the quarter.

6.1 Applied Accounting Policies

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

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

The BORHIS and GEM Trusts issued certificates in favor of the institution, as holders of rights in last place under the trust agreement. These certificates provide the right to receive a percentage of the distributions and in general to the corresponding proportions of the remnant that may be in the trust after full payment of the bonds. Valuation of the certificates is based on the method of net present value of remaining cash flows expected over the lifespan of the securitization. Remaining cash flows, depending on the type of securitization, are determined as follows:

- a) BORHIS: the sum of the cash flow to receive from the securitized loan portfolio, less the cash flow to pay off the market certificates, less the monthly administration expenses plus the income from sales of foreclosed properties, if the case.
- b) GEM: the sum of the cash flow to receive from the securitized loan portfolio, less the cash flow to pay off the stock certificates, less expenses for Administration, plus or less the change in the reserve's interests.

Remaining flows are discounted with the B1 banking curve, which takes into consideration the trust's Credit Risk. The most important assumptions in the valuation of the certificates are the following:

- a) Non-compliance rate: cash flows to be received from loan portfolios are adjusted by a determined percentage of the outstanding portfolio amount that is estimated to fall into non-compliance. That percentage is estimated using historical performance information of this portfolio. This percentage is applied to flows greater than 12 months.
- b) Prepayment rate: cash flows to be received from the loan portfolio are adjusted by a determined percentage of the outstanding portfolio amount estimated to be prepaid. That percentage is estimated using historical performance information of this portfolio.
- c) Portfolio term: is estimated using WAM (*Weighted Average Maturity*) of the securitized portfolio.
- d) Portfolio interest rate: is estimated using WAC (*Weighted Average Coupon*) of the securitized portfolio.
- e) Portfolio payment dates: loan portfolio payment dates are considered to be the same as those of the stock certificates.
- f) Reserve to be rated: the current value of the remaining flows is reduced by the amount of the reserve to be rated. This reserve corresponds to the non-compliance risk for cash flows in the first 12 months.
- g) General account: the current value of the remaining flows are added to the amount of cash or cash equivalents deposited in the general account, collection account and if the case, in the expense reserve account, in case of total payment of the stock certificates, these assets would be distributed to the certificate holders.
- h) General terms of stock certificates: estimated to be in accordance with prices published by Valmer.

Regarding the policies for recognizing obligations in balance sheet of the agreements that may require financial support from the Institution in case of asset's securitization: all amounts due under the stock certificates of the different existing securitizations, will be charged to the trust estate. If, for any reason, the liquid assets of the trust net worth are not sufficient to ensure payment of the amounts due under the stock certificates, holders will not have the right to claim payment from the Institution, the Trust, the common representative, the placement agent, the guarantor or guarantors in the case, or anyone else. The stock certificates have not been guaranteed or endorsed by any of the persons involved in the issuance thereof, therefore none of them are obligated to make payments to the certificate holders, with the exception, in the case of a trust, where payments may be charged to the trust in accordance with the trust agreement.

7. POSITION IN SHARES:

At the end of June 2018, Banco Mercantil del Norte held shares amounting to Ps 4.239 billion, with gains of Ps 347 million.

During the second quarter, accumulated losses from sales and settlements were Ps 7.3 million.

For negotiable securities, the capital requirement for Market Risk was Ps 66.3 million. For securities available for sale, the capital requirement for Market Risk was Ps 35 million and for Credit Risk Ps 0.54 million.

Institution	Type of Trading	Accounting Classification	Capitalization Treatment	Market Value 2Q18	Gains / Losses 2Q18	Acumm.. Profit / Loss 1Q18-2Q18
Banorte	Public	Negotiable Securities	Subject to Market Risk Requirement	422	137	0
Banorte	Public	Securities Available for Sale	Subject to Market and Credit Risks Requirements	4	(11)	0
Banorte	w/o Public trading	Securities Available for Sale	Subject to Market and Credit Risks Requirements	3,289	150	2.5
Total				4,239	347	2.5

In June 2018 it has a position of 567 million pesos in Casa de Bolsa Banorte

During the quarter, there were gains for 2.5 million pesos from sales and settlements.

Regarding Market Risk Capital Requirement the amount was of 171 million pesos of the total position in shares of Banorte.

Institution	Type of Trading	Accounting Classification	Capitalization Treatment	Market Value 2Q18	Gains / Losses 2Q18	Acumm. Profit / Loss 1Q18-2Q18
Casa de Bolsa Banorte	Public	Negotiable Securities	Subject to Market Risk Requirement	95	2.7	0
Casa de Bolsa Banorte	Public	Securities Available for Sale	Subject to Market Risk Requirement	472	238	2.5
Total				567	241	2.5

Internal Control

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

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

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

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

- A. The various Corporate Governance Committees have had the required financial, economic, accounting and/or legal information for proper decision-making.
- B. The policies and procedure manuals have been updated as per changes in external regulations, new products, and changes in the Institution's processes or improvements to internal controls.
- C. There has been continuous follow-up of the improvement actions regarding the observations made by the different members of the SCI.
- D. The Supervisory Authorities' requirements have been addressed and the information required by the external regulations has been submitted. Regular inspection visits were carried out.
- E. 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. According to the work plan established at the beginning of the year, there was progress in several activities related to internal accounting control.
- G. Effectiveness tests related to the Business Continuity Plan were executed.
- H. The requests from different internal areas regarding internal control were met, both in support of the development of new institutional projects, as well as those that derive from changes to the Regulation.

Internal and External Liquidity Sources

The internal liquidity sources, in local and foreign currency, come from the various deposit products that the institution offers to customers.

Regarding external sources of liquidity, it has diverse mechanisms to access the debt and capital markets. The Institution obtains resources through the issuance of debt securities, loans from other institutions - including the Central Bank and international organisms -, as well as from the issuance of subordinated debt. Also considered is the liquidity that the Institution obtains through its proprietary repos' securities that qualify for such transactions. It also has the alternative of obtaining resources through the issuance of shares representing equity.

Currently, the Institution has diverse sources of liquidity. Deposits, including interest bearing and non-interest bearing demand and time deposits, are the bank's main source of liquidity. Negotiable and short term instruments, such as government securities and deposits in the Central Bank and other banks, are liquid assets that generate interest. Liquid assets also include deposits in foreign banks, which are denominated mainly in US dollars.

Detailed information related to liquidity sources is reported in different headings of the GFNorte's Balance Sheet in this report

Dividend Policy

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

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

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

Related Parties Loans

According to Article 73 of the Law of Credit Institutions, loans granted to related parties of credit institutions cannot exceed the established limit of 35% of the basic portion of net capital.

In the case of GFNorte as of June 30 and March 31, 2018, the amount of loans granted to third parties is as follows (billion pesos):

Lender	Jun-2018	% Basic Equity	Mar -2018	% Basic Equity
Banorte	Ps 26.72	27.3%	Ps 21.90	23.0%

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

Banorte

As of June 30, 2018, total loans granted to related parties, under Article 73 of the Law of Credit Institutions, was Ps 26.72 billion (including Ps 7.08 billion in — Letters of Credit "CC", which are registered in memorandum accounts), representing 4.2% of Banorte's total loan portfolio (excluding the balance of CC). Of the total related loans balance, Ps 23.30 billion were loans granted to clients linked to members of the Board of Directors; Ps 2.47 billion were granted to clients linked to shareholders and Ps 947 million 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 27.3% 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. 98% of the related party loans are rated in Category "A", and the majority of these loans were classified as commercial loans.

Banorte

As of March 31, 2018, total loans granted to related parties, under Article 73 of the Law of Credit Institutions, was Ps 21.90 billion (including Ps 4.99 billion in — Letters of Credit “CC”, which are registered in memorandum accounts), representing 3.5% of Banorte's total loan portfolio (excluding the balance of CC). Of the total related loans balance, Ps 18.39 billion were loans granted to clients linked to members of the Board of Directors; Ps 2.42 billion were granted to clients linked to shareholders and Ps 1.08 billion were linked to companies related to GFNorte.

In accordance with Article 73 of the Law for Credit Institutions, the balance of GFNorte's loan portfolio for individuals and corporations at the end of March 2018 was 23.0% of the basic part of the equity.

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

Loan or tax liabilities

The tax credits listed below are currently in litigation:

	As of June 30, 2018
BANORTE	\$-
IMSS fees	-
INFONAVIT fees	-
AFORE XXI BANORTE	\$2
Loan # 4429309391 Payroll Tax of the state of Coahuila	2
UNITELLER	\$7
Philippines 2007 - 2008	7
CASA DE BOLSA	\$-
—Financial year 2007 (document 900 06 05-2010-03968)	-
IXE BANCO	\$-
Income Tax-Profit Sharing for the 2005 fiscal year – inflation adjustment	-
Million pesos	

People in Charge

The undersigned represent under oath that, within the scope of our respective functions, we have drawn up the information relative to Grupo Financiero Banorte contained in this report, which, to the best of our knowledge, reasonably reflects its situation. Furthermore, we express that we are not aware that relevant information has been omitted or falsified in this quarterly report or that it contains information that may lead to errors to investors.

Act. Jose Marcos Ramirez Miguel
Chief Executive Officer of Grupo Financiero Banorte, S.A.B. de C.V.

Eng. Rafael Arana de la Garza
Chief Operating Officer & Chief Financial Officer

C.P. Isaias Velazquez Gonzalez
Managing Director of Internal Audit

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director of Comptrollership

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

Basis for submitting and presenting Financial Statements

Grupo Financiero Banorte (GFNorte). Issues the financial statements in consolidated form with its Subsidiaries in accordance with the General Provisions Applicable to the Controlling Companies of Financial Groups that regulate the matters that correspond jointly to the National Supervisory Commissions (the Provisions) published in the Official Gazette of the Federation on January 9, 2015.

Sector Bancario (Banorte). Issues the financial statements in consolidated form with its Subsidiaries in accordance with the General Provisions Applicable to the financial information of the Credit Institutions (the Provisions) published in the Official Gazette of the Federation on December 2, 2005, modified by means of published Resolutions in the aforementioned Official Gazette on March 3 and 28, September 15, December 6 and 8, 2006, January 12, March 23, April 26, November 5, 2007, March 10, August 22, September 19, October 14, December 4, 2008, April 27, May 28, June 11, August 12, October 16, November 9, December 1 and 24, 2009, January 27, February 10, April 9 and 15, May 17, June 28, July 29, August 19, September 9 and 28, October 25, November 26 and December 20, 2010, June 24 and 27 January, March 4, April 21, July 5, August 3 and 12, September 30, October 5 and 27, and December 28, 2011, June 19, July 5, October 23, November 28 and December 13, 2012, January 31, April 16, May 3, June 3 and 24, July 12, October 2 and December 24, 2013, January 7 and 31, March 26, May 12 and 19, July 3 and 31, September 24, October 30, December 8 and 31, 2014, January 9, 5 February, April 30, May 27 and June 23, 2015, August 27, September 21, October 29, November 9 and 13, December 16 and 31, 2015, April 7 and 28 and December 22, 2015 June 2016, July 7 and 29, August 1, September 19, September 28, 2016, and December 27, 2016, January 6, April 4 and 27, May 31, June 26, 4 and 24 July, August 29, October 6 and 25, December 18, 26 and 27, 2017, January 22, March 14, April 26, May 11 and June 26, 2018, respectively.

GFNorte and Banorte. The financial information contained in this document has been prepared in accordance with the regulation issued by the National Banking and Securities Commission (CNBV) for the holding company and the financial entities that make up the Financial Group and the NIF issued by the Mexican Board of Standards. of Financial Information, AC (CINF) The regulation of the CNBV and the aforementioned NIFs differ from each other due to the specialized operations of the Credit Institutions. They also differ from the accounting principles generally accepted in the United States of America (US GAAP) and the regulations and principles established by the North American authorities for this type of financial entities. In order to present the information contained in an international format, the format for the classification and presentation of certain financial information differs from the format used for the financial information published in Mexico.

The information contained in this document is based on unaudited financial information of each of the entities to which it refers.