

Annual Report 2017

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

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

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I. Management's Discussion & Analysis

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

- ✓ The financial information contained in this report is based on GFNorte's Audited Financial Statements for the years ended December 31, 2017 and 2016, published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited dated February 22, 2018. For the year ended December 31, 2015, financial figures are based on GFNorte's Audited Financial Statements published by Galaz, Yamazaki, Ruiz Urquiza, S. C., a member of Deloitte Touche Tohmatsu Limited, dated February 22, 2017.
- ✓ In the fourth quarter of 2016 GFNorte decided to dispose of Inter National Bank ("INB") as part of the corporate restructuring program. As result of the aforementioned, Banco Mercantil del Norte ("Banorte") reclassified its investment in Inter National Bank as a long-term asset available for sale, which was registered at yearend at its estimated sale value. Moreover, INB's net income was registered as Income from Discontinued Operations. Consequently, INB's consolidated results in Banorte were reversed for 2016 and 2015. GFNorte's and Banorte's consolidated figures for 2015 reported in this document differ from those presented in the Annual Report submitted to the authority in April 2016.
- ✓ During the third quarter of 2016 Fees from Commercial and Government Loans were reclassified retroactively to Fees for Commercial and Mortgage Loans from Other Fees Charged in order to make figures comparable. This reclassification amounted to Ps 458 million for 2015.
- ✓ The financial information presented in this report has been calculated in pesos and the tables are in million pesos, thus, differences are the result of rounding effects.

A) OPERATING RESULTS

SELECTED FINANCIAL INFORMATION

	2017	2016	2015 ¹⁾
Net Income Grupo Financiero Banorte (GFNorte)	\$23,908	\$19,308	\$17,108
Total Assets GFNorte	\$1,354,147	\$1,268,119	\$1,198,476
Total Liabilities GFNorte	\$1,206,563	\$1,125,418	\$1,061,124
Stockholders' Equity GFNorte	\$147,584	\$142,701	\$137,352
Stockholders' Equity GFNorte excluding minority interest	\$145,752	\$140,746	\$135,452

INFORMATION PER SHARE

Net income per share Basic (pesos)	\$8.70	\$7.02	\$6.20
Net income per share Diluted (pesos)	\$8.62	\$6.96	\$6.17
Dividend approved per share (pesos) ²⁾	\$4.05	\$2.47	\$1.65
Book value per share (pesos) (excluding minority interest) ³⁾	\$52.55	\$50.74	\$48.83
Shares outstanding Basic (millions)	2,749.03	2,754.03	2,762.47
Shares outstanding Diluted (millions)	2,773.73	2,773.73	2,772.38

PROFITABILITY RATIOS

NIM	5.47%	4.80%	4.40%
NIM adjusted for credit risk	4.16%	3.60%	3.39%
NIM adjusted w/o Insurance & Annuities	5.37%	4.61%	4.19%
NIM from loan portfolio	8.49%	7.88%	7.68%
Return on assets (ROA)	1.86%	1.58%	1.47%

Return on equity (ROE)	16.98%	13.91%	13.26%
OPERATIONS			
Efficiency ratio ⁴⁾	41.94%	44.94%	47.59%
Operating efficiency ratio ⁵⁾	2.65%	2.58%	2.53%
Average Liquidity Coverage Ratio for Banorte and SOFOM - Basel III	123.42%	99.55%	107.78%
ASSET QUALITY INDICATORS			
Past due loan ratio	1.99%	1.79%	2.25%
PDL reserve coverage	129.16%	139.48%	116.04%
CAPITALIZATION RATIO			
Banco Mercantil del Norte	17.23%	15.30%	14.62%
INFRASTRUCTURE AND EMPLOYEES			
Bank Branches ⁶⁾	1,148	1,175	1,191
ATMs (automated teller machines)	7,911	7,756	7,425
Points of Sale	165,441	151,948	155,893
Full-time employees	29,903	27,913	27,574
Full-time employees and professional services	29,915	27,929	27,594

Million pesos.

1. Figures coming from the Income Statement were reexpressed to reflect INB deconsolidation in 2016 due to the corporate restructure process; therefore, such figures differ from those presented in the Annual Report submitted to the authority in April 2016.
2. Dividends approved by the Shareholders' Assemblies in 2014, 2015 and 2016 were: Total dividend decreed in 2014 was Ps 0.9740 per share to be paid in four installments of Ps 0.2435 per share (October 2014, January, April, and July 2015). Total dividend decreed in 2015 was Ps 1.64702 per share to be paid in four installments, the first one for Ps 0.2745 per share (November 2015) and the remaining three for an amount of Ps 0.457506549 per share each (February, June and October 2016). Total dividend decreed in 2016 was Ps 2.4671 per share to be paid in two installments of Ps 1.233553556868510 (August 2016 and March 2017).
3. Considering the number of issued shares that for the three periods amount to 2,773.7 million.
4. Non Interest Expense / (Net Interest Income + Non- Interest Income).
5. Non Interest Expense / Average Total Assets.
6. Includes bank modules and excludes 1 branch in the Cayman Islands.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GFNorte reported profits of Ps 23.91 billion in 2017, +24% higher YoY and +40% higher than in 2015.

In 2017 the contribution by business sector to accumulated profits was as follows:

The Consolidated Bank's* net profits totaled **Ps 18.34 billion**, Ps 3.29 billion or +22% higher vs. 2016. **according to GFNorte's holding-** amounts to **Ps 18.01 billion**, Ps 4.21 billion or +30% higher YoY, accounting for 75.3% of GFNorte's profits.

Net Income for the **Long Term Savings Sector** comprised of Afore XXI Banorte, Insurance and Annuities Companies was **Ps 6.27 billion** in 2017, +10% higher YoY. **According to GFNorte's participation in this sector, accumulated profits amounted to Ps 4.94 billion**, +11% higher vs. 2016, representing 20.7% of GFNorte's accumulated earnings. This increase was due to better dynamics in the companies that make up this sector, especially in Seguros Banorte (driven by higher Technical Results and the increase in Other Operating Income (Expenses)) and Pensiones Banorte (benefited by higher Total Income).

During 2017 the **Brokerage Sector** comprised of Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte-Ixe reported profits of **Ps 972 million**, +17% higher YoY driven by higher Non-Interest Income, Trading and Other Products (Expenses) Net, as well as by lower Non Interest Expense and tax payments. The Brokerage Sector's Net Income for 2017 represented 4.1% of the Financial Group's profits.

SOFOM and Other Finance Companies comprised of Arrendadora y Factor Banorte, Almacenadora Banorte, Sólida Administradora de Portafolios and Ixe Servicios, recorded profits of **Ps (158) million** in 2017, a (337%) decrease vs. 2016. According to GFNorte's participation in this sector, accumulated profits amounted to Ps (152) million. The performance of this sector was affected by the valuation losses recorded in Sólida related to the equity securities received from the restructuring agreements with the homebuilders.

1. Grupo Financiero Banorte

Consolidated Income Statement

	2017	2016	2015 ¹⁾
Interest income	\$110,509	\$80,264	\$69,302
Premium income (Net)	25,043	21,307	19,074
Interest expense	(44,635)	(27,383)	(23,642)
Increase in technical reserves	(12,645)	(8,477)	(7,131)
Casualty rate, Claims and other Contractual Obligations (Net)	(14,906)	(12,654)	(11,027)
NET INTEREST INCOME (NII)	\$63,366	\$53,057	\$46,576
Loan Loss Provisions	(15,213)	(13,313)	(10,687)
NET INTEREST INCOME ADJUSTED FOR CREDIT RISK	\$48,153	\$39,744	\$35,889
Fees Charged	19,542	16,683	14,566
Fees Paid	(7,558)	(6,056)	(4,847)
Trading Income	2,657	2,346	2,954
Other Operating Income	3,211	3,491	2,937
Non-Interest Income	\$17,852	\$16,465	\$15,611
Administration and promotional expenses	(34,061)	(31,243)	(29,594)
OPERATING INCOME	\$31,944	\$24,965	\$21,905
Subsidiaries' Net Income	1,264	1,246	1,201
PRE-TAX INCOME	\$33,208	\$26,211	\$23,106
Income Tax	(8,469)	(7,056)	(5,605)
Deferred Income Tax (Net)	(579)	178	(386)
Taxes	(\$9,048)	(\$6,878)	(\$5,991)
INCOME BEFORE DISCONTINUED OPERATIONS	\$24,160	\$19,333	\$17,115
Discontinued operations	89	243	233
INCOME FROM CONTINUOUS OPERATIONS	\$24,249	\$19,576	17,348
Minority interest	(341)	(268)	(240)
NET INCOME	\$23,908	\$19,308	\$17,108

Million pesos.

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2015.

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

- **Net Interest Income - NII**

	2017	2016	2015 ¹⁾
Interest Income	\$100,315	\$73,204	\$63,623
Interest Expense	43,941	26,893	23,260
Fees Charged	1,171	1,206	1,207
Fees Paid	695	490	383
Net Interest Income without Insurance and Annuities	\$56,850	\$47,027	\$41,187
Premium Income (Net)	25,043	21,307	19,074
Technical reserves	12,645	8,477	7,131
Damages, Claims and Other Obligations	14,906	12,654	11,027
Technical Result	(\$2,507)	\$176	\$916
Net Interest Income (Expense)	9,024	5,854	4,473
Net Interest Income for Insurance and Annuities	\$6,517	\$6,030	\$5,389
Net Interest Income GFNorte	\$63,366	\$53,057	\$46,576
Credit Provisions	15,213	13,313	10,687
Net Interest Income Adjusted for Credit Risk	\$48,153	\$39,744	\$35,889
Average Earnings Assets	\$1,157,638	\$1,088,718	\$1,059,044
NIM ²⁾	5.5%	4.9%	4.4%
NIM adjusted for Credit Risk ³⁾	4.2%	3.7%	3.4%
NIM adjusted w/o Insurance and Annuities	5.4%	4.7%	4.2%
NIM from loan portfolio ⁴⁾	8.5%	8.0%	7.7%

Million pesos.

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2015.
2. NIM (Net Interest Margin) = Annualized Net Interest Income / Average Earnings Assets.
3. NIM adjusted for Credit Risk = Annualized Net Interest Income adjusted for Credit Risk / Average Earnings Assets.
4. NIM from loan portfolio = Annualized Net Interest Margin from loan portfolio / Average Performing Loans.

NII excluding Insurance and Annuities amounted to Ps 56.85 billion during 2017, +21% above reported figures in 2016, driven by the positive combination of the loan book mix, and the balance sheet re-structuring to incorporate the progressive interest rate hikes from the Central Bank of +150bps during 2017. NII from loans and deposits grew +19%, while NII from investments in securities and repos increased +49% during the period

Insurance and Annuities NII totaled Ps 6.52 billion, +8% higher YoY. Insurance NII in 2016 includes a one-time effect of Ps \$565 million related to the accounting changes implemented from the Solvency II regulation. Adjusting for this effect, Insurance and Annuities NII would have grown +19% YoY. The inflation-valuation result from the Annuity company was Ps 4.63 billion in 2017 vs. Ps 2.20 billion in 2016.

Technical Results in 2017 amounted to (Ps 2.51) billion, unfavorably compared vs. 2016 due to reserve requirements of +49. Although Damages & Claims were up +18% yearly.

Interest Income (Expenses) Net: rose +Ps 3.17 billion in 2017 vs. 2016,, mainly on higher UDI valuation at the annuities company (+Ps 2.43 billion YoY), which reflects total premium growth as well as higher inflation during 2017.

According to new regulation Premium Income and Technical Reserves of life policies are fully accounted when originated, as opposed to the former rule in which Premium Income and Costs were registered

following the payment calendar of the policies. This change resulted in a distortion in 1Q16 results because of the increase in Premiums and Reserves.

In 2017 GFNorte's Net Interest Income (NII) rose to Ps 63.37 billion, increasing +19% YoY **and to Ps 16.64 billion** benefited from the good performance in practically all lines which are not related to Annuities and Insurance businesses.

Net Interest Margin (NIM) was 5.5% up +60bps YoY due to a better mix in the loan book and the benefit of re-pricing the balance sheet due to rising market rates.

- **Provisions**

In 2017 Loan Loss Provisions totaled Ps 15.21 billion, +14% higher annually, The annual increase is explained by higher requirements in the consumer portfolios with the most dynamic growth (credit card, payroll, and personal loans) despite declining provisions related to mortgages and government lending

Provisions represented 24.0% of Net Interest Income in 2017, lower by (1.1pp) vs. 2016

Additionally, **accumulated and quarterly Provisions accounted for 2.6% of the average loan portfolio**, rising +8bps vs. 2016, and similar to the previous quarter.

- **Non-Interest Income**

	2017	2016	2015 ¹⁾
Service Fees	\$11,983	\$10,628	\$9,719
Trading	2,657	2,346	2,954
Other Operating Income (Expenses)	3,211	3,491	2,937
Non-Interest Income	\$17,852	\$16,465	\$15,611

Million pesos.

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2016.

During 2017, Non-Interest Income totaled Ps 17.85 billion, increasing by +8% vs. 2016, driven mainly by Service Fees.

Service Fees

	2017	2016	2015 ¹⁾
Fund Transfers	\$1,489	\$1,287	\$843
Account Management Fees	2,529	2,075	1,982
Electronic Banking Services	6,903	5,808	5,070
Basic Banking Services Fees	\$10,921	\$9,170	\$7,895
For Commercial and Mortgage Loans	694	796	458
For Consumer Loans	4,296	3,658	3,077
Fiduciary	422	347	388
Income from Real Estate Portfolios	107	113	169
Mutual Funds	1,343	1,163	1,154
Trading & Financial Advisory Fees	721	520	567
Other Fees Charged (1) *	1,038	916	858
Fees Charged on Services	\$19,542	\$16,683	\$14,566
Interchange Fees	3,099	2,504	2,101
Insurance Fees	1,218	1,371	1,118
Other Fees Paid	3,243	2,180	1,628
Fees Paid on Services	\$7,559	\$6,056	\$4,847
Service Fees	\$11,983	\$10,628	\$9,719

Million Pesos

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2015.
2. Includes fees from letters of credit, transactions with pension funds, warehousing services, financial advisory services and securities trading among others.

* Reclassified figures to Other Fees Charged from Fees for Commercial and Mortgage Loans for 2015.

During 2017 Service Fees rose to Ps 11.98 billion, +13% higher year over year:

Trading

	2017	2016	2015 ¹⁾
Trading Revenues			
Currency and Metals	(\$153)	\$82	\$7
Derivatives	493	328	415
Negotiable Instruments	(709)	(73)	(163)
Valuation	(\$370)	\$338	\$260
Currency and Metals	1,729	1,511	1,243
Derivatives	137	(14)	110
Negotiable Instruments	1,161	511	1,342
Trading	\$3,027	\$2,008	\$2,695
Trading Income	\$2,657	\$2,346	\$2,954

Million pesos

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2015.

During 2017 Trading Income totaled Ps 2.66 billion, 13% higher vs. 2016, driven by trading and client transactions which offset mark-to-market losses.

Other Operating Income (Expense)

	2017	2016	2015 ¹⁾
Loan Recovery	\$1,750	\$1,550	1,282
Loan Portfolios	190	149	163
Income from foreclosed assets	159	98	165
Provisions Release	371	393	358
Losses and Estimates	(1,636)	(960)	(931)
Impairment of Assets	(493)	(242)	(339)
Lease Income	447	325	30
From Insurance	835	1,017	765
Others	1,588	1,162	1,443
Other Operating Income (Expenses)	\$3,211	\$3,491	\$2,937

Million pesos

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2015.

During the year Other Operating Income (Expenses) stood at Ps 3.21 billion, (8%) lower vs. 2016, explained mainly by i)+Ps 676 million in losses and estimates from fraud and vandalism related to cards and ATMs; ii) (Ps 493) million charge on the valuation of investment projects, and iii) a (Ps 183) million reduction in Other Operating Income from Insurance, which is related to a Ps 290 million write-off on reinsurance.

- **Non-Interest Expense**

	2017	2016	2015 ¹⁾
Personnel	\$13,447	\$12,876	\$11,997
Professional Fees	2,926	2,208	2,359
Administrative and Promotional	7,833	7,366	7,083
Rents, Depreciation & Amortization	5,058	4,689	4,072
Taxes other than income tax & non-deductible expenses	1,772	1,390	1,610
Contributions to IPAB	2,634	2,325	2,101
Employee Profit Sharing (PTU)	391	389	374
Non-Interest Expense	\$34,061	\$31,243	\$29,594

Million pesos

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2016.

In 2017 Non-Interest Expense totaled Ps 34.06 billion, +9% above 2016 as result of a general increase in all lines, except Employee Profit Sharing (PTU), and also because of higher inflation levels during the year.

Efficiency Ratio improved during 2017, decreasing to 41.9%, (300bps) below 2016, as result of positive operating leverage, driven by higher Non-Interest Expense.

- **Net Income**

	2017	2016	2015 ¹⁾
Operating Income	\$31,944	\$24,965	\$21,905
Subsidiaries' Net Income	1,264	1,246	1,201
Pre-tax income	\$33,208	\$26,211	\$23,107
Taxes	9,048	(6,878)	(5,991)
Discontinued Operations	89	243	233
Minority Interest	(341)	(269)	(240)
Net Income	\$23,908	\$19,308	\$17,108

Million Pesos

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2016.

In 2017 Net Income from Subsidiaries was up 1% vs. 2016, and amounted to Ps 1.26 billion, comprising Ps 1.28 billion from Afore XXI Banorte's results and a (Ps 112) million loss in Solida's investments.

Accumulated taxes totaled Ps 9.05 billion, up +32% vs. 2016, as result of both a higher taxable base, and a rise in deferred taxes; The effective tax rate in 2017 was at 27.2%, +101bps YoY,

- **Performing loan portfolio**

	2017	2016	2015 ¹⁾
Commercial*	\$137,501	\$125,377	\$109,583
Consumer*	240,899	203,047	173,948
Corporate	102,220	103,491	88,108
Government	134,905	134,798	130,119
Subtotal	\$615,525	\$566,713	\$501,758
Recovery Bank	72	91	129
Total	\$615,598	\$566,805	\$501,887
Past due loans	12,482	10,312	11,860
% NPL Ratio	1.99%	1.79%	2.25%

Million pesos.

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2016.

	2017	2016	2015 ¹⁾
Mortgage	\$135,334	\$114,718	\$98,345
Car Loans	19,189	15,047	12,400
Credit Cards*	33,906	28,445	24,854
Payroll	52,469	44,838	38,350
Consumer Loans	\$240,899	\$203,047	\$173,948

Million pesos.

* As of 1Q16, "Tarjeta Empuje Negocios" was reclassified to the SME segment from the Credit Card segment with a performing balance of Ps 995 million. For comparison purposes, 2015's and 2014's balances were reclassified similarly, Tarjeta Empuje Negocios balance in 2015 amounted to Ps 983 million and in 2014 to Ps 1.03 billion in performing loans.

Total Performing Loans

Total Performing Loans increased +9% YoY for an ending balance of Ps 615.52 billion in 2017. Despite a slight slowdown, **consumer loans** grew at a **remarkable rate of +19%**, higher than the banking system, driven by strong origination capacity of the bank based on technology and business analytics. Commercial, Corporate and Government Loans show moderate growth in line with the banking system.

- ✓ **Mortgages:** up +18% YoY, with an ending **balance of Ps 135.33 billion**. Banorte grew twofold versus the banking system: 18.8% vs. 9.0% respectively, according to November regulatory data. Market share gains of +152bps placed Banorte second in the banking system with an 18.4% market share.
- ✓ **Car Loans:** In 2017, the portfolio increased +28% YoY, totaling **Ps 19.19 billion**, as a result of a successful commercial strategy to offset strong competition from captive finance companies. As of November 2017, Banorte's market share was 16.1%, gaining +112bps in the year, and maintaining the best annual performance in the banking industry.
- ✓ **Credit Cards:** Outstanding performance of the book, with an **ending balance of Ps 33.90 billion**, up +19% YoY. These results derive from active portfolio management and strong push in commercial campaigns. As of November 2017, Banorte held a 9.2% market share in credit card balances, gaining +88bps in the year, ranking fourth in the banking system, with twofold growth vs. the system.

Payroll Loans: Showed a good increase of +17%, **reaching a balance of Ps 52.47 billion**. Growth was driven by higher credit penetration on a larger base of payroll account holders. Banorte has a market share of 21.0% as of November 2017, gaining +190bps in the year, and ranking third in the market.

- ✓ **Commercial Book:** accelerated growth with an **ending balance of Ps 137.50 billion**, +Ps 12.12 billion or +10% higher YoY. As of November 2017, market share in commercial loans (including the corporate book according to the CNBV's classification) was 9.6%, ranking fourth in the banking system.

GFNorte's SME performing portfolio amounted to Ps 33.44 billion, +9% higher YoY,

- ✓ **Corporate Loans:** **Ending balance in 2017 stood at Ps 102.22 billion**, a (4%) reduction in the quarter and (1%) YoY. During the quarter, growth was affected by a slight reduction in demand, and prepayments of approximately Ps 8 billion. Moreover, 4Q16 had an extraordinary growth of more than Ps 10 billion, 11% YoY. 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 10.5% of the group's total portfolio. The group's largest corporate exposure represents 0.9% of the total portfolio; whereas number 20 represent 0.3%. 100% of GFNorte's main corporate borrowers have an A1 rating.

As of December 31, 2017 GFNorte's **loan exposure to home builders was Ps 2.24 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. This exposure represented 0.4% of the total loan portfolio, similar to 3Q17. Total portfolio has a 100% collateral coverage, with no changes vs. 3Q17. Loan Loss Reserve coverage was 35.6% in 2017. **Sólida had a balance of Ps 5.30 billion in investment projects.**

- **Government Book:** **had an ending balance of Ps 134.90 billion in 2017**, very similar to 4Q16. GFNorte's government portfolio is diversified by sectors and regions, and shows adequate concentration risk. GFNorte's 20 largest government loans account for 19.3% of the group's total portfolio, The largest government loan represents 3.0% 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 29.8% of the loans granted to Federal Government entities and 98.9% of loans to States and Municipalities have a fiduciary guarantee (consisting of Federal budget transfers and local revenues such as payroll tax), and 1.1% of the loans have short-term maturities. As of November 2017, Banorte held a 24.5% market share of the total system, ranking first.

- **Past Due Loans**

During 2017, Past Due Loans were Ps 12.48 billion, up Ps 2.17 billion or +21% YoY. There is a quarterly deterioration in the corporate and payroll loan portfolio, and YoY there is a deterioration of consumer loans, while commercial loans show remarkable improvement. There was a Ps 1.4 billion corporate credit in arrears that pushed up NPL levels during the quarter; this exposure is under restructuring.

The evolution of NPL balances were as follows:

	2017	Var. 2016
Credit Card	\$2,188	\$564
Payroll	2,020	578
Car Loans	233	51
Mortgage	1,323	274
Commercial	3,239	(183)
Corporate	3,481	886
Government	-	-
Total	\$12,482	\$2,170

Million pesos.

In 2017, Past Due Loan Ratio reached **2.0%**, improving +20bps vs. 2016, driven by deterioration in corporate and consumer books. During the quarter, there was an +18bps increase. Quarterly evolution for the segment follows:

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

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

- **Deposits**

	2017	2016	2015 ¹⁾
Non-Interest Bearing Demand Deposits	\$239,227	\$231,395	\$169,611
Interest Bearing Demand Deposits	157,425	152,367	167,275
Total Demand Deposits	\$396,652	\$383,761	\$336,886
Time Deposits – Retail	193,617	167,652	149,733
Money Market	58,352	24,342	54,907
Total Bank Deposits ¹⁾	\$648,622	\$575,755	\$541,526
GFNorte's Total Deposits ²⁾	\$640,821	\$574,560	\$539,318
Third Party Deposits	157,748	148,407	139,099
Total Assets Under Management	\$806,370	\$724,163	\$702,769

Million pesos.

2. Includes eliminations between subsidiaries. The eliminations during 2014, 2015 and 2016 were , (Ps 774) million, (Ps 2.21) billion and (Ps 1.20) billion, respectively.

At the end of 2017, Banorte's Total Deposits amounted to Ps 648.62 billion, a +13% annual variation, driven mainly by growth in Term Deposits and Money Table throughout the year, reflecting the migration of customers to products that pay interest given the current cycle of high rates. Thus, customer deposits grow + 12% and Total Administration Resources + 11% YoY.

2. Consolidated Bank

The Consolidated Bank's* net profits totaled **Ps 18.339 billion**, +22% higher vs. 2016, driven by Total Revenues that increased + \$ 11,061 million. According to the percentage of participation of GFNorte, the Profit of the Consolidated Bank - in 2017 amounted to \$ 18,012 million pesos, + 30% YoY, accounting for 78% of GFNorte's profits.

ROE for 2017 of the Consolidated Bank was 20.3%, +556bp higher YoY; whereas, **ROA stood at 1.8%**, +23bp higher vs. 2016.

**Consolidated Bank in 2015 considers Banco Mercantil del Norte, Banorte-Ixe Tarjetas, Banorte USA and Afore XXI Banorte according to its 50% ownership; whereas, in 2016 considers Banco Mercantil del Norte –merging entity of Banorte-Ixe Tarjetas since May- and Banorte USA –deconsolidated and reported in Discontinued Operations as of 4Q16- and excludes Afore XXI Banorte as it is reported within Long Term Savings since 4Q16.*

Consolidated Income Statement

	2017	2016	2015 ¹⁾
Interest income	\$95,710	\$69,407	\$58,970
Interest expense	40,062	(23,244)	(19,369)
NET INTEREST INCOME (NII)	\$55,648	\$46,163	\$39,601
Loan Loss Provisions	14,983	(13,070)	(10,370)
NET INTEREST INCOME ADJUSTED FOR CREDIT RISK	\$40,665	\$33,093	\$29,231
Fees Charged	18,436	15,764	13,476
Fees Paid	(6,142)	(4,498)	(3,527)
Trading Income	2,101	1,839	2,606
Other Operating Income	2,365	2,078	1,851
Non-Interest Income	\$16,760	\$15,183	\$14,406
Administration and promotional expenses	(31,750)	(29,155)	(27,334)
OPERATING INCOME	\$25,675	\$19,121	\$16,303
Subsidiaries' Net Income	62	1,043	1,280
PRE-TAX INCOME	\$25,737	\$20,164	\$17,583
Income Tax	(6,781)	(5,479)	(4,063)
Deferred Income Tax (Net)	(706)	(116)	(235)
Taxes	(\$7,487)	(\$5,363)	(\$4,298)
INCOME BEFORE DISCONTINUED OPERATIONS	\$18,250	\$14,801	\$13,285
Discontinued operations	\$89	\$243	\$233
INCOME FROM CONTINUOUS OPERATIONS	\$18,339	\$15,044	\$13,518

Million pesos.

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2016.

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

- **Net Interest Income**

	2017	2016	2015 ¹⁾
Interest Income	\$94,541	\$68,208	\$57,770
Interest Expense	39,375	22,759	18,993
Fees Charged	1,169	1,199	1,200
Fees Paid	687	485	376
Net Interest Income	\$55,648	\$46,163	\$39,601
Credit Provisions	14,983	13,070	10,370
Net Interest Income Adjusted for Credit Risk	\$40,665	\$33,093	\$29,231
Average Earnings Assets	\$954,973	\$905,035	\$851,417
NIM²⁾	5.8%	5.1%	4.7%
NIM adjusted for Credit Risk³⁾	4.3%	3.7%	3.4%

Million pesos.

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2016.

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

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

Net Interest Income in 2017 amounted to Ps 55.65 billion, +21% higher vs. 2016, in line with the +46% increase in NII from securities and repos, and a +20% rise in NII from loans and deposits, driven by the loan portfolio mix, and the interest rate hikes that Banxico carried out during the year.

Accumulated Net Interest Margin (NIM) hiked to 5.8%, +73bp above 2016. In both cases, improvements derived from a better loan portfolio mix and the effects of portfolio repricing as a result of the high interest rate cycle. Additionally, **NIM adjusted for credit risk was 4.3% in 2017, +54bps higher vs. 2016, and 4Q17 at 4.5%, +26bps higher than 3Q17**.

- **Provisions**

During 2017 Loan Loss Provisions reached Ps 14.98 billion, up +15% YoY on higher requirements in credit card and payroll loan portfolios. Moreover, **Provisions in 4Q17 declined to Ps 3.87 billion**, (1%) below 3Q17, as result of lower requirements from commercial and corporate loan portfolios.

- **Non-Interest Income**

	2017	2016	2015 ¹⁾
Services	\$12,294	\$11,266	\$9,949
Trading	2,101	1,839	2,606
Other Operating Income (Expense)	2,365	2,078	1,851
Non-Interest Income	\$16,760	\$15,183	\$14,406

Million pesos.

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2016.

In 2017, Non-Interest Income amounted to Ps 16.76 billion, +10% higher vs. 2016, given the increase all lines except Recoveries. Net Fees growth of +Ps 2.04 billion is noteworthy.

Moreover, **revenues from core banking services** (account management, fund transfers and electronic banking services) **grew +19% in 2017**, on higher transaction volume and on an improved fee structure in products and segments.

- **Non-Interest Expense**

	2017	2016	2015 ¹⁾
Personnel	\$12,808	\$12,290	\$11,435
Professional Fees	2,456	1,845	1,916
Administrative and promotional expenses	7,206	6,753	6,336
Rents, depreciations and amortizations	4,716	4,400	3,807
Other Taxes and Non-deductible Expenses	1,547	1,159	1,372
Contributions to IPAB	2,634	2,325	2,101
Employee Profit Sharing (PTU)	383	383	368
Non-Interest Expense	\$31,750	\$29,155	\$27,334

Million pesos.

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2016.

Accumulated Non-Interest Expenses were Ps 31.75 billion for 2017, +9% higher vs. 2016, as result of increases in all lines.

Efficiency Ratio improves continuously during 2017 reaching 43.8%, a (386bps) decline vs. 2016, as a result of positive operating leverage driven by higher Non-Interest Expenses.

- **Performing Loan Portfolio**

	2017	2016	2015 ¹⁾
Commercial *	\$125,322	\$113,936	\$101,082
Consumer*	237,328	201,348	171,463
Corporate	107,983	108,057	92,051
Government	132,816	133,540	128,567
Subtotal	\$603,450	\$556,880	\$493,163
Recovery Bank	72	91	129
Total performing loans	\$603,522	\$556,972	\$493,292
Past due loans	\$12,192	\$10,060	\$11,591
% NPL Ratio	1.98%	1.77%	2.25%

Million Pesos.

1. Reexpressed figures to reflect the INB deconsolidation carried out in 2016 as result of the corporate restructuring process; therefore, will differ from those published in the Annual Report submitted to the authority in April 2016.

	2017	2016	2015 ¹⁾
Mortgage	\$135,334	\$114,718	\$98,344
Car Loans	19,187	15,042	12,396
Credit Cards *	33,906	28,445	24,855
Payroll	48,901	43,143	35,868
Consumer loans	\$237,328	\$201,348	\$171,463

Million Pesos.

* As of 1Q16, "Tarjeta Empuje Negocios" was reclassified to the SME segment from the Credit Card segment with a performing balance of Ps 995 million. For comparison purposes, 2015's and 2014's balances were reclassified similarly, Tarjeta Empuje Negocios balance in 2015 amounted to Ps 983 million and in 2014 to Ps 1.03 billion in performing loans.

Total Performing Loans increased 8% YoY in 2017, from Ps 556.88 billion to Ps 603,450 billion. Outstanding YoY growth was achieved in all portfolios, driven by good origination dynamic. Consumer (+18%), and commercial (+10%).

In 2017, The Consolidated Bank's Past due Loans were Ps 12.20 billion, +21% higher YoY; The Consolidated Bank's Non-Performing Loan Ratio in 2017 was 2.0%, +0.2pp higher than 2016

- **Deposits**

	2017	2016	2015
Non-Interest Bearing Demand Deposits	\$239,227	\$231,394	\$169,611
Interest Bearing Demand Deposits	157,425	152,367	167,275
Total Demand Deposits	\$396,652	\$383,761	\$336,886
Time Deposits – Retail	193,617	167,652	149,733
Money Market	58,352	24,342	54,907
Total Bank Deposits ¹⁾	\$648,622	\$575,755	\$541,526

Million pesos.

1. For the integration of Total Demand Deposits, see Note 19 of Banco's Mercantil del Norte Audited Financial Statements.

At the end of 2017, Banorte's Total Deposits amounted to Ps 648.62 billion, a +13% annual variation, growth speed was due to an increase in Demand Deposits (+3%), and Time Deposits (+15%)

3. Brokerage

	2017	2016	2015
Net Income	\$972	\$832	\$790
Stockholders' Equity	3,060	2,753	3,309
Total Assets	121,833	81,175	149,848
Assets Under Management	824,291	757,423	724,410

Million pesos.

The Brokerage Sector (Casa de Bolsa Banorte Ixe and Operadora de Fondos Banorte Ixe) **reported profits of Ps 972 million**, +17% YoY due to higher non-interest income, +18% increase in net fees, and a decrease of (2%) in administrative expenses. Brokerage Sector's profit in 2017 represented 4.1% of the Group's profits.

4. Long-Term Savings

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

On August 16, 2016, the National Insurance and Bonding Commission ("CNSF") authorized Seguros Banorte to directly invest in Banorte Futuro's equity, and to invest indirectly in the equity of Afore XXI's. Then, on August 26, the National Commission for the Retirement Savings System ("CONSAR") authorized Seguros Banorte to indirectly acquire a 50% stake in Afore XXI Banorte, as a result of its spin-off from Banco Mercantil del Norte.

Additionally, the Tax Administration Service ("SAT") on October 12, authorized to transfer shares at fiscal cost from Banorte Futuro i) to Banorte Ahorro y Previsión, and ii) then to Seguros Banorte.

These transactions became effective as of October 17, 2016. Therefore, as of that date, 50% of Afore's XXI Banorte profits are registered in the Subsidiaries' Net Income line.

	2017	2016	2015
Long-Term Savings Sector			
Net Income	\$6,271	\$5,727	\$5,097
Stockholders' Equity	25,996	22,513	31,628
Total Assets	139,625	119,283	120,194
Seguros Banorte			
Net Income	\$4,059	\$2,902	\$2,210
Stockholders' Equity	22,967	20,364	6,331
Total Assets	49,292	41,593	26,139
Afore XXI Banorte			
Net Income	\$2,614	\$2,541	\$2,485
Stockholders' Equity	24,333	24,008	23,667
Total Assets	26,056	25,336	25,067
AUM ¹⁾	732,700	645,213	625,821
Pensiones Banorte			
Net Income	\$882	\$561	\$402
Stockholders' Equity	3,030	2,150	1,629
Total Assets	90,333	77,690	68,988

Million pesos.

1. Source: CONSAR

- **Seguros Banorte**

Income from Retained Premiums amounted to Ps 17.20 billion in 2017, +18% YoY, as a result of the high volume of renewals, growth in bancassurance, and issuance of a large life premium registered in 2Q17. There was a noticeable slowdown in reserve creation from +132% in 2016, to **+82% in 2017**, in line with the amount of subscribed premiums during the period, softening the impact of the aforementioned life premium. Thus, accrued retained premiums (excluding the net increase for cat reserves) totaled Ps 16.43 billion, up +16% on the period.

Net Damages, Claims and Other Obligations amounted to Ps 10.74 billion in 2017, +20% YoY. This change reflects the significant increase in Auto claims which have affected the industry, and it also reflects an increase in cat risk in the P&C book (related to the earthquakes that took place in September 2017), which is mostly reinsured, resulting in a net impact of Ps 30 million.

Acquisition Costs in 2017 were down (Ps 34 million) vs. 2016, mainly due to the different composition of the portfolio between the second and third quarters.

Non-Interest Expenses amounted to Ps 1.20 billion in 2017, +18% above 2016, due to higher expenses linked to operation and intangible expenses at Afore derived from the consolidation in 2017.

Operating Income in 2017 amounted to Ps 3.86 billion, +7% above 2016. Net Operating Profit reflects the Ps 290 million write-off related to a reinsurance account. This was registered under Other Income (Operating Expenses). In 4Q17 the writeoff was Ps 205 million.

Seguros Banorte (including Afore XXI Banorte) reported net income of Ps 4.06 billion in 2017, +40% higher than 2016. Excluding Afore XXI Banorte, the insurer's Net Income totaled Ps 2.77 billion in 2017, accounting for 11.6% of the Group's results.

ROE for the consolidated insurance company was 39.9% YoY, (6.1pp) vs. 2016,

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 4Q17 that involved any technical risk.*
- ii. Damages and claims, as well as the fulfillment with reinsurers and bonding companies according to their participation.
 - *In 3Q17 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 4Q17.*
- iv. Transfer of risks through reinsurance and bonding contracts
 - *In the Damages and Life, books, seven important businesses: three related to government, two to the energy sector, one to commerce and one more to the services industry, were ceded to reinsurers, mainly foreign entities.*
- v. Contingencies arising from non-fulfillment by reinsurers and bonding companies.
 - *In April of 2017 the Superintendency of Panama announced the forced liquidation of Istmo Panamá. Afterwards, in September of 2017 the National Insurance and Bonding Commission published the repeal of Istmo México. As of 4Q17, Seguros Banorte posted a write-off in its books for the total contingency with Istmo Méico and Panama totaling Ps 290 million.*

- **Afore XXI Banorte**

Afore XXI Banorte posted net profits of Ps 2.61 billion in 2017, +Ps 74 million above 2016, mostly explained by the positive evolution of financial income which offsets the accumulated provisions a Ps 180 million payment of a penalty set by COFEC.

ROE for the year was 11.1%, +38bps above 2016; while Excluding goodwill, Tangible ROE (ROTE) would have been 38.8% in 2017, (76bps) lower vs. 2016, and 34.9%

Afore XXI Banorte contributed with 5.4% of the Financial Group's profits in 2017, and with 4.8% in 4Q17.

Assets under management as of December 2017 totaled Ps 732.70 billion, an increase of +14% vs. 2016.

According to CONSAR, as of December 2017 Afore XXI Banorte had a 23.1% share in managed funds, ranking 1st in the market, with 9.62 million accounts (this number does not include 8.65 million accounts

managed by Afore XXI with resources deposited in Banco de Mexico), which represent an 18.7% share of the total number of accounts in the system, ranking second in the market.

- **Pensiones Banorte**

During 2017, Pensiones Banorte reported profits of Ps 882 million, +57% higher YoY, driven by financial income from the inflation indexed investment book (+Ps 525 million).

In 2017 Net Income from Pensiones Banorte represented 3.7% of the Financial Group's profits, ROE totaled 34.7% in 2017, up +9bps vs. 2016.

5. SOFOM and Other Finance Companies

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

	2017	2016	2015
SOFOM and Other Finance Companies			
Net Income	(\$158)	\$178	\$496
Stockholders' Equity	9,087	9,049	9,563
Total Portfolio	34,052	29,170	25,795
Past Due Loans	291	252	269
Loan Loss Provisions	(572)	(442)	(478)
Total Assets	46,915	43,483	41,096
Leasing and Factoring			
Net Income	\$771	\$693	\$571
Stockholders' Equity	5,149	4,482	4,297
Total Portfolio*	29,841	27,402	23,220
Past Due Loans	154	180	175
Loan Loss Provisions	302	(319)	(310)
Total Assets	30,362	27,768	23,336
Warehousing			
Net Income	\$42	\$28	\$31
Stockholders' Equity	226	184	246
Inventories	783	438	462
Total Assets	955	586	619
Sólida Administradora de Portafolio ¹⁾			
Net Income	(\$969)	(\$538)	(\$106)
Stockholders' Equity	3,573	4,243	4,874
Total Portfolio	4,211	1,768	2,575
Past Due Loans	137	73	94
Loan Loss Provisions	270	(123)	(168)
Total Assets	15,459	14,988	16,995
Ixe Servicios			
Utilidad neta	(\$1.8)	(\$4.9)	\$0.4
Capital contable	139	141	146
Activo total	139	141	146

Million pesos.

1. * Includes operating lease portfolio and fixed asset amounting to Ps 6, Ps 28 and Ps 40 in 2014, 2015 and 2016, respectively registered in property, furniture and equipment (net).

- **Leasing and Factoring**

Arrendadora y Factor Banorte reported profits of Ps 771 million in 2017, up +11% YoY, driven by an increase in net interest income from the expansion in its Leasing & Factoring book.

At the end of 2017, the **Past Due Loans Ratio** was 0.6%, and the Coverage ratio was 196%, +2pp higher QoQ and +18pp YoY. The **Capitalization ratio** as of December was 15.9% considering total risk-weighted assets of Ps 32.27 billion.

The **leverage ratio** as of December 2017 was 15.13%; considering adjusted assets of Ps 33.95 billion pesos

During 2017, Net Income from Leasing and Factoring accounted for 3.2% of the Group's total results.

- **Warehouse**

In 2017, **Warehouse posted profits of Ps 42 million**, a +48% increase vs. 2016 on higher inventory origination, and higher income from net services and recoveries.

Almacenadora Banorte accounted for 0.2% of the Financial Group's profits in 2017. ROE also raised to 20.5%, +8.9pp vs. 2016

At the end of 2017, the Capitalization Ratio was 146% considering net capital of Ps 189 million and deposit certificates for sale issued in warehouses of Ps 2.60 billion. Almacenadora Banorte ranks 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 969) million, explained by valuation losses on derivatives related to the equity securities received from the restructuring agreements with the homebuilders.

Past Due Loan Ratio was 3.2% at the end of December 2017, up +0.6 pp vs. 3Q17. Coverage ratio was 198%, +28 pp higher vs. 2016.

The **estimated Capitalization ratio in 2017 was 15.9%**, +2.8 pp YoY.

Leverage ratio as of December 2017 was 19.32%, respectively; considering adjusted assets of Ps 15.07 billion

B) FINANCIAL SITUATION, LIQUIDITY AND CAPITAL RESOURCES
NET INCOME AND PROFITABILITY INDICES
GFNorte's Equity

	2017	2016	2015
Paid-in Capital	14,591	14,574	14,606
Premium of Subscribed & Issued Shares	35,592	36,427	36,424
Subscribed Capital	\$50,183	\$51,001	\$51,030
Capital Reserves	5,491	4,825	5,765
Retained Earnings	71,294	68,492	62,860
Surplus (Deficit) from Valuation of Securities Available for Sale	(2,390)	(2,592)	(1,552)
Results from Valuation of Hedging Instruments	(3,588)	(2,089)	(828)
Results from Valuation of the reserve for unexpired risks on changes in rates	96	87	-
Results from Conversions	1,684	2,084	1,069
Remeasurements on defined benefits for employees	(926)	(370)	-
Net Income	23,908	19,308	17,108
Earned Capital	\$95,569	\$89,745	\$84,422
Minority Interest	1,832	1,955	1,900
Total Shareholders' Equity	\$147,584	\$142,701	\$137,352

Million pesos.

Consolidated Bank's Equity (*)

	2017	2016	2015
Paid-in Capital	18,105	18,105	20,074
Premium of Subscribed & Issued Shares	648	72	11,682
Subscribed Capital	18,753	\$18,177	\$31,756
Capital Reserves	13,013	11,509	10,157
Retained Earnings	38,959	50,215	48,398
Surplus (Deficit) from Valuation of Securities Available for Sale	4	(1,645)	(1,310)
Results from Valuation of Hedging Instruments	(3,653)	(2,131)	(936)
Results from Conversions	1,590	1,985	990
Remeasurements on defined benefits for employees	(943)	(377)	-
Net Income	18,339	15,044	13,518
Earned Capital	\$67,309	\$74,600	\$70,817
Minority Interest	-	10	10
Total Shareholders' Equity	\$86,062	\$92,787	\$102,583

Million pesos.

(*) Does not include the Afore.

Banco Mercantil del Norte's Capitalization Ratio*

See Note 30 of GFNorte's 2017 Audited Financial Statements

	Dec-17	Dec-16	Dec-15
Tier 1 Capital	95,323	81,348	72,817
Tier 2 Capital	13,286	16,643	7,692
Net Capital	\$108,609	\$97,991	\$80,509
Credit Risk Assets	512,752	477,880	398,684
Market & Operational Risk Assets	117,513	162,709	151,970
Total Risk Assets ¹⁾	\$630,264	\$640,590	\$550,654
Net Capital / Credit Risk Assets	21.18%	20.51%	20.19%
Capitalization Ratio			
Tier 1	15.12%	12.70%	13.22%
Tier 2	2.11%	2.60%	1.40%
Total Capitalization Ratio	17.23%	15.30%	14.62%

Million pesos.

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

In 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, the **minimum Capitalization Ratio required for Banorte amounts to 10.95% as of December 2017** (corresponding to the regulatory minimum of 10.5% plus the constituent capital supplement to date).

At the end of 2017 the estimated Capitalization Ratio (CR) for Banorte was 17.23% considering credit, market and operational risk; and, 21.18% if only credit risks are considered.

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

1. Profit growth for the period	+ 2.91 pp
2. Subordinated Notes	+ 2.05 pp
3. Investment in Subsidiaries and Intangibles	+ 0.65 pp
4. Growth in Risk Assets	+0.26 pp
5. Valuation of Financial Instruments	+0.12 pp
6. Other Capital Effects	- 0.33 pp
7. Dividends of the period	- 3.71 pp

At the end of 2017 the estimated Capitalization Ratio (CR) for Banorte was 17.23% considering credit, market and operational risk; and, 21.18% if only credit risks are considered. The Core Tier 1 ratio was 11.93%, Total Tier 1 ratio was 15.12% and Tier 2 was 2.11%.

CASH FLOW STATEMENT

The cash flow statement reveals cash available to the institution at a certain point in time in order to meet its obligations with creditors. The structure of the cash flow statement provides details of the cash generated by the operation, and uses of resources for net financing and the investment program. As of December 2017, available cash amounted to Ps 76.26 billion, (16%) higher than the Ps 65.88 billion registered in December 2016.

GFNorte's Cash Flow Statement

	2017	2016
Net income	\$23,908	\$19,308
Items not requiring (generating) resources:		
Depreciation and amortization	1,688	1,170
Technical reserves	12,645	8,477
Provisions	(260)	3,449
Current and deferred income tax	9,048	6,878
Discontinued Operations	89	243
Subsidiaries' Net Income	(923)	(978)
	46,195	38,547
OPERATING ACTIVITIES:		
Changes in margin accounts	200	(2,094)
Changes in investments in securities	(44,085)	(24,797)
Changes in repo debtors	(679)	493
Changes in derivatives (assets)	15,628	(22,051)
Change in loan portfolio	(49,202)	(62,669)
Changes in acquired collection rights	(452)	192
Changes in accounts receivable from insurance and annuities, net	5	(20)
Changes in debtor premiums, net	214	169
Changes in reinsurance (net) (asset)	(1,550)	(1,294)
Changes in receivables generated by securitizations	15	29
Change in foreclosed assets	510	611
Change in other operating assets	(3,828)	(23,467)
Change in deposits	66,262	35,268
Change in interbank and other loans	(4,691)	7,556
Change in creditor balances under repurchase and sale agreements	(7,112)	(6,378)
Collateral sold or pledged	3	(1)
Change in liability position of derivative financial instruments	(15,796)	20,464
Change in technical reserves (net)	4,780	947
Changes in reinsurance (net) (liability)	(492)	11
Change in subordinated debentures	10,952	4,464
Change in other operating liabilities	12,826	6,958
Change in hedging instruments related to operations	3,566	3,706
Assets from Discontinued Operations	(8,069)	(1,224)
Income tax	(184)	(6,976)
Net cash generated or used from operations	25,016	(31,556)
INVESTING ACTIVITIES:		
Proceeds on disposal of property, furniture and equipment	742	1,033
Payments for acquisition of property, furniture and equipment	(4,780)	(4,083)
Charges on acquisitions of Subsidiaries and associated companies	3,195	2
Payment on acquisitions of Subsidiaries and associated companies	-	(2)
Assets from Discontinued Operations	-	(10)
Charges for cash Dividends	2,364	1,122
Net cash flows from investment activity	1,521	(1,938)
FINANCING ACTIVITIES:		
Dividends paid	(14,645)	(7,229)
Repurchase of shares	(1,181)	(1,394)
Net financing activity cash flows	(301)	-
Net (decrease) increase in cash and cash equivalents	10,410	(42,117)
Effects from changes in the value of cash and cash equivalents	(27)	155
Cash and cash equivalents at the beginning of the year	65,886	107,848
Cash and cash equivalents at the end of the year	\$76,269	\$65,886

Million pesos.

DIVIDENDS

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

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

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

POLICIES GOVERNING TREASURY ACTIVITIES OF THE BANK

Regulatory Framework

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

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

Market Risk:

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

Liquidity Risk:

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

Credit Risk:

- Lines with Counterparties.

Capital Management:

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

Treasury Management

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

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

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

Treasury's Funding sources

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

1. Public:
 - Checking accounts (via the network of branches and corporations).
2. Market:
 - Commercial paper.
 - Cross Currency Swaps
 - Syndicated Loans.
 - Securitizations
 - Deposit Certificate.
3. National Banks and Development Funds:
 - National Banks.
 - Funds.
4. Correspondent Banks:
 - Foreign Banks
5. Available credit lines: (not available)
 - Commercial paper.
 - Correspondent banks.

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

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

PAID AND DEFERRED TAX

Concept	As of December 31, 2017
Income Tax (ISR)	8,469
Profit Sharing (PTU)	383
Updated caused taxes	0
Deferred ISR & PTU	609
Updated deferred taxes	0
Total	\$9,461

Million pesos.

Temporary Asset Differences	ISR	PTU	Net
Allowance for loan losses	503	0	503
Fiscal losses	1,113	0	1,557
Surplus of loan loss provisions over the net fiscal limit	4,465	0	4,466
Financial Instruments' valuation effects	785	0	
Excess of tax over book value of foreclosed and fixed assets	1,040	0	1,051
PTU	116	0	115
Fees collected in advance	1,042	0	970
Accounting provisions	1,011	0	1,048
Other items	8	0	47
Total Assets	\$10,283	\$0	\$9,337

Temporary Liability Differences	ISR	PTU	Net
Portfolios acquired	(256)	0	(256)
Capitalizable projects' expenses	(3,521)	0	(3,521)
Valuation of Financial Instruments	(2,006)	0	(2,006)
Anticipated contributions to the pension fund	(871)	0	(871)
Intangible Assets	(608)	0	(608)
Other liabilities	(72)	0	(72)
Total liabilities	(\$7,334)	\$0	(\$7,334)

Assets (Liabilities) Accumulated Net	\$2,949	\$0	\$2,949
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Million pesos.

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

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

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

The deferred taxes for each subsidiary as of December 31, 2017 are as follows:

Deferred Taxes	As of December 31, 2017
Banco Mercantil del Norte S.A.	3,517
Grupo Financiero Banorte S.A.B. de C.V.	(18)
Arrendadora y Factor Banorte S.A. de C.V.	23
Banorte Ahorro y Previsión S.A. de C.V.	(1,178)
Casa de Bolsa Banorte Ixe, S. A. de C. V.	(108)
Almacenadora Banorte S.A. de C.V.	3
Sólida Administradora de Portafolios S.A. de C.V.	710
Total	\$2,949

Million pesos.

TAX CREDITS OR DEBTS

The tax credits listed below are currently in litigation:

	As of December 31, 2017
UNITELLER	\$6
Philippines 2007 - 2008	6
AFORE XXI BANORTE	\$2
Loan # 4429309391 Payroll Tax of the state of Coahuila	2

Million pesos

C) Internal Control

At Grupo Financiero Banorte, S.A.B. de C.V. (GFNorte), we recognize that internal control is the responsibility of each member of the Institution, and is therefore implicit in daily performance which facilitates its permanent spread and promotion at all levels of the Institution.

The Internal Control System (ICS) of GFNorte has been structured in accordance with guidelines set by its Board of Directors which establishes the general internal control framework for the companies that comprise GFNorte, as well as how the internal workings should be operated, in order to provide reasonable security with regards to effectiveness and efficiency of operations, dependability of financial information as well as fulfillment of regulations and legal framework.

The ICS's mission is to support the operation of appropriate internal controls in transactions, and the generation and recording of information. It is comprised of several elements:

- A. The Board of Directors with the support of: the Advisory Board, Risk Policies Committee (CPR), Audit and Corporate Practices Committee (CAPS), and the Human Resources Committee.
- B. The CEO and the departments which support him: Unit Risk Management (UAIR), 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, which applies only to GFNorte's 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. The Code of Conduct that regulates the behavior that each Board member, officer or employee of the Group should assume while performing their activities stress out.
- F. Policy and procedure manuals that regulate documentation, recording and liquidation of operations that the Group 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 2017, 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 Board of Directors analyzed and, at the request of CAPS, authorized the update to the basic documents of Corporate Governance related to the SCI: Code of Conduct, Objectives and Guidelines of Internal Control and General Policies for the usage of Human and Material Resources.
- B. The various Corporate Governance Committees have had the required financial, economic, accounting and/or legal information for proper decision-making.
- C. 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.

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- D. There has been continuous follow-up of the improvement actions regarding the observations made by the different members of the SCI.
 - E. The Supervisory Authorities' requirements have been addressed, the ordinary inspection visits were attended and the information required by the external regulations has been submitted.
 - F. Through Process and Management Controllers, various business and support processes that make up the operation in GFNorte are monitored, to report periodically on compliance and identifying where areas of opportunity for timely remediation.
 - G. According to the work plan developed at the beginning of the year, various activities in terms of accounting internal control were carried out.
 - H. We comply with the annual effectiveness testing program of the Business Continuity Plan, as well as with the procedure's changes review and the update of the Continuity Plan itself
 - I. Requests regarding internal control subjects from diverse internal departments were handled, to the development of new institutional projects, as well as those derived from changes in the Regulation.

II. Main Transactions and Intragroup Exposure

OPERATIONS WITH RELATED PARTIES AND CONFLICTS OF INTEREST

At Banco Mercantil del Norte, GFNorte's main subsidiary, loans to related individuals and companies do not exceed the 35% limit of tier 1 capital for December 2017, 2016 and 2015.

	Banorte		
	Dec-17	Dec-16	Dec-15
Portfolio Art. 73	\$19,410	\$9,792	\$7,552
Portfolio Art. 73 / Tier 1 Capital	19.8%	11.8%	10.5%
Portfolio Art. 73 / Limit established of tier 1 Capital	56.6%	33.7%	30.0%

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

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

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

As of **December 31, 2016**, total loans granted to related parties, under Article 73 of the Law of Credit Institutions, was Ps 9.79 billion (including Ps 816 million in — Credit Letters “CC”, which are registered in memorandum accounts), representing 1.7% of Banorte's total loan portfolio (excluding the balance of CC). Of the total related loans, Ps 8.34 billion were loans granted to clients linked to members of the Board of Directors; Ps 320 million were granted to clients linked to shareholders and Ps 1.14 billion were linked to companies related to GFNorte.

In accordance with Article 73 of the Law for Credit Institutions, the balance of GFNorte's loan portfolio for individuals and corporations at the end of December 2016 was 11.8% of the basic part of the equity.

Related party loans have been granted under market conditions and rated in accordance with the policies, procedures and rating systems applicable to the rest of GFNorte's loan portfolio based on the general dispositions applicable to credit institutions with regard to rating of loan portfolios issued by CNBV. 96% of the related party loans are rated in Category "A", and the majority of these loans were classified as commercial loans.

III. Board of Directors

The Board of Directors of Grupo Financiero Banorte, S.A.B. de C.V. is made up of 15 Proprietary Members, and when appropriate their respective Alternates, of which 11 are independent. Alternate Members can only replace their respective proprietary members in the event of a temporary vacancy, with the understanding that Alternates of Independent Board Members have the same capacity.

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

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

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

The Board of Directors was approved during the Annual General Shareholders' Meeting held on April 28, 2017. It is comprised by the following members

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
Carlos Hank Gonzalez	Chairman of the Board of Directors Proprietary Member	October 2014	<ul style="list-style-type: none"> • He was Vice President of Gruma's Board of Directors. • He was CEO of Grupo Financiero Interacciones, Interacciones Casa de Bolsa and Grupo Hermes. • He was Deputy Managing Director of Grupo Financiero Banorte. • He holds a Bachelor's Degree in Business Management from Universidad Iberoamericana.
Juan Antonio Gonzalez Moreno	Proprietary Member	April 2004	<ul style="list-style-type: none"> • He is Chairman of the Board and CEO of Gruma and Gimsa. • He has been Managing Director of Gruma Asia and Oceania, Senior Vice Chairman of Special Projects of Gruma Corporation, Chairman of the Board and CEO of CarAmigo, Vice President of Central and East Regions of MissionFoods, Chairman and Vice President of sales of Azteca Milling. • He graduated in Business Management from Universidad Regiomontana and holds an MBA from San Diego University.
David Juan Villarreal Montemayor	Proprietary Member	October 1993	<ul style="list-style-type: none"> • CEO and major shareholder of Artefactos Laminados, S. A. de C.V. • He is Chairman of the Board of Directors and Deputy CEO of Inmobiliaria Montevi, S.A. de C.V. and Inmobiliaria Monyor S.A. de C.V. • He is a regional Advisor of Banco Nacional de Mexico, S.A. (Banamex) and Financial Advisor and Business Developer for SISMEX, Sistemas Mexicanos S.A. de C.V. • He is a Mechanical and Electrical Engineer

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM), holds a Master's Degree in Science in Automatic Control from the same institution and participated in the Advanced Management program from Instituto Panamericano de Alta Dirección (IPADE).
Jose Marcos Ramirez Miguel	Proprietary Member	July 2011	<ul style="list-style-type: none"> • CEO of Grupo Financiero Banorte, Banco Mercantil del Norte and Casa de Bolsa Banorte Ixe. • He held positions as Managing Director of Wholesale Banking and Chief Corporate Officer at Grupo Financiero Banorte. • He was appointed Chairman of Asociación Mexicana de Intermediarios Bursátiles. He also worked at Nacional Financiera, S.N.C., Banque Nationale de Paris and Banque Indosuez Mexico. Founded Finventia and served as interdisciplinary consultant at Peat Marwick Mexico. • He was CFO, Managing Director of Wholesale Banking, Managing Director of Santander Brokerage and Executive Vice President of Grupo Financiero Santander. • He holds a Bachelor's Degree in Actuarial Science from Universidad Anahuac, a Post-graduate Degree in Finance from Instituto Tecnológico Autónomo de México (ITAM) and an MBA from E.S.A.D.E. in Barcelona, Spain.
Everardo Elizondo Almaguer	Proprietary Independent Member	April 2010	<ul style="list-style-type: none"> • Founder and Director of the Graduate School of the Faculty of Economics, University of Nuevo Leon. He is Professor of International Finance at EGADE, Business School, ITESM. • He was Director of Economic Studies of Grupo Industrial Alfa (Alfa Group). • He founded Consulting Agency Index, Economía Aplicada S.A. • He was Deputy Governor of the Bank of Mexico. • He graduated in Economics from the University of Nuevo Leon and holds a Master's Degree and Ph.D. in Economics, both from the University of Wisconsin-Madison..
Carmen Patricia Armendariz Guerra	Proprietary Independent Member	April 2009	<ul style="list-style-type: none"> • She is Managing Director at Financiera Sustentable, Associated Director of the Bank for International Settlements and Partner - Director and Founder of Valores Financieros. • She was advisor to GFNorte's Chairman Emeritus, Roberto Gonzalez Barrera, and Director of Special Projects at the same Institution. • She was advisor to the Minister of Finance and Public Credit and Vice President of Supervision at the National Banking and Securities Commission. • She has been international advisor in banking crises, Economics professor at Instituto Tecnológico Autónomo de México (ITAM) and

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			<p>author of several academic and specialized publications in Banking and Macroeconomics.</p> <ul style="list-style-type: none"> • She is an Actuary from Universidad Nacional Autonoma de Mexico (UNAM), holds a Master's Degree in Economics from the same institution and a Ph.D. in Economics from Columbia University.
Hector Federico Reyes-Retana y Dahl	Proprietary Independent Member	July 2011	<ul style="list-style-type: none"> • Independent Member of the Board of Banco del Ahorro Nacional (Bansefi). • He founded the organism "ProMexico, Inversion y Comercio". • He was the CEO of Banco Nacional de Comercio Exterior, S.N.C (Bancomext), CEO of Banca Confia and Director of International Operations of Banco de Mexico (Banxico). • He was CEO of Grupo Financiero Mifel and Banca Mifel, and was Vice President of the Mexican Banking Association. • He is an Industrial Engineer from Universidad Iberoamericana and holds an MBA from Cornell University.
Eduardo Livas Cantu	Proprietary Independent Member	April 1999	<ul style="list-style-type: none"> • Member of the Executive Committee of Gruma. • He was Chief Operating Officer and Managing Director of Central America of Gimsa. • He was CEO of Gruma Corp. (U.S.A. division) and Chief Corporate Officer of Gimsa and Gruma. • Additionally he served as independent financial adviser. • He holds a Bachelor's Degree in Law from the Universidad Autonoma de Nuevo Leon (UANL) and has a Ph.D. in Economics from the University of Austin, Texas.
Alfredo Elias Ayub	Proprietary Independent Member	April 2012	<ul style="list-style-type: none"> • He is Chairman of the Board of Promociones Metropolis S.A de C.V. and is member of the Board of Iberdrola USA and Rotoplas. • He was CEO of the Comision Federal de Electricidad (Mexican Federal Electricity Commission, CFE), of Aeropuertos y Servicios Auxiliares (Airports and Auxiliary Services, ASA) and held several positions within the Ministry of Energy and Mining. • He was a member of the Alumni Council at Harvard Business School, Nacional Financiera, Multibanco Mercantil de Mexico and Banco Internacional. • He was Chairman of the Board of the Mexican Institute of Electric Research and of the Mexico Foundation at Harvard. • He is a Civil Engineer from Universidad Anahuac and holds an MBA from Harvard Business School.
Adrian Sada Cueva	Proprietary Independent Member	April 2013	<ul style="list-style-type: none"> • He is Executive Manager Director and member of the Board of Directors of Vitro, S.A.B. de C.V. and has held several Maganer positions within the Industrial Group. • He is a Member of the Board of Directors of

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			<p>Comegua, Club Industrial de Monterrey, Universidad de Monterrey and Camara de la Industria de Transformacion (CAINTRA) and GFNorte's Northern Regional Board.</p> <ul style="list-style-type: none"> • He graduated in Business from Instituto Tecnologico y de Estudios Superiores de Monterrey (ITESM) and holds an MBA from Stanford Business School.
Alejandro Burillo Azcarraga	Proprietary Independent Member	April 2013	<ul style="list-style-type: none"> • He is Chairman of the Board of Directors of Grupo Pegaso. • He has participated as strategic partner in: Ixe Banco, Laredo National Bank, Telefonica Movistar, Atlante Football Club, among others. He has also been independent member of the Board of Directors of Grupo Financiero BBVA Bancomer, S.A.
Jose Antonio Chedraui Eguia	Proprietary Independent Member	April 2015	<ul style="list-style-type: none"> • He is CEO of Grupo Comercial Chedraui. • He has held positions as Commercial Director and then as CEO of Comercial Las Galas. • He participates in the organizations Fundacion Chedraui, Young Presidents' Organization and Mexico Nuevo. • He holds a Bachelor's Degree in Accounting and Finance from Universidad Anahuac.
Alfonso de Angoitia Noriega	Proprietary Independent Member	April 2015	<ul style="list-style-type: none"> • He is Executive Vice President and Chairman of the Finance Committee at Grupo Televisa, S.A.B. He has served on the Board and Executive Committee and has held the position of Executive Vice President of Administration and Finance at Grupo Televisa. • He is member of the Board of Directors of Cablevision, S.A. de C.V., Innova, S. de R.L. de C.V. (Sky), Cablemas Telecomunicaciones, S.A. de C.V., Operbes, S.A. de C.V. (Bestel), Television Internacional, S.A. de C.V., Grupo Axo, S.A.P.I. de C.V. and The Americas Society. • He is Chairman of the Board of Kardias Foundation and member of the UNAM Foundation and the Mexican Health Foundation. • Co-founder of the Law firm Mijares, Angoitia, Cortes y Fuentes, S.C. • He was a member of the Board of Grupo Modelo, S.A.B. de C.V. and The American School Foundation. • He holds a Bachelor's Degree in Law from the Universidad Autonoma de Mexico (UNAM).
Olga Maria del Carmen Sanchez Cordero Davila	Proprietary Independent Member	April 2016	<ul style="list-style-type: none"> • She is Public Notary 182 of Mexico City. • Member of the International Women's Forum, International Federation of University Women and International Association of Women Judges. • She was appointed Minister of Mexico's Supreme Court (1995-2015) and Numerary Judge of the Superior Justice Court of the Federal District (1993 to January 1995).

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			<ul style="list-style-type: none"> • She holds a Bachelor's Degree in Law from Universidad Nacional Autonoma de Mexico (UNAM) with a Postgraduate Degree in Social Policy and Management from University College of Swansea in Great Britain. She was awarded Doctor Honoris Causa by Universidad Autonoma de Morelos and Universidad Autonoma de Nuevo Leon.
Thomas Stanley Heather Rodriguez	Proprietary Independent Member	April 2016	<ul style="list-style-type: none"> • Partner at Ritch Mueller, Heather and Nicolau, S.C. and specializes in external funding, restructurings and securities offerings. • He is Legal Advisor of the Consejo Coordinador Empresarial (CCE) and is permanent member of the Committee for drafting the CCE's Code of Best Corporate Practices. • He is member of the Board of Directors and of the Audit and Corporate Practices Committee (CAPS) of Grupo Bimbo, S.A.B. de C.V.; Independent member and Chairman of the CAPS at Gruma, S.A.B. de C.V. and Grupo Industrial Maseca, S.A.B. de C.V. • He holds a Bachelor's Degree in Law from Escuela Libre de Derecho with a Masters Degree from Texas (Austin) University - "Master o Comarative Jurisprudence- Financial Law". Moreover, he holds several specialties from Universidad Panamericana, Universidad Nacional Autónoma de México and New York University.
Graciela Gonzalez Moreno	Alternate Member	April 2013	<ul style="list-style-type: none"> • She is private accountant, graduated from the Universidad Labastida in Monterrey, N.L. • She was accountant at the air conditioning factory Trane-Realven in Monterrey from 1967 to 1970. • From 1988 to 2010, she participated as founding partner and member of the Board of Directors of Asociacion Gilberto, A.C., being Vice President of it from 2007 to 2010.
Juan Antonio Gonzalez Marcos	Alternate Member	April 2014	<ul style="list-style-type: none"> • He was Director of Marketing Projects at Mission Foods. • He holds a Bachelor's Degrees in Audio Production from SAE Institute of Melbourne and in Fine Arts from the University of North Texas. Furthermore, holds a Master in Fine Arts from University of Texas at Dallas.
Carlos de la Isla Corry	Alternate Member	April 2016	<ul style="list-style-type: none"> • He was Director of Administration and Finance of Hermes Group from 2003 to 2014, responsible for the industrial corporate, including tourism, transportation, construction and concessions' operations. He was member of the Board of Directors of the Industrial Group. • He was member of the Board of Directors of Grupo Financiero Interacciones companies. • He also served as Chairman of the Credit Committee of Banco Interacciones and in the Financial Group as Chairman of the Risk

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			<p>Committee and member of the Audit, Compensations and Corporate Practices Committees.</p> <ul style="list-style-type: none"> • He is an Engineer in Electronics and Digital Systems from the Universidad Nacional Autónoma de México (UNAM) and holds an MBA from Texas University in Austin.
Clemente Ismael Reyes Retana Valdés	Alternate Independent Member	April 2017	<ul style="list-style-type: none"> • He is a Managing Partner of Reyes Retana Consultores, S.C. as of February 2008. • He was Director of Administration and Finance (1992 to 1994) and Deputy General Manager (1994 to 2008) in Invex Grupo Financiero, S.A.B. of C.V. • He holds a degree in Actuary from the Universidad Nacional Autónoma de México.
Alberto Halabe Hamui	Alternate Independent Member	April 2014	<ul style="list-style-type: none"> • Deputy Managing Director of Inmobiliaria IHM S.A. de C.V., Director of Comercializadora de Viviendas Albatros S.A. de C.V. and Nueva Imagen Construcciones S.A. de C.V. • Member of the Management and Operations Committee of St. Regis Mexico and Banorte's Metropolitan Regional Board; furthermore, he was Member of the Board of Directors in Microfinanciera Finsol. • He holds a Bachelor's Degree in Economics from Instituto Tecnológico Autónomo de México (ITAM) and a Construction and Real Estate Management Degree from the same Institution.
Roberto Kelleher Vales	Alternate Independent Member	April 2014	<ul style="list-style-type: none"> • He is Chairman and partner in Volkswagen, Seat, and Audi dealerships and a tire company in Merida. • He is shareholder and Vice President of Inmobilia Desarrollos. • He was Chairman and member of the Volkswagen National Dealers Association and member of the Mexican Association of Car Dealers. • He is Industrial and Systems Engineer from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and has several financial and management specializations from the same institution, also participated in the Advanced Management program from Instituto Panamericano de Alta Dirección (IPADE).
Manuel Aznar Nicolín	Alternate Independent Member	March 2007	<ul style="list-style-type: none"> • Founder partner at Kuri Breña, Sánchez Ugarte y Aznar. • He is attorney of Mexican banks in national and international funding operations. • Has participated in securities issuances from Mexican companies and domestic and international offerings. • He worked at Baker & McKenzie in Mexico and New York. Moreover, he was international partner of this firm. • He holds a Bachelor's Degree in Law from Escuela Libre de Derecho and a Master in American Legal System from Chicago-Kent

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			College of Law.
Robert William Chandler Edwards	Alternate Independent Member	April 2015	<ul style="list-style-type: none"> • Partner at Sanchez DeVanny Eseverri, S.C. since 1991. • He is member of the Board of Banco de Bajío, S.A. • He has been officer in various financial entities such as Chase Manhattan Bank, Banco Mercantil Agrícola de Caracas, Banco de Comercio de Bogotá and Banco Mercantil del Norte. • He participated in the Board of Directors of Banco del Centro, Banpais and Cydsa. • He holds an Art, Economics and Anthropology degree from Stanford University.
Isaac Becker Kabacnik	Alternate Independent Member	April 2002	<ul style="list-style-type: none"> • Chairman of the textile company Bechtel S.A. de C.V. and the jewelry company Becker e Hijos, S.A. de C.V. • He served as member of the Board of Directors of Multibanco Mercantil de México. Participated as an active partner in Seguros Atlantida Multiba S.A. and as a member of its Executive Committee. • He was member of the Board of Directors of Multifac, S.A. de C.V., advisor of Value Casa de Bolsa S.A., and member of the board of the Asociación de Joyeros de México A.C. • He is Civil Engineer graduated from Universidad Nacional Autónoma de México.
Jose Maria Garza Treviño	Alternate Independent Member	April 2014	<ul style="list-style-type: none"> • Chairman of Grupo Garza Ponce. • He was member of the Board of Directors in Grupo Financiero BITAL, Finanzas Monterrey, Banca Afirme and Banca Confia- Abaco Grupo Financiero. • He served as Vice President of the Mexican Camera of the Construction Industry and of the Mexican Association of Industrial Parks (A.M.P.I. P), as an adviser in COPARMEX and in the Owners of Real Estate Camera, and as Chairman of Civil Engineers Ex a Tec. • He is Civil Engineer from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and holds an MBA from the same institution.
Javier Braun Burillo	Alternate Independent Member	April 2015	<ul style="list-style-type: none"> • He is Director of Operations and member of the Board of Directors at Grupo Pegaso. • He was Senior Commercial Manager in Pegaso PCS and responsible for launching the first WiFi service in Mexico • He holds a Bachelor's degree in Economics from Universidad Iberoamericana and an MBA from UCLA Anderson School of Management.
Rafael Contreras Grosskelwing	Alternate Independent Member	April 2015	<ul style="list-style-type: none"> • He is Director of Administration and Finance at Grupo Comercial Chedraui, S.A. de C.V. • He is part of the Advisory Board of Banco Nacional de México, S.A.

NAME	POSITION	WITH THE COMPANY SINCE	PROFESSIONAL BACKGROUND
			<ul style="list-style-type: none"> • He was Director of Administration and Finance of Grupo Domino's Pizza de México, S.A. de C.V. • He served as member of associations as Engineering Alumni of Universidad Panamericana. Member of the Advisory Board of the Mexican Institute of Finance Executives (Instituto Mexicano de Ejecutivos en Finanzas) and the Mexican Equestrian Federation (Federacion Ecuestre Mexicana). • He is Industrial Engineer from Universidad Panamericana and participated in the Advanced Management program from Instituto Panamericano de Alta Direccion (IPADE).
Guadalupe Phillips Margain	Alternate Independent Member	April 2015	<ul style="list-style-type: none"> • She is Restructuring Director at ICA. • She is member of the Board of Directors of Mas Fondos, S.A. de C.V., Grupo Televisa, S.A.B., Evercore Casa de Bolsa, S.A. and Innova, S. de R.L. de C.V. • She was Vice President and Director of Finance and Risk at Grupo Televisa, furthermore, she has held several positions such as Deputy Director of Foreigners Financial Intermediaries in the Minister of Finance (Secretaria de Hacienda y Crédito Público), Finance Director in Empresas Cablevision. • She holds a Bachelor's degree in Law from Instituto Tecnológico Autonomo de Mexico and a Master's degree and Ph.D. from Tufts University.
Eduardo Alejandro Francisco Garcia Villegas	Alternate Independent Member	April 2016	<ul style="list-style-type: none"> • He is Public Notary 15 of Mexico City and Professor at the UNAM's Law faculty (Bachelor and Post Graduate studies), specializing in Notarial and Registry Law. • He was Academic Secretary of the Asociacion Nacional del Notariado Mexicano, S.A. from 2005 to 2006 and Advisor of the Notaries Association of Mexico City from 2002 to 2003. • He holds a Bachelor's degree and a Ph.D in Law from Universidad Nacional Autonoma de Mexico (UNAM).
Ricardo Maldonado Yañez	Alternate Independent Member	April 2016	<ul style="list-style-type: none"> • He is a partner of the Law firm Mijares, Angoitia, Cortes y Fuentes, S.C. since 1999. • Member of the Board of Directors of several companies, such as: Biossman Group, Endeavor Mexico and Seadrill Couragious and Secretary of the Board of Directors of companies such as: Grupo Televisa, Consorcio Ara, Controladora Vuela Compañía de Aviacion (Volaris) and Cablevision. • He was an Associate of the Law firm, White & Case, New York Office from 1993 to 1995. • He holds a Bachelor's degree in Law from Universidad Nacional Autonoma de Mexico (UNAM) and a Master's degree in Law from the Law School of Chicago University

IV. Remuneration and Benefits

The total amount of compensations and benefits paid to GFNorte's main officers in 2017 was approximately Ps 215.5 million.

Compensations and Benefits are as follows:

- **Fixed Compensation:** Salary.
- **Annual Bonus Plan for 2017:**

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

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

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

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

Stock Options:

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

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

Ensure Your Future: was established on January 1, 2001. This is a defined contribution plan, whereby a percentage of individual contributions by the employee and GFNorte are deposited in a fund for withdrawal by that employee upon termination of their labor relationship. This plan has an "initial individual contribution" (only for employees hired prior to January 1, 2001) corresponding to the pension's benefits for past services accumulated to date of the plan's creation. The maximum monthly contribution is 10% of the gross nominal wage (5% employee and 5% company). The total amount accumulated by Banorte in pension, retirement or similar plans for the company's main officers amounts to Ps 66.5 billion.

V. Responsible Officers

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

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

Eng. Rafael Arana de la Garza
Chief Operating Officer

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

Lic. Jorge Eduardo Vega Camargo
Deputy Managing Director of Comptrollership

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

VI. Audited Financial Statements

The Audited Financial Statements are available online (www.banorte.com) in Investor Relations/ Financial Information/ Annual Reports/ Financial Statement 2017.

This report is available in this same link, in the "Annual Reports" section under the title: "CNBV 2017 Annual Report".