

VISIÓN A **FUTURO**
CRECIENDO CON **MÉXICO**

2016

ANNUAL REPORT 2016

FUTURE **VISION**
CRECIENDO CON **MÉXICO**

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES

Opinion

We have audited the consolidated financial statements of Grupo Financiero Banorte, S.A.B. Of C.V. And Subsidiaries (the Parent), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, As well as the notes to the consolidated financial statements that include a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Parent Company as of December 31, 2016 and 2015, as well as its consolidated results of operations and cash flows for the years ended According to the accounting criteria established by the National Banking and Securities Commission (the Commission) through the "General Provisions applicable to Financial Group Controlling Companies subject to the Supervision of the National Banking Commission and Values "(the Accounting Criteria).

Fundamentals of Opinion

We have conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under these standards are explained more fully in the section Responsibilities of the auditor in relation to the audit of the consolidated financial statements of our report. We are independent of the Parent Company in accordance with the Code of Ethics for Accounting Professionals of the International Standards Board for Accountants (IESBA Code of Ethics) and with the Mexican Institute of Public Accountants (IMCP Code of Ethics) , And we have fulfilled all other ethical responsibilities in accordance with the IESBA Code of Ethics and the IMCP Code of Ethics. We believe that the audit evidence we have obtained provides a sufficient and adequate basis for our opinion.

Audit key issues

Key audit issues are those matters that, according to our professional judgment, have been of the greatest significance in our audit of the consolidated financial statements of the current period. These issues have been addressed in the context of our audit of the consolidated financial statements and in forming our opinion thereon, and we do not express a separate opinion on those issues. We have determined that the issues described below are the key audit issues to be reported in our report.

- **Preventive estimates of credit risks (see Note 4 and 11 to the consolidated financial statements)**
The methodology for calculating the preventive estimate for credit risks requires that the expected loss for the next twelve months be evaluated in accordance with the Accounting Standards issued by the National Banking and Securities Commission (the Commission). This expected loss considers 3 credit risk factors that are (i) the probability of default, (ii) the severity of the loss and (iii) the exposure to non-compliance. It has been considered a key audit issue because of the relative importance of the integrity and accuracy of the source information used to determine and update each of the above credit risk factors in the calculation of that estimate.

Our audit procedures to cover this key audit issue included:

- a) Test the design and operational effectiveness of the relevant controls regarding the valuation of the Preventive Estimate for credit risks of the Financial Group.
- b) Recalculate the valuation on a sample of credits, considering the risk factors and the source of information used to carry out this calculation. In addition, we review the source of information used to determine and update each of the risk factors in the calculation.
- c) Involve our team of Regulatory Compliance specialists.
- d) We validate the correct presentation and disclosure in the consolidated financial statements.

The results of our auditing procedures described above were reasonable and we found no exceptions.

- **Investments in securities (see note 4 and 6 to the consolidated financial statements)**

We identified risks in (i) the classification of investments in securities since, according to their intention, the valuation effects could be recorded in results or stockholders' equity in accordance with the Accounting Criteria issued by the Commission and (ii) The Parent does not recognize the effect of impairment even if there is objective evidence that a security is impaired.

Our audit evidence, with respect to what was mentioned in the previous paragraph, included the following:

- a) We review the integrity by confirmation of the custodian (SD INDEVAL, Institution for the Deposit of Securities, SA de CV or "INDEVAL") and its valuation according to the price vector, and that in turn, it is recorded in results or Stockholders' equity according to their intention and classification.
- b) We verified that the Financial Group complies with the provisions of Criterion B-2, Investments in securities, of the Accounting Criteria issued by the Commission, inasmuch as it does not classify securities acquired from December 2014 until December 31 2016 in the category of Securities held to maturity.
- c) In the item of investments with characteristics of equity instruments, we reviewed i) the valuation, obtaining as evidence the fair value determined by an independent price provider and ii) the presentation according to the intention and classification of the instrument.
- d) In the case of investments that show signs of deterioration and for which the Management of the Financial Group performed an impairment analysis, we verify that these calculations are carried out in accordance with the accounting regulations, additionally we prove the controls that the Financial Group has implemented for said procedure .

The results of our auditing procedures described above were reasonable and we found no exceptions.

- **Derivative financial instruments (See notes 4 and 8 to the consolidated financial statements)**

The valuation of the financial instruments of the Financial Group was considered as a key issue in our audit given the degree of complexity involved in the valuation techniques used for some of the financial instruments and the importance of the judgments and estimates made by the Management of the Tenedor.

In the accounting policies of the Parent Company, Management has described the main sources of information involved in determining the valuation of derivative financial instruments and in particular, how fair value is established using a valuation technique when the estimate can not Be carried out with inputs directly observed in an active market. Our audit included review of the evidence of valuation adjustments, including those by inclusion of the collateral.

Our auditing procedures to cover these significant items included:

- a) Test the design and operational effectiveness of the key controls with respect to the valuation of derivative financial instruments of the Financial Group.
- b) Review methodologies and inputs through the recalculation of valuation, on a sample of derivative financial instruments. In those cases where the results had presented differences in the valuations, we ensured that such variations were reasonable.
- c) Involve our team of Capital Market specialists.
- d) We review the correct presentation and disclosure in the consolidated financial statements.

The results of our auditing procedures described above were reasonable and we found no exceptions.

Information other than the consolidated financial statements and the auditor's report

The administration is responsible for the other information. The other information will include the information that will be incorporated in the annual report, which will include the consolidated financial statements and our audit report. The annual report is expected to be available for our reading after the date of this audit report.

Our opinion of the consolidated financial statements will not cover the other information and we will not express any form of security about it.

In connection with our audit of the consolidated financial statements, our responsibility will be to read the other information mentioned, when available, and when we do so, to consider whether the other information contained therein is materially inconsistent with the financial statements or our knowledge obtained during The audit, or appears to contain a material error.

Responsibilities of the management and those responsible for the Governance of the Financial Group in relation to the consolidated financial statements

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with the Accounting Standards issued by the Commission and the internal control that management deems necessary to enable the preparation of consolidated financial statements free of material misstatement, Due to fraud or error.

In the preparation of the consolidated financial statements, management is responsible for evaluating the Financial Group's ability to continue as a going concern, disclosing as appropriate, the issues related to the Operating Group and using the operating accounting principle , Unless management intends to liquidate the Financial Group or to stop its operations, or there is no other realistic alternative.

Those responsible for the Government of the Financial Group are responsible for supervising the financial information process of the Financial Group.

Responsibility of the Auditor for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement, due to fraud or error, and to issue an audit report containing our opinion. Reasonable security is a high level of security but does not guarantee that an audit performed in accordance with ISA will always detect a material error when it exists. Errors may be due to fraud or error and are considered material if individually or in aggregate form can reasonably be expected to influence the economic decisions that users make based on the consolidated financial statements.

As part of an audit performed in accordance with ISAs, we exercise our professional judgment and maintain professional skepticism throughout the audit. We also:

- We identify and evaluate the risks of material misstatement of the consolidated financial statements due to fraud or error, design and apply audit procedures to respond to those risks, and obtain audit evidence that is sufficient and appropriate to provide the basis for our opinion . The risk of not detecting a material misstatement due to fraud is higher than in the case of a material misstatement due to an error, since fraud may involve collusion, falsification, deliberate omissions, intentional misrepresentation, or circumvention of internal control.
- We obtain knowledge of the internal control relevant to the audit in order to design audit procedures that are appropriate to the circumstances and not in order to express an opinion on the effectiveness of the internal control of the Financial Group.
- We evaluate the adequacy of the accounting policies applied and the reasonableness of the accounting estimates and the corresponding information disclosed by the Administration.

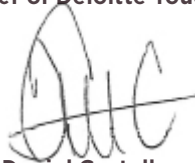
- We conclude on the adequacy of the use by the Administration of the accounting standard of operating company and, based on the audit evidence obtained, we conclude on whether or not there is a material uncertainty related to facts or conditions that may generate significant doubts about The ability of the Financial Group to continue as a going concern. If we conclude that material uncertainty exists, it is required that we draw attention in our audit report to the corresponding information disclosed in the financial statements or, if those disclosures are not adequate, express a modified opinion. Our findings are based on the audit evidence obtained so far from our audit report. However, future events or conditions may cause the Financial Group to cease to be a running company.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including disclosed information, and whether the consolidated financial statements represent the relevant transactions and events in a manner that achieves reasonable presentation.
- We obtain sufficient and adequate evidence regarding the financial information of the entities or business activities within the Financial Group to express an opinion on the consolidated financial statements. We are responsible for the management, supervision and performance of the Audit of the Financial Group. We are solely responsible for our audit opinion.

We communicate to those responsible for the governance of the Financial Group regarding, inter alia, the scope and timing of the planned audit, the significant findings of the audit, as well as any significant deficiencies in internal control that we identified in the course Of the audit.

We also provide those responsible for the Governor's Office with a statement that we have met the applicable ethics requirements regarding independence and communicated with them about all relationships and other issues that can reasonably be expected to affect our Independence and, where appropriate, the corresponding safeguards.

Among the issues that have been the subject of communications with those responsible for the Governor of the Financial Group, we determine that they have been of the greatest significance in the audit of the consolidated financial statements of the current period and are therefore the key audit issues. We describe these issues in this audit report unless legal or regulatory provisions prohibit disclosure of the matter or, in extremely rare circumstances, we determine that an issue should not be reported in our report because it can reasonably be expected that the adverse consequences thereof would exceed the benefits of the public interest of the same.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited



C.P.C. Daniel Castellanos Cárdenas
Registration in the General Administration
Of Federal Tax Audit No. 17195
February 27, 2017

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

CONSOLIDATED BALANCE SHEETS
 AS OF DECEMBER 31, 2016 AND 2015
 (In millions of Mexican pesos)

ASSETS	2016	2015
CASH AND CASH EQUIVALENTS	Ps. 65,886	Ps. 107,848
MARGIN SECURITIES	2,185	91
INVESTMENTS IN SECURITIES		
Trading securities	181,777	244,945
Securities available for sale	195,087	113,465
Securities held to maturity	81,920	83,115
	458,784	441,525
DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS	-	493
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	41,134	19,068
For hedging purposes	742	79
	41,876	19,147
VALUATION ADJUSTMENTS FOR ASSET HEDGING	114	128
PERFORMING LOAN PORTFOLIO		
Commercial loans		
Business loans	224,218	209,049
Financial institution's loans	4,650	3,331
Government loans	134,798	130,118
Consumer loans	88,332	75,738
Mortgage loans		
Media and residential	110,825	96,285
Social Interest	40	68
Credits acquired at INFONAVIT O FOVISSSTE	3,942	3,599
TOTAL PERFORMING LOAN PORTFOLIO	566,805	518,188
PAST-DUE LOAN PORTFOLIO		
Commercial loans		
Business loans	5,672	7,936
Financial institutions' loans	344	-
Consumer loans	3,247	2,895
Mortgage loans		
Media and residential	952	1,031
Social Interest	1	6
Credits acquired at INFONAVIT O FOVISSSTE	96	35
TOTAL PAST-DUE LOAN PORTFOLIO	10,312	11,903
LOAN PORTFOLIO	577,117	530,091
(MINUS) ALLOWANCE FOR LOAN LOSSES	(14,384)	(13,813)
LOAN PORTFOLIO, net	562,733	516,278
ACQUIRED COLLECTION RIGHTS	2,025	2,218
TOTAL LOAN PORTFOLIO, net	564,758	518,496
ACCOUNTS RECEIVABLE FROM INSURANCE AND ANNUITIES, net	1,908	1,888
PREMIUM RECEIVABLES, net	4,245	4,414
ACCOUNTS RECEIVABLE FROM REINSURANCE, net	7,166	5,874
RECEIVABLES GENERATED BY SECURITIZATIONS	155	185
OTHER ACCOUNTS RECEIVABLE, net	50,366	31,544
MERCHANDISE INVENTORY	438	462
FORECLOSED ASSETS, net	1,610	2,259
PROPERTY, FURNITURE AND EQUIPMENT, net	15,829	14,537
PERMANENT STOCK INVESTMENTS	13,764	13,805
LONG-TERM ASSETS AVAILABLE FOR SALE	5,299	-
DEFERRED TAXES, net	3,994	2,785
OTHER ASSETS		
Deferred charges, advance payments and intangibles	26,315	28,860
Other short-term and long-term assets	3,427	4,135
TOTAL ASSETS	Ps. 1,268,119	Ps. 1,198,476

MEMORANDUM ACCOUNTS (Note 36)

These balance sheets, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to Accounting Principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the balance sheet dates above. As of December 31, 2016, the stockholders' equity amounts to Ps. 9,619.

The accompanying Consolidated Balance Sheets have been approved by the Board of Directors in accordance with the responsibility assigned to them. "The attached Notes are an integral part of these consolidated financial statements."

LIABILITIES AND STOCKHOLDERS' EQUITY	2016	2015
DEPOSITS		
Demand deposits	Ps. 381,203	Ps. 347,576
Time deposits		
General public	190,461	207,940
Money market	1,459	4,606
Senior debt issued	85	100
Global account of deposits without movements	1,352	1,240
	574,560	561,462
INTERBANK AND OTHER LOANS		
Demand loans	4,019	1
Short-term loans	17,155	16,481
Long-term loans	17,462	14,551
	38,636	31,033
TECHNICAL RESERVES	90,369	80,945
CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS COLLATERAL SOLD OR PLEDGED	308,777	315,155
Repurchase or resale agreements (creditor balance)	-	1
DERIVATIVES FINANCIAL INSTRUMENTS		
For trading purposes	40,403	19,940
For hedging purposes	9,372	5,004
	49,775	24,944
ACCOUNTS PAYABLE TO REINSURERS, net	1,747	1,735
OTHER ACCOUNTS PAYABLES		
Income tax	3,114	1,922
Employee profit sharing	396	374
Creditors from settlements of transactions	7,348	7,541
Creditors from collaterals received in cash	10,326	-
Sundry creditors and other payables	18,037	17,458
	39,221	27,295
SUBORDINATED DEBENTURES	21,917	17,385
DEFERRED CREDITS AND ADVANCED COLLECTIONS	416	1,169
TOTAL LIABILITIES	1,125,418	1,061,124
STOCKHOLDERS' EQUITY		
PAID-IN CAPITAL		
Common stock	14,574	14,606
Additional paid-in capital	36,427	36,424
	51,001	51,030
OTHER CAPITAL		
Capital reserves	4,825	5,765
Retained earnings from prior years	68,492	62,860
Result from valuation of securities available for sale	(2,592)	(1,552)
Result from valuation of instruments for cash flow hedging	(2,089)	(828)
Result in the valuation of the current risk reserve due to changes in rates	87	-
Cumulative foreign currency translation adjustment	2,084	1,069
Employee defined benefit Remedies	(370)	-
Net income	19,308	17,108
	89,745	84,422
MINORITY INTEREST	1,955	1,900
TOTAL STOCKHOLDERS' EQUITY	142,701	137,352
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	Ps. 1,268,119	Ps. 1,198,476

 Act. José Marcos Ramírez Miguel
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Executive Director - Accounting

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

CONSOLIDATED INCOME STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
 (In millions of Mexican pesos)

	2016	2015
Interest income	Ps. 80,264	\$69,302
Premium revenue, net	21,307	19,074
Interest expense	(27,383)	(23,642)
Increase in technical reserves	(8,477)	(7,131)
Casualty rate, claims and other contractual obligations, net	(12,654)	(11,027)
NET INTEREST INCOME	53,057	46,576
Provisions for loan losses	(13,313)	(10,687)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES	39,744	35,889
Commission and fee income	16,683	14,566
Commission and fee expense	(6,056)	(4,847)
Brokerage revenues	2,346	2,954
Other operating income (expenses)	3,491	2,937
Non-interest expense	(31,243)	(29,594)
	(14,779)	(13,984)
OPERATING INCOME	24,965	21,905
Equity in earnings of unconsolidated subsidiaries and associated companies	1,246	1,201
INCOME BEFORE INCOME TAX	26,211	23,106
Current income tax	(7,056)	(5,605)
Deferred income taxes, net	178	(386)
	(6,878)	(5,991)
INCOME BEFORE DISCONTINUED OPERATIONS	19,333	17,115
Discontinued Operations	243	233
INCOME BEFORE NONCONTROLLING INTEREST	19,576	17,348
Minority Interest	(268)	(240)
NET INCOME	Ps. 19,308	\$17,108

These Income Statements, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to Accounting Principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the Consolidated Income Statement dates above.

The accompanying Consolidated Income Statements have been approved by the Board of Directors in accordance with the responsibility assigned to them.

The attached Notes are an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
 (In millions of Mexican pesos)

	PAID-IN CAPITAL			OTHER CAPITAL		
	Common Stock	Additional paid-in capital	Capital reserves	Retained earnings from prior years	Result from valuation of securities available for sale	Result from valuation of instruments for cash flow hedging
Balances, January 1, 2015	Ps. 14,632	Ps. 36,201	Ps. 6,657	Ps. 50,407	Ps. 634	Ps. (762)
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Share repurchase for executive shares' plan payable in equity instruments	(26)	251	(892)	-	(38)	-
Transfer of prior year's result	-	-	-	15,228	-	-
Dividends declared at the General Stockholders' meetings on:						
January 21, April 24 and November 19, 2015	-	-	-	(2,787)	-	-
Total transactions approved by stockholders	(26)	251	(892)	12,441	(38)	-
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	(2,148)	-
Effect of subsidiaries, affiliates and mutual funds	-	(28)	-	12	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	(66)
Total comprehensive income	-	(28)	-	12	(2,148)	(66)
Minority Interest	-	-	-	-	-	-
Balances, December 31, 2015	14,606	36,424	5,765	62,860	(1,552)	(828)
TRANSACTIONS APPROVED BY STOCKHOLDERS:						
Share repurchase for executive shares' plan payable in equity instruments	(32)	28	(940)	-	(8)	-
Transfer of prior year's result	-	-	-	17,108	-	-
Dividends declared at the General Stockholders' meetings on:						
February 19, June 28 and August 19 2016	-	-	-	(7,229)	-	-
Special criterion of the Commission for sale of INB	-	-	-	(3,741)	-	-
Total transactions approved by stockholders	(32)	28	(940)	6,138	(8)	-
COMPREHENSIVE INCOME:						
Net income	-	-	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-	(1,032)	-
Effect of subsidiaries, affiliates and mutual funds	-	(25)	-	(44)	-	-
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	(1,261)
Result in the valuation of the current risk reserve due to rate changes	-	-	-	-	-	-
Employee defined benefit Remedies	-	-	-	-	-	-
Modification in consumer loan rating rules	-	-	-	(462)	-	-
Total comprehensive income	-	(25)	-	(506)	(1,032)	(1,261)
Minority Interest	-	-	-	-	-	-
Balances, December 31, 2016	Ps. 14,574	Ps. 36,427	Ps. 4,825	Ps. 68,492	Ps. (2,592)	Ps. (2,089)

These statements of changes in stockholder's equity, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the dates above. "These consolidated statements of changes in stockholder's equity were approved by the Board of Directors in accordance with the responsibility assigned to them."

The attached Notes are an integral part of these consolidated financial statements.

	OTHER CAPITAL						
	Result in the valuation of the current risk reserve due to changes in rates	Cumulative foreign currency translation adjustment	Employee defined benefit Remedies	Net income	Total majority interest	Total minority interest	Total stockholders' equity
Balances, January 1, 2015	Ps. -	Ps. (75)	Ps. -	Ps. 15,228	Ps. 122,922	Ps. 1,750	Ps. 124,672
TRANSACTIONS APPROVED BY STOCKHOLDERS:							
Share repurchase for executive shares' plan payable in equity instruments	-	-	-	-	(705)	-	(705)
Transfer of prior year's result	-	-	-	(15,228)	-	-	-
Dividends declared at the General Stockholders' meetings on:							
January 21, April 24 and November 19, 2015	-	-	-	-	(2,787)	-	(2,787)
Total transactions approved by stockholders	-	-	-	(15,228)	(3,492)	-	(3,492)
COMPREHENSIVE INCOME:							
Net income	-	-	-	17,108	17,108	-	17,108
Result from valuation of securities available for sale	-	-	-	-	(2,148)	-	(2,148)
Effect of subsidiaries, affiliates and mutual funds	-	1,144	-	-	1,128	-	1,128
Result from valuation of instruments for cash flow hedging	-	-	-	-	(66)	-	(66)
Total comprehensive income	-	1,144	-	17,108	16,022	-	16,022
Minority Interest	-	-	-	-	-	150	150
Balances, December 31, 2016	-	1,069	-	17,108	135,452	1,900	137,352
TRANSACTIONS APPROVED BY STOCKHOLDERS:							
Share repurchase for executive shares' plan payable in equity instruments	-	-	-	-	-	-	952
Transfer of prior year's result	-	-	-	(17,108)	-	-	-
Dividends declared at the General Stockholders' meetings on:							
February 19, June 28 and August 19 2016	-	-	-	-	-	-	(7,229)
Special criterion of the Commission for sale of INB	-	-	-	-	-	-	(3,741)
Total transactions approved by stockholders	-	-	-	(17,108)	-	-	(11,922)
COMPREHENSIVE INCOME:							
Net income	-	-	-	19,308	-	-	19,308
Result from valuation of securities available for sale	-	-	-	-	-	-	(1,032)
Effect of subsidiaries, affiliates and mutual funds	-	1,015	-	-	-	-	946
Result from valuation of instruments for cash flow hedging	-	-	-	-	-	-	(1,261)
Result in the valuation of the current risk reserve due to rate changes	87	-	-	-	-	-	87
Employee defined benefit Remedies	-	-	(370)	-	-	-	(370)
Modification in the normativity of the portfolio	-	-	-	-	-	-	462
Total comprehensive income	87	1,015	(370)	19,308	-	-	17,216
Minority Interest	-	-	-	-	-	55	55
Balances, December 31, 2015	Ps. 87	Ps. 2,084	Ps. (370)	Ps. 19,308	Ps. 135,452	Ps. 1,955	Ps. 142,701

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

CONSOLIDATED CASH FLOW STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
 (In millions of Mexican pesos)

	2016	2015
	Ps. 19,308	Ps. 17,108
Net income		
Items not requiring (generating) resources:		
Depreciation and amortization	1,170	1,325
Technical reserves	8,477	7,131
Other provisions	3,449	(3,570)
Current and deferred income tax	6,878	5,991
Discontinued Operations	243	-
Equity in earnings of unconsolidated subsidiaries and associated companies	(978)	(961)
	38,547	27,024
OPERATING ACTIVITIES:		
Changes in margin accounts	(2,094)	(46)
Changes in investments in securities	(24,797)	(8,709)
Changes in debtor balances under repurchase and resale agreements	493	379
Changes in asset position of derivatives	(22,051)	(2,543)
Change in loan portfolio	(62,669)	(43,178)
Changes in acquired collection rights	192	767
Changes in accounts receivable from insurance and annuities, net	(20)	46
Changes in debtor premiums, (net)	169	88
Changes in reinsurance and surety agencies (net) (asset)	(1,294)	95
Changes in receivables generated by securitizations	29	403
Change in foreclosed assets	611	482
Change in other operating assets	(23,467)	(10,258)
Change in deposits	35,268	60,141
Change in interbank and other loans	7,556	931
Change in creditor balances under repurchase and sale agreements	(6,378)	8,553
Collateral sold or pledged	(1)	(152)
Change in liability position of derivative financial instruments	20,464	2,669
Change in technical reserves (net)	947	121
Changes in reinsurance and surety agencies (net) (liability)	11	116
Change in subordinated debentures	4,464	865
Change in other operating liabilities	6,958	10,777
Change in hedging instruments related to operations	3,706	991
Assets for discontinued operations	(1,224)	-
Income tax	(6,976)	(9,912)
Net cash flows (used in) provided by operating activity	(31,556)	39,650
INVESTING ACTIVITIES:		
Proceeds on disposal of property, furniture and equipment	1,033	1,003
Payments for acquisition of property, furniture and equipment	(4,083)	(3,914)
Payments for acquisition of property, furniture and equipment	2	-
Collections by disposal of subsidiaries and associates and agreements by joint control	(2)	(71)
Payment on acquisitions of subsidiaries and associated companies	(10)	-
Assets for discontinued operations	1,122	1,419
Net cash flows used in investment activity	(1,938)	(1,563)
FINANCING ACTIVITIES:		
Dividends paid	(7,229)	(2,787)
Repurchase of shares	(1,394)	(1,551)
Net cash flow (used in) provided by financing activity	(8,623)	(4,338)
Net increase (decrease) in cash and cash equivalents	(42,117)	33,749
Effects from changes in the value of cash and cash equivalents	155	261
Cash and cash equivalents at the beginning of the year	107,848	73,838
Cash and cash equivalents at the end of the year	Ps. 65,886	Ps. 107,848

These Cash Flow Statements, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the consolidated financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect cash income and outlays derived from the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the dates above. "The accompanying Consolidated Cash Flow Statements have been approved by the Board of Directors in accordance with the responsibility assigned to them". The attached Notes are an integral part of these consolidated financial statements.

GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In millions of Mexican pesos, except exchange rates and Note 33)

1 - ACTIVITY AND REGULATORY ENVIRONMENT

Grupo Financiero Banorte, S.A.B. de C.V. and subsidiaries (the Financial Group) are authorized by Mexico's Ministry of Finance and Public Credit (SHCP) to operate as a Financial Group under the form and terms established by the Laws Regulating Financial Groups, subject to the supervision and monitoring of the Mexican National Banking and Securities Commission (the Commission). Its main activities consist of acquiring and managing entities engaged in the financial services industry and supervising their activities, as defined in the above-mentioned law. The Financial Group is regulated, depending on its activities, by the Commission, the Mexican National Insurance and Bonding Commission (CNSF) (the Commissions), and the Mexican Central Bank (Banco de México) and other applicable laws and regulations.

The main activity of its subsidiaries is the execution of financial operations such as the provision of services of multiple banking, brokerage, leasing, financial factoring, storage services in general, pensions and life insurance and damages, dispose, manage, collect and generally negotiate, in any form, with credit rights.

The main regulating aspect compels the Financial Group to maintain a minimum capitalization ratio for market and loan risks, to meet certain acceptance limits for deposits, obligations and other types of funding that may be denominated in foreign currency, as well as to establish the minimum limits for paid-in capital and capital reserves. The Financial Group complies satisfactorily with all of the above as of December 31, 2016.

By legal requirements, the Financial Group has unlimited liability for the obligations assumed and losses incurred by each of its subsidiaries.

The powers of the Commission, in its capacity as regulator of the Financial Group and its subsidiaries, include reviewing the financial information and requesting modifications to such information.

The Financial Group performs its activities throughout Mexico and the United States of America.

The Financial Group's consolidated financial statements have been approved by the Board of Directors at its January 26, 2017 meeting in accordance with the responsibility assigned to this Organ.

2 - SIGNIFICANT EVENTS DURING THE YEAR

a) Changes to the corporate structure

1. Banorte-Ixe Fusion Cards

On April 15, 2016, was issued the letter No. UBVA / 023/2016 issued by the SHCP authorizing the merger of Banorte-Ixe Tarjetas, S.A. C.V., SOFOM, E.R. (Banorte-Ixe Tarjetas) and Banco Mercantil del Norte, S.A. (Banorte).

On May 2, 2016, the merger of Banorte-Ixe Tarjetas as a merged company became effective, with Banorte as a merging company, which continues.

The merger had no effect on the figures presented in the consolidated financial statements, since the Financial Group already consolidated Banorte-Ixe Tarjetas).

2. Banorte Ahorro y Previsión

The corresponding authorizations of the Commissions for the constitution of the Subcontroladora Banorte Ahorro y Previsión, S.A. were obtained. Of C.V. (Banorte Ahorro y Previsión). On September 1, 2016, Banorte Ahorro y Previsión held an Ordinary General Shareholders' Meeting in which it was approved to increase the share capital in the variable part, which was subscribed and paid by the Financial Group through a contribution in kind of the Pension shares Banorte, SA Of C.V. (Pensiones Banorte) and Seguros Banorte, S.A. Of C.V. (Seguros Banorte) for an amount of \$ 7,106.

3. Banorte Futuro

At the Extraordinary General Meeting of Shareholders of the Financial Group, held on November 4, 2015, the spin-off of the Financial Group was approved as escidente, and the creation of Banorte Futuro, S.A. of C.V. (Banorte Futuro) as a new spin-off company. Banorte Futuro's main objective is to acquire and manage shares of financial entities and service providers and real estate companies, in terms of the provisions set forth in the Law for Regulating Financial Groupings (LRAF). Simultaneously with the spin-off, the Financial Group contributed the shares of Banorte Futuro to Seguros Banorte.

As a result of the spin-off, Banorte transmitted in October 2016 to Banorte Futuro an asset of \$ 14,494 corresponding to the permanent investment in shares, goodwill and intangible assets associated with the investment that Banorte had in Afore XXI Banorte, S.A. Of C.V. (Afore XXI Banorte), \$ 404 as a liability and \$ 14,090 of stockholders' equity. Banorte Futuro assumed all obligations arising from the equity transferred to it as a result of the spin-off.

This split had no effect on the figures presented in the consolidated financial statements, since the Financial Group already recognized the equity method in the Afore XXI Banorte.

b) Monitoring the credit exposure with the housing developer sector

DDuring 2016 and 2015, Urbi Desarrollos Urbanos, S.A.B. Of C.V. (URBI), Corporación GEO S.A.B. Of C.V. (GEO) and Desarrolladora Homex, S.A.B. Of C.V. (Homex), the three main housing developers in the country concluded the process of bankruptcy, which allowed them to restructure the debt they had with their creditors.

As of December 31, 2016, the credit exposure related to the housing developers that was classified as due, was \$ 2,230.

URBI

Capitalization of liabilities

Derived from the restructuring processes and agreements reached with URBI, in 2016 the Financial Group received in exchange for the unsecured credits recognized by the commercial competition judge, shares and optional securities to subscribe shares of said company for an amount equivalent to the credit exposure Unsecured, net of reserves, reducing the outstanding loan portfolio with this company at \$ 1,476.

The shares and optional securities to subscribe shares received as payment in payment were initially recorded as "Assets awarded" based on the requirements established in the accounting criteria B-7 "Foreclosed assets".

Subsequently, in accordance with its intention and business plan, the Financial Group reclassified shares and optional securities to subscribe shares to Securities Investments (in the "Available-for-sale securities" category, see Note 6b) and Derivatives (See Note 8), respectively. The Financial Group values these assets at fair value.

At December 31, 2016, the impairment from market valuation of the shares was (\$ 756), recorded in equity in the income from valuation of securities available for sale. On the other hand, an impairment in the value of the optional securities of \$ (17) was recognized, recorded in income for the year in the income from intermediation.

As part of the restructuring agreement instructed by the commercial solicitor of URBI, the Financial Group received shares and optional securities to subscribe shares of said company as an exchange of a right of collection and unsecured receivables recognized in the commercial contest whose value Net in books was \$ 320. The shares were recorded in available-for-sale securities and a valuation loss of \$ 298 was recorded in the capital accounts, as well as an impairment of the option securities of \$9, Recorded in income for the year in the income from intermediation at the end of the year.

GEO and Homex

Capitalization of liabilities

During 2015, as part of the GEO and Homex liabilities restructuring, the Financial Group received in exchange for the unsecured credits recognized by the judges of the various commercial competitions, including shares and optional bonds to subscribe for shares within a term of 12 years of GEO and shares of Homex, which means that the Financial Group eliminates from its balance sheet the unsecured loans that it had in charge of said developers, amounting to \$ 1,631 (See note 6).

The shares and optional securities to subscribe shares received as a grant were initially registered as “Assets awarded” based on the requirements established in the accounting criteria B-7 “Foreclosed assets “.

Subsequently, in accordance with its intention and business plan, the Financial Group reclassified shares and optional securities to subscribe shares to Securities Investments (in the “Available-for-sale securities” category, see Note 6b) and Derivatives (See Note 8), respectively. The Financial Group values these assets at fair value.

Contribution in GEO

In 2015, the Financial Group, through its subsidiary Sólida Administradora de Portafolios, S.A. C.V., SOFOM., E.R. Grupo Financiero Banorte (Solid), made a contribution in GEO, in the amount of \$ 3,000 receiving 308,348,302 shares representing its capital stock. According to its intention, Sólida recorded the shares received in the securities investment category in the “Available-for-sale securities” category and valued at fair value. As of December 31, 2016 and 2015, Sólida holds 236,809,904 shares for a book value of \$ 1,413 and 234,331,151 shares for a value of \$ 2,196, respectively.

c) Issuance of Subordinated Debt

On September 30, 2016, the Financial Group successfully completed the issuance of subordinated and preferred bonds (Tier 2 Complementary Capital Notes) in the international market in the amount of USD 500 million.

The transaction included the issuance of Complementary Capital Notes (Tier 2) over a term of 15 years, prepaid to the tenth, with a coupon rate of 5.750%. Ratings provided by rating agencies Moody's and Fitch were Ba1 and BB+, respectively. The notes issued comply with the Basel III regulation.

The proceeds from the issue will be used for general corporate purposes and to strengthen the regulatory capital of the Financial Group.

d) Settlement of subordinated obligations due 2021

El 13 de octubre de 2016, Banorte llevó a cabo el pago total de las obligaciones subordinadas no preferentes, no On October 13, 2016, the Financial Group carried out the full payment of non-cumulative non-preferred subordinated debentures maturing in 2021 in the amount of USD 200 million.

These obligations were issued on October 13, 2006 and had the option of being amortized in advance as of the tenth year.

3 - BASIS OF PRESENTATION

Explanation for translation into English

The accompanying consolidated financial statements have been translated from Spanish to English for use outside of Mexico. These financial statements are presented on the basis of Mexican Financial Reporting Standards.

Monetary unit of the consolidated financial statements

The consolidated financial statements and notes for the years ended as of December 31, 2016 and 2015 include balances and transactions in Mexican pesos of purchasing power of such dates.

Consolidation of financial statements

The accompanying consolidated financial statements include those of Grupo Financiero Banorte, S.A.B. de C.V. and its subsidiaries mentioned below. All significant intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2016 and 2015, the Grupo Financiero Banorte S.A.B. de C.V.'s consolidated subsidiaries and its equity ownership is as follows:

	2016	2015
Banco Mercantil del Norte, S.A. y Subsidiarias (Banorte)	98.22%	98.22%
Arrendadora y Factor Banorte, S.A. de C.V., SOFOM, ER y Subsidiaria	99.99%	99.99%
Almacenadora Banorte, S.A. de C.V. y Subsidiaria	99.99%	99.99%
Banorte Ahorro y Previsión, S.A. de C.V. y Subsidiarias	99.99%	-
Seguros Banorte, S.A. de C.V. y Subsidiarias	-	99.99%
Pensiones Banorte, S.A. de C.V.	-	99.99%
Casa de Bolsa Banorte Ixe, S.A. de C.V. y Subsidiaria	99.99%	99.99%
Operadora de Fondos Banorte Ixe, S.A. de C.V.	99.99%	99.99%
Ixe Servicios, S.A. de C.V.	99.99%	99.99%
Sólida Administradora de Portafolios, S.A. de C.V., SOFOM, ER y Subsidiarias	99.28%	98.83%

During 2016, as part of the corporate restructuring mentioned in Note 2, the insurance and pension companies were transferred to the new subcontractor Banorte Ahorro y Previsión.

Conversion of Financial Statements of Banorte USA, Corporation and Subsidiaries (indirect foreign subsidiary)

In order to consolidate the financial statements of Banorte USA, whose recording and functional currency is the American dollar, they are first adjusted in the recording and functional currency (U.S. dollar) to conform to the accounting criteria established by the Commission. The financial statements are then converted to the reporting currency (Mexican pesos) according to the following methodology:

Foreign operations whose recording and functional currency are one and the same convert their financial statements using the following exchange rates: a) year-end rate for monetary assets and liabilities (20.6194 for 2016), b) historical rate for non-monetary assets and liabilities as well as stockholders' equity, and c) the weighted average rate of the period for income, costs and expenses (18.6908 for 2016). The conversion effects are presented in the Financial Group's stockholders' equity.

Long Term Assets Available for Sale and Disposition

During the year 2016, the Financial Group decided to dispose of the Inter National Bank (INB), as part of the corporate restructuring program initiated and in the face of constraints in the development of its business strategy caused mainly by the change in the regulatory environment in the United States Of America (USA).

Application of Special Accounting Criteria

In view of the fact that the Financial Group is carrying out a process of corporate restructuring, coupled with the complicated conditions of regulation in the US and with the objective of ensuring its adequate solvency and stability, the Commission, based on Article 175 of the "General provisions applicable to credit institutions" issued a special accounting standard through Official Letter P071 / 2016. This criterion authorizes the Parent to recognize the income derived from the sale of INB shares in "Income from prior years" and not from the result of the year in accordance with the corresponding NIF's.

As part of the sale process and once the requirements established in Bulletin C-15 "Impairment of the value of long-lived assets and their disposal" have been met, the Financial Group has classified its investment in INB as an available long-term asset For sale, which was recorded at the end of the year at its estimated sale value. The intention to dispose of this entity meets the definition to be classified as a discontinued operation, whereby the assets and liabilities corresponding to 31 December 2016 have been presented net in the Balance Sheet in accordance with the accounting criteria issued by the Commission and the Results of said entity have been presented as discontinued operations for the years ended December 31, 2016 and 2015.

The comparison between the net book value of the investment and the estimated value of the sale generates a difference of (Ps. 3,741) which was recorded by decreasing in the asset the value of the investment against a reduction of "Income from prior years".

If the authorized Special Accounting Criteria were not applied, the amounts that would have been recognized and presented in the Balance Sheet as of December 31, 2016 in the items affected would be:

CONCEPT	FIGURES WITHOUT SPECIAL ACCOUNTING CRITERIA	FIGURES WITH SPECIAL ACCOUNTING CRITERIA	VARIATION
Retained earnings from prior years	Ps. 72,233	Ps. 68,492	(\$3,741)
Net Income	15,567	19,308	3,741
Total stockholders' equity	142,701	142,701	-
Total liabilities and stockholders' equity	Ps. 1,268,119	Ps. 1,268,119	Ps. -

Assets, liabilities and discontinued results

As of December 31, 2016, the discontinued assets are comprised as follows:

ASSETS AND LIABILITIES	2016
Loan Portfolio	Ps. 21,479
Investments in securities	6,178
Cash and cash equivalents	3,519
Otther Assets	2,462
Property, Furniture and equipment	862
Deposits	(26,644)
Interbank and other loans	(1,394)
Other accounts payables	(739)
Subordinated debentures	(424)
Total Long Term Assets Available for Sale	Ps. 5,299

As of December 31, 2016 and 2015, the discontinued results are as follows:

INCOME STATEMENTS	2016	2015
Interest income	\$1,077	\$942
Interest expense	(81)	(105)
Net Interest Income	996	837
Provisions for loan losses	33	(5)
Net interest income after allowance for loan losses	1,029	832
Non-financial income	259	228
Non-financial expenses	(887)	(705)
Operating Income	401	355
Income Tax	(158)	(122)
Net Income	\$243	\$233

Comprehensive Income

This is the change in stockholders' equity during the year, for items other than distributions and activity in contributed common stock, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity and do not affect the Consolidated Income Statements, in accordance with the accounting practices established by the Commission. In 2016 and 2015, comprehensive income includes the net income of the year, the result from valuation of securities available for sale; the effect of subsidiaries, affiliates and mutual funds; the effect of subsidiaries, remedies for employee benefits, modification in the normativity of the qualification of the consumption portfolio, affiliates and mutual funds; the cumulative conversion effect, and the result from valuation of cash flow hedging instruments.

4 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Financial Group are in conformity with practices prescribed by the Commission through issued accounting standards and other applicable laws, which require Management to make certain estimates and use certain assumptions to determine the valuation of certain items included in the consolidated financial statements and make the required disclosures therein. Even though they may differ in their final effect, management considers the estimates and assumptions to have been adequate under the current circumstances.

Pursuant to accounting criteria A-1, "Basic Framework of the Accounting Criteria Applicable to Banking Institutions", prescribed by the Commission, the Institutions' accounting will adhere to Mexican Financial Reporting Standards (NIF), defined by the Mexican Board of Financial Reporting Standards (previously the Mexican Board for Research and Development of Financial Reporting Standards (CINIF)), except when the Commission deems it necessary to apply a specific accounting standard or Circular, considering the fact that financial institutions perform specialized operations.

Changes in accounting policies

On December 31, 2015, the Commission published a resolution amending the Provisions regarding the application of NIF D-3 Employee Benefits. The purpose of this provision is to make known the transitory articles that indicate the options that institutions have to recognize the accounting effects of the entry into force of the new NIF.

Based on the above, the Parent Company took the option established in the third transitional article to progressively recognize in the stockholders' equity the changes by reformulation referred to in NIF D-3, issued by the CINIF, which entered into force on January 1 Of 2016, which was duly informed to the Commission in accordance with the deadlines established in the Provisions.

The recognition of the balances indicated in the NIF D-3, began in 2016 recognizing 20% of the balances in that year and an additional 20% in each of the subsequent years, reaching 100% in a maximum period 5 years.

The total amounts to be recognized were determined using the discount rate of Corporate Bonds for the market valuation of the Defined Benefit Obligation under the new Mexican NIF D-3, in the following terms:

I. The balance of changes to the plan not yet recognized is progressively recognized, recording a 20% increase during the year 2016 and affecting the concept of income from previous years, using as a counterpart in the account "Provision for employee benefits ", Corresponding to the liability concept" Sundry creditors and other accounts payable ", as follows:

DISCOUNT RATE	TOTAL BALANCE TO BE APPLIED	ANUAL APPLICATION 20%	GRADUAL RECOGNITION AS OF DECEMBER 31 2016
Corporate Bonds	\$183	\$37	\$37

II. In the case of the accumulated balance of gains or losses of the plan to be recognized (corridor approach), it is progressively recognized, recording a 20% increase during the year 2016, increasing the account "Provision for employee benefits" corresponding to the concept Of liabilities "Sundry creditors and other accounts payable", and used as a counterpart the concept of "Remuneration for defined benefit to employees" in the caption "Capital earned", as follows:

DISCOUNT RATE	TOTAL BALANCE TO BE APPLIED	ANUAL APPLICATION 20%	GRADUAL RECOGNITION AS OF DECEMBER 31 2016
Corporate Bonds	\$2,729	\$546	\$546

The application of 20% per annum is recognized on a monthly basis on a proportional basis.

The amounts that would have been recognized and presented in the balance sheet as of December 31, 2016, if the aforementioned option was not applied in the affected items are:

CONCEPT	AMOUNT
Other assets and short and long term ⁽¹⁾	Ps. 1,096
Total of assets	1,265,656
Retained earnings from prior years	68,344
Reimbursement for benefits to employees	(2,553)
Total stockholders' equity	140,354
Total liabilities and stockholders' equity	Ps. 1,265,656

(1) In this item, the "Provision for employee benefits" account is shown to show the "Net Asset for defined benefits" arising from the advance payments made by the Financial Group.

B. Adoption of a new law on insurance and surety institutions (Seguros Banorte and Pensiones Banorte)**Seguros Banorte**

On April 4, 2013, the new Law on Insurance and Bonding Institutions was published in the Official Federal Gazette, and various provisions of the Law on the Insurance Contract were added, which are intended to ensure that Insurance have the solvency, stability and financial security to fulfill the obligations assumed with the insured. This new regulation will come into force 24 months after the date of its publication.

Among the main provisions contained in this new regulation are the following:

- A. Strengthening corporate governance of insurance institutions.
- B. The determination and coverage of the solvency capital requirement.
- C. Revelation in notes on the states.

The determination of an appropriate level of patrimonial resources, in relation to diverse risks.

The Insurer's Administration has implemented a plan of action to ensure compliance with the provisions contained in the new Law, as well as in the relative complementary regulation.

In order to compile in a single legal instrument the provisions derived from the Law on Insurance and Bonding Institutions, systematizing their integration and homologating the terminology used, in order to provide with this legal certainty as to the regulatory framework to which the institutions Insurance and entities subject to inspection and supervision by the Commission, a new Single Insurance and Bonding Circular (new CUSF) was published in the Official Gazette of the Federation on 19 December 2014. The provisions contained in the new CUSF will enter into force as of April 4, 2015, with the exception of the following provisions, according to the transitional articles:

Insurance institutions must present actuarial methods for the constitution, increase, valuation and recording of ongoing risk reserves, for review and approval by the Commission, no later than September 30, 2015, on the understanding that Authorization issued by the Commission, shall take effect as from 1 January 2016.

The impact of the implementation of the new operating guidelines and the change to accounting criteria as of January 1, 2016 were presented in the following operations, in accordance with CUSF Modification Circular 16/16:

a) Technical Reserves.

With the new risk management framework based on quantitative parameters based on the risk profile, the Insurer developed the actuarial methods related to the ongoing risk reserves and for outstanding obligations.

The technical reserves are valued based on risk models that allow to estimate the future value of the obligations, using the best estimate "Best-Estimate Liability" (BEL), and the risk margin considering the time value of the money based on the curves Of interest-free market risk. The risk margin is determined considering the net cost of solvency capital during its period of validity.

For the current risk reserve, the amount of the valuation generated between using the market risk free rate and the technical interest rate that was used up to December 31, 2015 is identified. This amount is recognized in equity Accounting, as part of the comprehensive income.

b) Annualization of premiums.

In the case of transactions on receipt, the commitments must be valued according to the nature of the obligation and the period provided for in the contract, ie considering the temporality of the obligation established therein. In this sense, the current risk reserve must be valued according to the term and premium of each receipt if the commitment is only for the term established in the receipt, or be valued with a greater temporality if the commitment is annual and the premium of the Receipt only covers the corresponding risk of a fraction of the natural term of the obligation, in which case the valuation of the risk reserve in progress must be made according to the term of the obligation and not the receipt, and an estimate of premium income must be made in order to register them as a debtor by premium, or to deduct them in the calculation of the current risk reserve in the event that its accounting record does not proceed as a debtor for the premium.

On this understanding, both the premium issued and the technical reserve for short-term insurance were calculated and recorded on an annualized basis, recognizing the effects on the results for the year.

c) Investments to hold to Maturity.

The use of the investment category “Securities to hold to maturity” is limited exclusively to insurance institutions that operate pension insurance: therefore, as of January 1, 2016, the institution transferred the securities to be held to maturity to the classification of available-for-sale securities, recognizing a valuation result in stockholders’ equity, as part of the comprehensive income.

d) Estimation of Recoverable Reinsurance Amounts.

The calculation is made in respect of contracts for which a Security Risk Transfer is derived, considering the time difference between Reinsurance recoveries and direct payments, applying the interest rates implicit in the risk-free interest rate curves for ongoing risk reserves and reserve for unliquidated obligations.

e) Preventive Estimate for Credit Risks.

Represents the reserve that requires to establish the Insurer according to the CUSF to face possible non-compliance by the borrowers with loans granted by the Financial Group.

The main effects of adoption in accordance with Modifying Circular 16/16 and the amounts of financial information estimated by management in accordance with the methodology authorized as of December 31, 2016 are as follows:

	EFFECT OF ADOPTION ON DEC 2016	OPERATIONS CARRIED OUT IN 2016	IS AS DECEMBER 2016
Retention premiums	Ps. 612	Ps. 13,008	\$14,534
Net Increase in the Reserve for Risks in Progress and Guarantees in Force	199	242	422
Accrued Withholding Premiums	413	12,765	14,112
Net Cost of Acquisition and Loss and other technical reserves	131	9,689	11,088
Gross Profit (Loss)	282	3,076	3,024
Net Operating Expenses	-	357	219
Operating Income (Loss)	282	2,719	2,805
Comprehensive Financing Result	(1)	709	1,091
Provision for the Payment of Taxes on Profit	84	1,030	983
Profit (Loss) before Discontinued Operations	196	2,397	2,913
Noncontrolling interest	-	5	12
Net income (loss) for the year	Ps. 196	Ps. 2,392	\$2,902

The main effects considered for comparison purposes for the year 2016 are as follows:

Premium Debtor: The effect of annualized premiums for Short and Long Term Life, of the traditional contracts, this effect represented a registration of \$ 656, complying with the provisions established in title 5.1.3 of the CUSF.

Premiums: The institution made annualized premiums for short and long-term Individual Life, of the traditional contracts, this effect represented a registration of \$ 656, complying with the provisions established in title 5.1.3 of the CUSF.

Also, due to the annualization of premiums, based on the contracts with the Reinsurers, the Ceded Reinsurance was recognized, which was \$ 45.

Technical reserves: The institution calculated current risk reserves and other technical reserves at the close of fiscal year 2015 in accordance with current regulations for 2016, representing an effect of increase in results for \$ 274 affecting the balance sheet reserve accounts and (\$ 212 and \$ 10) respectively and \$ 71 in the capital appreciation account.

Net Acquisition Cost: The institution realized the annualized premiums of Individual Life in the short and long term of the Traditional contracts, this effect represented an increase in the net cost of acquisition of \$ 56.

The effects caused by the changes in the regulations described in this Note are presented prospectively in accordance with what is established in Modifying Circular 16/16 of the Single Insurance and Bonds issued by the Commission and published on November 1 Of 2016 in the Official Gazette of the Federation, consequently, the consolidated financial statements and their notes are not comparable with those of the previous year.

Pensiones Banorte

Investment Fluctuation Reserve.

The changes resulting from the entry into force of the new legislation are related to the requirement for solvency capital, on the one hand we observe its impact on the cap on the investment fluctuation reserve in which the technical reserves of reference changed from being the Month-on-month to the previous month, this effect impacted results by \$ 97 and (\$ 5) as of December 31, 2016 and 2015, respectively.

The effects caused by the changes in the regulations described in this Note are presented prospectively in accordance with what is established in Modifying Circular 16/16 of the Single Insurance and Bonds issued by the Commission and published on November 1 Of 2016 in the Official Gazette of the Federation, consequently, the consolidated financial statements and their notes are not comparable with those of the previous year.

C. Improvements to NIFs

Additionally, as from January 1, 2016, the Parent Company adopted the changes regarding the following improvements to NIF:

NIF B-7, Business Acquisitions - It is clarified that the acquisition and / or merger of entities under common control are outside the scope of this NIF, regardless of how the amount of the consideration has been determined. Previously, in an operation in which the consideration was determined by interested, willing and informed parties in a free competition market, such transaction was within the scope of NIF B-7. It is indicated that the application of this change should be recognized retrospectively.

NIF C-7, Investments in associates, joint ventures and other permanent investments - It is established that in the case of contributions in kind, they must be recognized at the fair value that was negotiated between the owners or shareholders, unless they result from the capitalization of A debt, in which case, they must be recognized by the capitalized amount.

As of December 31, 2016, the Parent had no effect of these improvements on the standards in its consolidated financial information.

Recognition of the effects of inflation in financial information

Inflation recognition is done pursuant to NIF B-10 "Inflation Effects" which considers two types of economic environments: a) inflationary, when the accumulated inflation of the three previous years is 26% or over, in which case the inflation effects must be acknowledged; b) non-inflationary, when in the same period inflation is less than 26%; in this case the effects of inflation should not be recorded in the financial statements.

The cumulative Mexican inflation over the three years prior to 2016 and 2015 was 10.39% and 12.34%, respectively. Therefore, the Mexican economy is considered as non-inflationary. However, assets, liabilities and stockholders' equity as of December 31, 2016 and 2015 include the restatement effects recorded up until December 31, 2007.

The Mexican inflation rates for the years ended December 31, 2016 and 2015 were 3.38% and 2.10%, respectively.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value, except for precious metal coins, which are stated at fair value at the end of the period. Funds available in foreign currency are valued at the FIX exchange rate published by Banco de México at the Consolidated Balance Sheet.

Trading Securities

Trading securities are securities owned by the Financial Group, acquired with the intention of selling them for a profit derived from the price differences in short-term purchase and sale operations made by the Financial Group as a market participant.

At the time of the acquisition they are initially recorded at fair value, which may include either a discount or premium.

These securities (including both capital and accrued interest) are stated at fair value, which is determined by the price vendor contracted by the Financial Group.

The trading securities valuation result is recorded in the results of the period.

Securities available for sale

Securities available for sale are debt or equity securities that are neither classified as trading nor held to maturity, therefore they represent a residual category, which means that, they are purchased with an intention different from trading or held to maturity.

They are valued in the same way as trading securities, but with unrealized gains and losses recognized in other comprehensive income in stockholders' equity.

If, in a subsequent period, the fair value of a debt security classified as available for sale was increased and such reversal of the impairment effect may be objectively related to an event occurring after the impairment was recognized in the results of the Year, the impairment loss shall be reversed in the results for the year.

The impairment loss recognized in the income statement of an equity instrument classified as available for sale shall not be reversed.

Securities held to maturity

Securities held to maturity consist of debt instruments whose payments are fixed or can be determined with a set maturity, which are acquired with the intent and capability to hold them to maturity.

They are initially recorded at fair value and valued at amortized cost, which means that the amortization of the premium or discount (included in the fair value at which they were initially recorded), is part of the earned interest.

General valuation standards

Upon the sale of trading securities, the valuation result previously recorded in the year's results is reclassified as part of the gain or loss on the sale. Similarly, upon the sale of securities available for sale, the cumulative valuation result recorded in other comprehensive income in stockholders' equity is reclassified as part of the gain or loss on the sale.

Accrued interest on debt instruments is determined using the effective interest method and is recorded in the corresponding category of investments in securities and in the year's results.

Dividends on equity instruments are recorded in the corresponding category of investments in securities and in the year's results when the right to receive such dividends is established.

The foreign exchange gain or loss on investments in securities denominated in foreign currency is recorded in the year's results.

Reclassification of securities from held to maturity to available for sale is allowed, provided there is no intention or ability of holding them to maturity. In the case of reclassifications to securities held to maturity or from trading securities to available for sale securities, which can be done in extraordinary circumstances (lack of market liquidity, absence of an active market for such securities, among others), the Commission will evaluate such circumstances and, if it determines they are valid, it will issue its express authorization for their reclassification.

If securities held to maturity are reclassified as available for sale, the corresponding valuation result on the reclassification date is recorded in other comprehensive income within stockholders' equity.

In the case of debt instruments that have been authorized for reclassification from available for sale securities to held to maturity securities, the valuation result on the transfer date continues to be reported in stockholders' equity, and it is amortized based on such instrument's remaining life.

Regarding authorized reclassifications from trading securities to any other category, the valuation result on the reclassification date is already acknowledged in the year's results.

An impairment loss on a security is recorded against the year's results if there is objective evidence of such impairment as a result of one or more events, occurring after the initial recording of the security, that have had an impact on the estimated future cash flows that can be reliably determined. The effect of recording the impairment of securities is shown in Note 6.

A previously recorded impairment loss is reversed against the year's results if, in a later period, the amount of the loss decreases and such decrease is objectively associated with an event occurring after the impairment was recorded.

The Financial Group periodically verifies if its securities available for sale and held to maturity show any impairment loss, by means of an evaluation on the quarterly balance sheet date or whenever there are indications of an impairment loss.

Securities are deemed as impaired and therefore incurring an impairment loss if and only if there is objective evidence of the impairment loss as a result of a set of events that occurred after their initial value was recorded. Such events should have had an impact on the estimated future cash flows, which can be determined in a reliable manner.

These events may include: issuer's significant financial difficulties; likelihood of the issuer's filing for bankruptcy or financial reorganization; noncompliance with contractual clauses such as failure to pay interest or the principal; loss of an active market for the securities due to financial difficulties; lower credit rating and sustained decline in the issuance price, in combination with additional information.

In addition to the aforementioned events, objective evidence of impairment loss for a net asset instrument includes information about significant changes with adverse effects that occurred in the technological, market, economic or legal situation in which the issuer operates, and which indicates a possible loss of the cost of investing in the net asset instrument.

The events considered by the model are divided into:

- a) Information that the Financial Group has about the securities (breach of contract covenants, financial, economic or legal problems)
- b) Information that the Financial Group has about the issuer (issuer's probability of bankruptcy, financial reorganization and financial difficulties)
- c) Information that the market has about the securities (rating assigned by Commission-approved agencies)
- d) Information that the market has about the issuer (rating assigned by Commission-approved agencies).

The evaluation model that the Financial Group applies to determine impairment loss incorporates the aforementioned events according to their importance and rates them as per the severity percentage used to estimate the return on investment. Similarly, it incorporates the existence of guarantees, which contributes to lower impairment losses.

The investments on which impairment losses have been recognized are analyzed on a quarterly basis to identify the possible recovery of their value and, if applicable, reverse the recorded loss in the Consolidated Income Statements for the year such recovery is achieved.

Customer repurchase agreements (repos)

This is a transaction through which the purchaser acquires ownership of credit securities for a sum of money and is obliged to transfer the property of another amount of securities of the same kind to the seller of the securities within the agreed term and in exchange for the same price plus a premium. The purchaser keeps the premium unless agreed otherwise.

Repurchase transactions are recorded according to their economic substance, which is financing with collateral, through which the Financial Group, acting as the purchaser, provides cash as financing in exchange for financial assets as guarantee in case of non-compliance.

On the repurchase agreement transaction contract date, the Financial Group, acting as the seller, records the cash inflow, or else a settlement debtor account as well as a payable account at its fair value, initially at the agreed price, which represents the obligation to reimburse the cash to the purchaser. The account payable is subsequently valued over the term of the repurchase agreement at amortized cost by recognizing the interest from the repurchase agreement in the year's results using the effective interest method.

As to the collateral granted, the Financial Group reclassifies the financial asset in the Consolidated Balance Sheet as restricted and values it according to the criteria mentioned earlier in this note until the maturity of the repurchase agreement.

The Financial Group, acting as the purchaser, on the repurchase transaction contract date records cash and cash equivalents or a creditor settlement account, with an account receivable at its fair value, initially at the agreed price, which represents the right to recover the cash that was delivered. The receivable is subsequently valued over the life of the repurchase agreement at amortized cost by recognizing the repurchase agreement interest in the year's results using the effective interest method.

As to the collateral received, the Financial Group records it in off balance sheet memorandum accounts until the repurchase agreement's maturity, following the guidelines of Circular B-9, "Asset Custody and Management", issued by the Commission.

Derivatives financial instruments

The Financial Group is authorized to perform two types of transactions involving derivatives financial instruments:

Transactions to hedge the Financial Group's open risk position: Such transactions involve purchasing or selling derivatives financial instruments to mitigate the risk resulting from one or a group of given transactions.

Transactions for trading purposes: The Financial Group enters into such transactions as a market participant for reasons other than to hedge its exposed position.

Transactions with derivatives financial instruments are presented in assets or liabilities, as applicable, under the heading "Derivatives financial instruments", separating derivatives for trading purposes from those for hedging purposes.

When entering into transactions involving derivatives financial instruments, the Financial Group's internal policies and norms require an assessment and if necessary determination of different risk exposures for each counterparty in the financial system that have been authorized by Banco de México to enter into these types of transactions. Regarding corporate customers, a preauthorized credit line by the National Credit Committee must be granted or liquid guarantees must be given through a securitized collateral contract before entering into these types of transactions. Medium and small sized companies and individuals must provide liquid guarantees established in securitized collateral contracts with this type of transactions.

The recognition or cancellation of assets and/or liabilities resulting from transactions involving derivatives financial instruments occurs when these transactions are entered into, regardless of the respective settlement or delivery date of the goods.

Forward and futures contracts

Forward and futures contracts with trading purposes establish an obligation to buy or sell a financial asset or an underlying at a future date in the quantity, quality and prices pre-established in the contract. Future contracts are recorded initially by the Financial Group in the Consolidated Balance Sheets as an asset and a liability at fair value, which represents the price agreed in the contract in order to acknowledge the right and obligation of receiving and/or delivering the underlying, as well as the right and obligation of receiving and/or delivering the cash equivalent to the underlying, object of the contract.

The derivatives are presented in a specific item of the assets or liability depending on whether their fair value (as a consequence of the rights and/or obligations it establishes) corresponds to the debtor balance or creditor balance. Such debtor or creditor balances in the Consolidated Balance Sheets are offset when the Financial Group has the contractual right to offset the stated amount, the intention of liquidating the net amount or to realize the asset and cancel the liability simultaneously.

In the case of transactions for trading purposes, their balance represents the difference between the fair value of the contract and the established "forward" price.

Option contracts

Through paying a premium, options contracts grant the right but not the obligation to buy or sell a financial asset or underlying instrument at a given price within an established term.

Options are divided into: options to buy (calls) and options to sell (puts). Both can be used as trading or hedging instruments.

Options can be executed on a specific date or within a certain period of time. The price is agreed in the option and may be exercised at the discretion of the buyer. The instrument used to establish the price is the reference or underlying value.

The premium is the price the holder pays to the issuer for the option rights.

The holder of a call option has the right, but not the obligation, to purchase from the issuer a certain financial asset or underlying instrument at a fixed price (transaction price) within a certain term.

The holder of a put option has the right, but not the obligation, to sell a certain financial asset or underlying instrument at a fixed price (transaction price) within a certain term.

The Financial Group records the option premium as an asset or liability at the transaction date. The fluctuations resulting from market valuation of the option's premium are recorded by affecting the Consolidated Income Statement in the account "Trading results" and the corresponding Consolidated Balance Sheet account.

Swaps

These are two-party contracts through which a bilateral obligation is established to exchange a series of cash flows for a certain period of time on pre-set dates at a nominal or reference value.

They are recorded at fair value which corresponds to the net amount between the asset and liability portion for the rights and obligations agreed upon; they are subsequently valued at fair value using the present value of the future flows to receive or grant according to the projections for future implicit applicable rates, discounting the market rate on the valuation date with yield curves given by the price provider. The result of such valuation is recorded in the year's results.

Management's risk policies regarding hedging contracts is to protect the Financial Group's Consolidated Balance Sheets and to anticipate interest and exchange rate fluctuations, thereby protecting the Shareholders' Equity.

For hedging derivatives, the Financial Group applies the fair value and cash flow hedging methods and the accumulated compensation method to measure effectiveness. Such methods are approved by current accounting standards. In case ineffective hedges are detected, they are recorded in the year's results.

The Financial Group documents hedging transactions from the moment that derivatives instruments are designated as hedging transactions. A file for each transaction is created in order to have documented proof as per Circular B-5 paragraph 72 "Derivatives financial instruments and hedging operations" (B5) issued by the Commission, which establishes conditions for the use of hedging accounting.

Accordingly, the Financial Group documents its cash flow's hedging transactions based on the following guidelines:

- a. The effective portion of the hedging instrument's gain or loss is recorded as a component of other comprehensive income in stockholders' equity using an asset or liability account called derivatives financial instruments" with an offsetting account in liquid assets or liabilities. The portion determined as ineffective is measured through retrospective testing, and when it results in over-hedging, it is immediately recognized in current earnings.
- b. The effective hedging component recognized in stockholders' equity associated with the hedged item is adjusted to equal the lowest (in absolute terms) of:
 - i. The accumulated gain or loss of the hedging instrument from its inception
 - ii. The accumulated change in fair value (present value) of the hedged expected future cash flows from the beginning of the transaction.

Valuation method

Since the derivatives used by the Financial Group are considered as conventional (" Plain Vanilla") standard valuation models contained in the derivative transaction systems and the Financial Group's risk management are used.

All of the valuation methods that the Financial Group uses result in fair value of the transactions and are periodically adjusted. Furthermore, they are audited by internal and external auditors as well as by the financial authorities.

Valuation of the positions is done on a daily basis and a price provider generates the input used by the transaction and risk management systems. The price provider generates these valuations based on daily market conditions.

The valuation methods are based on the market's accepted and commonly used principles. At present, derivatives are valued by the cash flow present value method, except in the case of options. This method consists of estimating future derivative flows, using the difference between the derivative's fixed level and the forward market curves on the valuation date, and then discounting such flows and updating them to the present value. Options are valued under the Black and Scholes method, which in addition to the present value calculation, involves the volatility and probability of occurrence for calculating the premium. Once the option's market value is obtained, it is compared to the original premium accrued on the valuation date.

Cancellation of hedging accounting

A cash flow hedging relation is cancelled when:

1. The hedging instrument expires or is sold, terminated or enforced;
2. The hedging fails to meet the requirements of documentation, evaluation and effectiveness measuring;
3. The projected transaction is not expected to occur;
4. The hedging designation is revoked.

For cases 1 and 2, the profit or loss recorded in net income stays in that account until the projected transactions occurs. For case 3, the profit or loss recorded in net income should be immediately restated in results; and for case 4, if the hedging is on a projected transaction, the loss or profit stated in net income should stay in that account until the projected transactions is realized. Otherwise, it should be immediately restated in results.

A fair value hedging relation is canceled when:

1. The hedging instrument expires or is sold, terminated or enforced;
2. The hedging fails to meet the requirements of documentation, evaluation and effectiveness measuring;
3. The hedging designation is revoked.

Any adjustment to the result from the valuation adjustment of the hedged item attributable to the covered risk, should be amortized in the period's results. The amortization start as soon as the adjustment turns up, and under no circumstance after the hedged item is no longer adjusted due to changes in the fair value attributable to the risk covered. The adjustment should be amortized in full on the due date of the hedged item.

Operation strategies

Trading

The Financial Group participates in the derivatives market with trading purposes, and the risk exposures generated are computed within its overall VaR limit.

The trading strategy is submitted on a weekly basis to the Financial Group's Treasury Committee, which analyzes the current risks and takes any necessary decisions.

The trading strategy is carried out according to market levels and expectations, maximizing the circumstances to obtain a benefit by trading, margin and volatility. Each trading strategy is submitted to the Treasury Committee on a weekly basis for its consideration. The Committee analyzes the risks and then decides accordingly.

Hedging

The hedging strategy is determined annually and when market conditions require it. Hedging strategies are submitted to the Risk Policies Committee.

Hedging transactions comply with the applicable norm set forth in Circular B-5 "Derivatives and hedging transactions" issued by the Commission. This implies, among other things, that the hedge's effectiveness must be evaluated both prior to its arrangement (prospective) as well as thereafter (retrospective). These tests are performed on a monthly basis.

The hedging strategy is determined annually and each time the market conditions require. Hedges are used to reduce foreign exchange risks, through both exchange rate forwards and currency swaps, as well as interest rates by means of interest rate swaps. This is done with the purpose of setting the rates paid on debt issued by the Financial Group, thereby ensuring the debt servicing, as well as to make investments that generate greater value for the customers. The main strategy is to ensure that the Financial Group's future income and expenses are covered, maximizing its profitability.

Hedging derivatives can be restated whole or partially due to hedging inefficiencies, maturity or sale of primary position.

Contingencies

To enter the derivatives market, the Financial Group is bound by agreement to deliver its financial information in a timely manner and to abide by the applicable laws, regulations and provisions, as well as to provide written notice to the affected parties in case that an event arises that could be considered as early termination, which could lead to a credit contingency. These include the following: bankruptcy filing, payment suspension, restructuring, intervention, liquidation, dissolution or other similar judicial or extra-judicial proceedings that affect the Financial Group; if the statements stipulated in the contract are incorrect; the Financial Group's failure to fulfill its obligations and/or payments; breach of contract; the Financial Group's consolidates or merges with another entity thereby transferring a substantial portion of its assets; failure to provide the guarantees that were agreed in the event of noncompliance with obligations or if such guarantees expired or diminished in value; the Financial Group's falls into insolvency, lower credit quality or illegality due to changes in the tax or legal legislation; the existence of a ruling, proceeding or embargo against the Financial Group that could substantially affect its ability to fulfill its obligations in a timely manner; or general noncompliance with obligations. Each ground for early termination is subject to the counter-party's consideration in order to determine its importance and significance regarding the Financial Group's ability to comply.

At present, no such contingency situations have arisen.

Embedded derivatives

Embedded derivatives are those contract components that do not intend to explicitly originate a derivative financial instrument but rather that the implicit risks generated or hedged by those components differ in their economic and risk features from those of the contract, and therefore display a behavior and features similar to those of a common derivative.

Identified embedded derivatives are separated from the host contract for valuation purposes and are treated as a derivative when they meet the features outlined in Circular B-5 paragraph 22, unless the implicit derivative is denominated in a currency commonly used for the purchase and sale of non-financial items in the economic environment where the transaction takes place. The main embedded derivatives recognized by the Financial Group prior to January 2011 are from service and leasing contracts established in US dollars.

Loan portfolio

The loan portfolio represents the balance of amounts effectively granted to borrowers plus uncollected accrued interest minus interest collected in advance. The allowance for loan losses from credit risks is presented as a reduction of the loan portfolio.

The unpaid loan balance is classified as past-due portfolio as follows:

- Loans with bullet payment of principal and interest at maturity: 30 calendar days after being overdue
- Loans involving a single principal payment at maturity, but with periodic interest payments, total principal and interest payments 30 and 90 calendar days after being overdue, respectively
- Loans for which the payment of principal and interest is agreed based on partial periodic payments, 90 calendar days after the first payment is due
- In the case of revolving loans, whenever payment is outstanding for two billing periods or when they are 60 or more days overdue
- Overdrawn customer checking accounts are considered as part of the past-due portfolio when such situations arise

Interest is recognized and accrued as income when earned. The accrual of interest income is suspended when loans are transferred to the past-due portfolio.

The fees charged the initial granting, restructuring and renewal of loans will be recorded as a deferred credit, which will be amortized as interest income, using the straight line method over the loan's contractual term, except those originating from revolving loans, which are amortized over a 12-month period.

Annual credit card fees, whether the first annual charge or subsequent of a renewal, are recorded as a deferred credit and amortized over a 12-month period against the year's results in the commission and fee income line item.

The costs and expenses associated with the initial granting, restructuring and renewal of a loan are stated as a deferred charge which is amortized against the year's earnings as interest expense for the duration of the loan, except those originating from revolving loans and credit cards as they are amortized over a 12-month period.

Restructured past-due loans are not considered in the performing portfolio until evidence of sustained payment is obtained; this occurs when credit institutions receive three timely consecutive payments, or a payment is received for periods exceeding 60 days.

Renewed loans in which the borrower has not paid on time or when the accrued interest balance equals at least 25% of the original loan amount are considered past-due until evidence of sustained payment is obtained.

Accrued interest during the period in which the loan was included in the past-due portfolio is recognized as income when collected.

The recognition of interest income is renewed when the portfolio is no longer considered past-due, which occurs when the outstanding balances, including the principal, interest and any other item, are paid in full.

Restructured loans are those whose terms have been modified due to the borrowers' financial difficulties, and it was decided to grant them a concession. Such modifications may include reductions in the interest rate, debt discount or term extensions.

The Financial Group regularly evaluates whether a past-due loan should remain in the balance sheet or be written off. Such write-offs are done by canceling the outstanding loan balance against the allowance for loan losses. The Financial Group may opt to eliminate from its assets those past-due loans that are 100% provisioned according to the following parameters:

- Commercial loans – Must be classified in past-due loans, with an E risk rating, 100% reserved, unsecured by any fund
- Consumer loans – 180 days or more overdue
- Mortgage loans – 270 days or more overdue.

Allowance for loan losses

Application of new portfolio rating criteria

The loan portfolio is classified according to the rules issued by the SHCP and the methodology established by the Commission. Internal methodology authorized by such Commission may also be used.

Such provisions also establish general methodologies for rating and calculating the allowance for each type of loan, where also allowing credit institutions to classify and calculate allowances based on internal methodologies, when previously approved by the Commission.

The commercial loan portfolio rating procedure requires that credit institutions apply the established methodology (general or internal) based on quarterly information for the periods ending in March, June, September and December of each year, whereas also recording the allowances determined at the close of each month in their financial statements. Furthermore, during the months following each quarterly close, financial institutions must apply the respective rating to any loan used at the close of the immediately preceding quarter, based on the outstanding balance in effect on the last day of the aforementioned months. The allowances for loan risks that have exceeded the amount required to rate the loan will be cancelled against the period's results on the date of the following quarterly rating. Additionally, recoveries on the previously written-off loan portfolios are recorded in the period's results.

As a result of acquiring INB Financial Corp. (INB) in 2006, the Financial Group applied the loan rating methodologies established by the Commission to INB's loans, homologating the risk degrees and adjusting the allowance for loan losses derived from applying such methodologies.

General description of rules established by the Commission

Rules for rating the consumer, mortgage and commercial loans (excluding loans to financial intermediaries and loans intended for investment projects having their own source of payment) indicate that their allowance for loan loss should be determined based on the estimated expected loss of the loans over the next twelve month period.

Such methodologies stipulate the estimate of such loss evaluates the probability default, the severity of the loss and the exposure to non-compliance. The result of multiplying these three factors is the estimated expected loss that is the same as the amount of the reserves needed in order to face the loan risk.

Depending on the type of loan, the probability default, severity of the loss and exposure to non-compliance are determined by considering the following:

Probability of Default

- Non-revolving consumer loan – it takes into account the current delay, the payments made on the past due balances, how many times the original value is paid, the type of loan, the remaining terms, among others
- Revolving consumer loan – it considers the current situation and historical behavior regarding the number of outstanding payments, how old the accounts are, the payments on the balance, as well as what percentage of the authorized line of credit has been used
- Mortgage loan – it considers the current delay, maximum number of delays over the last four periods, willingness to pay and the value of the property with respect to the loan balance
- Commercial loans.- they consider the type of debtor, payment experience, INFONAVIT payment history, rating agencies' evaluation, financial risk, social-economical risk, financial soundness, country and industry risk, market positioning, transparency, standards and corporate governance.

Severity of the loss

- Revolving and non-revolving
- Consumer loan – depends on the number of outstanding payments
- Mortgage loan – it considers the amount of the property sub-account, unemployment insurance and the state where the loan was granted
- Commercial loans – they consider actual financial and non-financial guarantees as well as personal guarantees.

Exposure to non-compliance

- Non-revolving consumer loan – loan balance at the rating date
- Revolving consumer loan – considers the current use of the credit line to estimate how much its use would increase in the event of non-compliance
- Mortgage loans – loan balance at the rating date
- Commercial – for revocable loans, the loan balance at the rating date is considered. For irrevocable loans, the current use of the credit line to estimate how much its use would increase in the event of non-compliance is considered.

The Commission's rules for rating commercial loan debtors for loans intended for investment projects having their own source of payment, indicate that the rating must be done by analyzing the risk of projects in the construction and operation stage evaluating the project's cost overrun and cash flows.

Acquired collection rights

This balance is represented by the acquisition cost of the various loan asset packages acquired by the Financial Group, which are subsequently valued by applying one of the three following methods:

Cost recovery method – Payments received are applied against the acquisition cost of the loan portfolio until the balance equals zero. Recoveries in excess of the acquisition cost are recognized in current earnings.

Interest method – The result of multiplying the acquired portfolio's outstanding balance by the estimated yield is recorded in current earnings. Differences between the Financial Group's collection estimates and actual collections are reflected prospectively in the estimated yield.

Cash basis method – The amount resulting from multiplying the estimated yield times the amount actually collected is recorded in the Consolidated Income Statements provided it is not greater than the amount obtained by the interest method. The difference between the recorded amount and the amount collected reduces the outstanding portfolio balance, once the entire initial investment has been amortized. Any subsequent recovery will be recorded in the Consolidated Income Statements.

For the portfolios valued using the interest method, the Financial Group evaluates them twice a year to verify if the cash flow estimate of its collection rights is consistent with actual recoveries and therefore considered to be effective. The Financial Group uses the cost recovery method on those collection rights in which the expected cash flow estimate is not highly effective. The expected cash flow estimate is considered as "highly effective" if the result of dividing the sum of the flows collected by the sum of the expected cash flows is between 0.8 and 1.25 when such effectiveness is evaluated.

Loan asset impairment. – The Financial Group carries out an expected cash flow assessment periodically while collection rights are still effective, and if based on the events and information gathered, it determines that said cash flows will drop, it develops an estimate of non-recoverability or doubtful accounts vs. the period's results in the amount in which said expected cash flows are lower than the book value of the account receivable.

Premium receivables

This balance represents the premiums pending collection on the balance date. Pursuant to the provisions of the General Law of Institutions and Mutual Insurance Companies (the Law) and the Mexican National Insurance Commission CNSF, premiums over 45 days old should be cancelled against the year's earnings including, if applicable, the technical reserves, acquisition cost and relative reinsurance granted, and should not be considered in the coverage of technical reserves.

Based on the internal policy approved by the CEO, the administration authorized excluding the cancellation process for certain policies with a premium over 45 days old and that has not been collected totally or partially. These accounts are indeed collectible and negotiations with the insured are currently underway. On December 31, 2016 and 2015, the premiums over 45 days old that have not been cancelled amounted to Ps. 595 and Ps. 1,012, excluding debts under federal public administration's and entities' charge. The non-accrued net premium, fees and reinsurance should be subtracted from such amount to determine its net effect on earnings. This amount was not computed for the coverage of technical reserves.

Reinsurance

According to the rules of the CNSF, a portion of the insurance contracted by the Financial Group is ceded in reinsurance to other insurance or reinsurance companies. Therefore they are part of both the premiums and the casualty rate cost.

Securitization involving transfer of ownership

Mediante las operaciones de bursatilización con transferencia de propiedad, la Tenedora transfiere activos financieros a través de securitización de transacciones involucrando la transferencia de propiedad en hipotecas y préstamos gubernamentales, el Grupo Financiero transfiere esos activos financieros a un fideicomiso para que pueda emitir valores a través de un intermediario. Los valores representan el derecho a los rendimientos del portafolio de valores securitizados y, como compensación, el Grupo Financiero recibe efectivo y un registro, el cual le otorga el derecho sobre los flujos de efectivo residuales del fideicomiso después de pagar los certificados a sus titulares. Este registro está registrado en su valor justo bajo "Receivables generados por securitizaciones".

The Financial Group provides administration services for the transferred financial assets and records the revenue thereof in the period's earnings when accrued. These revenues are recorded under "Other Operating Income (expenses)".

The valuation of the benefits to be received from securitization operations is recorded in the Consolidated Income Statement under "Other Revenues", as applicable.

Other accounts receivable and payable

The Financial Group performs a study to quantify the different future events that could affect the amount in accounts receivable over 90 days and thus determine the percentage of non-recoverability in order to calculate its allowance for doubtful accounts. The remaining balance of accounts receivable is reserved at 90 calendar days from the initial recognition.

The balances of asset and liability settlement accounts represent transactions involving the sale and purchase of currency and securities, recorded when entered into and are settled within 48 hours.

The investment projects' balances represent financing to investment projects' trusts (especially in the development of social housing). The Financial Group acknowledges a yield from the trust financing disposal, which is related to the construction project's progress compliance and/or sale as stated in each trust's agreement. Failure to meet the construction project's progress and/or sale as stipulated in the agreement, the Financial Group stops recording the funding yield.

To assess investment projects, each project's expected value is determined according to the expected flow of the sale of investment project's potential inventory or that of a portfolio of investment projects of the Financial Group based on the current business plan.

Investment project value impairment is determined based on the time they are not under development. To be considered under development, an investment project shall have proof of any of the following:

- Infrastructure, urbanization or new housing construction works in progress as per the business plan, or
- Available bridge loan for the investment project, or
- An investment agreement with a third party, who has the required operating and financial capability, other than the developer contemplated on its investment date.

Merchandise inventory

This is comprised mainly of finished goods and is restated to the lower of replacement cost or market. Cost of sales, included in “Other Operating Income (expenses)” in the Consolidated Income Statements is restated using the replacement cost at the time of the sale.

Impairment of the value of long-lived assets and their disposal

The Financial Group has established guidelines to identify and, if applicable, record losses derived from the impairment or decrease in value of long-lived tangible or intangible assets, including goodwill.

Foreclosed assets, net

Foreclosed property or property received as payments in kind are recorded at the lower of their cost or fair value minus the strictly necessary costs and expenses disbursed in the foreclosure. Cost is determined as the forced-sale value established by the judge upon foreclosure or, in the case of payments in kind, the price agreed between the parties involved.

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is higher than the foreclosed property, the difference is recorded in the period’s results under “Other Operating Income (expenses)”.

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is lower than the foreclosed property, its value is adjusted to the asset’s net value.

The carrying value is only modified when there is evidence that the fair value is lower than the recorded carrying value. Reductions in the carrying value of the loan are recorded in the current earnings as they occur.

The provisions applicable to the new valuation methodology for the allowance for loan losses mentioned above define the valuation methodology for reserves related to either foreclosed property or those assets received as payment in kind, establishing that additional quarterly provisions must be created to recognize the potential decrease in value over time of property awarded under legal proceedings, out-of-court or received as payment in kind and the investments in securities received as foreclosed goods or payment in kind, based on the following guidelines:

I. In the case of collection rights and movable property, the provisions referenced in the preceding paragraph must be treated as follows:

MOVABLE PROPERTY RESERVES	
TIME ELAPSED AS OF AWARD DATE OR RECEIPT AS PAYMENT IN KIND (MONTHS)	RESERVE PERCENTAGE
Up to 6	-%
More than 6 and up to 12	10%
More than 12 and up to 18	20%
More than 18 and up to 24	45%
More than 24 and up to 30	60%
More than 30	100%

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the value of collection rights or foreclosed property, received as payment in kind or awarded in a court proceeding.

II. Investments in securities must be valued in accordance with the provisions of the Commission's accounting Circular B-2, using annual audited financial statements and monthly financial information of the issuer.

Following the valuation of foreclosed assets or those received as payment in kind, the reserves resulting from applying the percentages established in the table of Section I above to the estimated value, must be created.

III. In the case of real estate property, provisions must be created as follows:

REAL ESTATE PROPERTY RESERVES	
TIME ELAPSED AS OF AWARD DATE OR RECEIPT AS PAYMENT IN KIND (MONTHS)	RESERVE PERCENTAGE
Up to 12	-%
More than 12 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the awarded value of the property based on the accounting criteria. Furthermore, when problems are identified regarding the realization of the value of the foreclosed property, the Financial Group records additional reserves based on management's best estimates. On December 31, 2016, there are no reserves in addition to those created by the percentage applied based on the accounting criteria that could indicate realization problems with the values of the foreclosed properties.

If appraisals subsequent to the foreclosure or payment in kind result in the recording of a decrease in the value of the collection rights, securities, movable or real estate property, the reserve percentages contained in the preceding table can be applied to the adjusted value.

Property, furniture and equipment

Property, furniture and equipment are recorded at acquisition cost. The balances of acquisitions made up to December 31, 2007 are restated using factors derived from the value of the UDI of that date.

Depreciation is calculated using the straight-line method based on the useful lives of the assets as estimated by independent appraisers.

Permanent stock investments

The Financial Group recognizes its investments in associated companies where it has significant influence but not control using the equity method, based on the book values shown in the most recent financial statements of such entities.

Income taxes

Income tax (ISR) is recorded in the year it is incurred. Deferred income taxes are calculated by applying the corresponding tax rate to the applicable temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carryforwards and certain tax credits. The deferred income tax assets are recorded only when there is a high probability of recovery.

The net effect of the aforementioned items is presented in the Consolidated Balance Sheet under the "Deferred Income taxes, net" line.

Intangible assets

Intangible assets are recognized in the Consolidated Balance Sheets provided they are identifiable and generate future economic benefits that are controlled by the Financial Group. The amortizable amount of the intangible asset is assigned on a systematic basis during its estimated useful life. Intangible assets with indefinite lives are not amortized and their value is subject to the annual impairment tests.

Goodwill

The Financial Group records goodwill when the total fair value of the acquisition cost and the Minority Interest is greater than the fair value of the net assets of the acquired business, pursuant to NIF B-7 "Business acquisitions." As goodwill is considered an intangible asset with an indefinite life, it is subject to impairment tests at least annually according to NIF C-15 "Impairment in the value of long-lasting assets and their disposal." No indicators of impairment of goodwill have been identified as of December 31, 2016 and 2015.

Deposits

Liabilities derived from deposits, including promissory notes settled at maturity, are recorded at their funding or placement cost plus accrued interest, determined according to the number of days elapsed at each monthly close, which are charged against results when accrued as an interest expense.

Interbank and other loans

These loans are recorded based on the contractual value, recognizing the interest in the year's earnings as accrued. The Financial Group records in this item the direct loans obtained from domestic and foreign banks, loans obtained through bids with Banco de Mexico and development funds' financing. Furthermore, this includes discounted loan portfolios from funds provided by banks specializing in financing economic, productive or development activities.

Technical reserves

By decision of the Commission, all technical reserves must be annually audited by independent actuaries. On January 31, 2017 and January 29, 2016, the actuaries have confirmed that in their opinion, the amounts of the reserves recorded by the Financial Group as of December 31, 2016 and 2015, respectively, are reasonably acceptable based on their obligations, Within the parameters that the actuarial practice indicates and in accordance with the criteria considered by the authorities in the matter.

Technical reserves are constituted pursuant to the terms set forth by the Law, as well as to the provisions issued by the CNSF. To value the technical reserves, the Financial Group used the valuation methods found in the provisions set forth in Chapter 7, "Technical Reserves" in the Insurance Circular published in the DOF on December 13, 2010.

1) Current risk reserve:

In terms of the provisions of section I of article 217 of the LISF, the current risk reserve is intended to cover the expected value of future liabilities arising from the payment of claims, benefits, guaranteed securities, dividends, acquisition costs and Administration, as well as any future liabilities arising from insurance contracts.

The current risk reserve will include the amount of premiums written in advance, it being understood that a premium has been issued in advance when the issue is made on a date prior to the effective date of the policy to which said premium corresponds.

The reserve for insurance operations is determined in accordance with actuarial formulas, considering the characteristics of policies in force, reviewed and approved by the Commission.

The current risk reserve is valued in accordance with the following:

- I. The amount of the current risk reserve shall be equal to the sum of the best estimate and a risk margin, which shall be calculated separately.
- II. The best estimate will be equal to the expected value of the future flows of obligations, understood as the probability-weighted average of these flows, considering the time value of the money based on the market risk-free interest rate curves for each currency or Monetary unit provided by the price provider with which they maintain a current contract.
- III. The calculation of the best estimate shall be based on timely, reliable, homogeneous and sufficient information as well as realistic assumptions and shall be made using actuarial methods and statistical techniques based on the application of the actuarial practice standards referred to in Chapter 5.17 Of the CUSF. For these purposes, when an Insurance Institution or Mutual Society does not have reliable, homogeneous and sufficient information of its own, it must use the corresponding market information;

- IV. The projection of future flows used in the calculation of the best estimate will consider all gross revenues and expenses (without deducting Recoverable Reinsurance Amounts), which are necessary to meet the obligations of the insurance and reinsurance contracts during Throughout its period of validity, as well as other obligations that the Insurance Institution or Society Mutualista assumes in relation to them;
- V. The future income flows will be determined as the best estimate of the expected value of the future income that the Insurance Institution or Mutual Fund Company will have for premiums that, according to the payment method established in the contracts that are in Force at the time of valuation, will mature in the future time of validity of such contracts, as well as recoveries, salvages and adjustments of less than the estimates of claims. Future premiums for these effects will not be considered as premiums that are due and unpaid at the time of valuation, or the fractional payments that are accounted for under the concept of debtor for the premium.
- VI. Future outflows will be determined as the best estimate of the expected value of future payments and expenses to be incurred by the Insurance Institution or Mutual Fund as a result of claims and adjustments of more derivatives of the risks covered, dividend payments, Redemptions, administrative and acquisition costs, for contracts in force at the time of valuation. Future outflows must also consider all other payments to the insured and beneficiaries, as well as the expenses that the Insurance Institution or Mutual Fund Company will incur in order to meet the obligations of the insurance and Reinsurance contracts, as well as the The effect of the exchange rate and inflation, including that relating to expenses and claims;
- VII. In the constitution and valuation of the current risk reserve, the amount of the guaranteed amounts, as well as the possible options for the insured or beneficiary included in the insurance contracts, should be considered. Any hypothesis used by the Insurance Institution or Mutual Society with respect to the likelihood that the insured or beneficiaries will exercise the contractual options, including those related to resolution, termination and redemption, must be realistic and based on timely, reliable, homogeneous information And sufficient. The assumptions must consider, explicitly or implicitly, the consequences that future changes in financial and other conditions may have on the exercise of such options;
- VIII. The risk margin will be calculated in accordance with the provisions of Chapter 5.4 of the CUSF.
- IX. In the valuation and constitution of the ongoing risk reserve, the obligations should be segmented into homogeneous risk groups.
- X. The short-term and long-term obligations should be segmented in the valuation and constitution of the current risk reserve so that the Institutions maintain an adequate balance in the investments of resources in the short and long term, as well as for them Are properly related to the nature of the liabilities to which they are related, and
- XI. Procedures and procedures should be established to ensure that the best estimate, as well as the assumptions underlying its calculation, are periodically compared with its previous experience. When such a comparison reveals a systematic deviation between the experience and the best estimate, the Insurance Institution or Mutual Society shall make the necessary adjustments to the actuarial methods or assumptions used. For these purposes, it will be understood that there is a systematic deviation when, in a given class or type of insurance, it is observed that the best estimate of the obligations differs by a reasonable amount from the actual value that the obligations have attained, in a number of times Such that, by statistical criteria, it is determined that said number of times exceeds the maximum number of times that such estimate could have been deferred. As part of the actuarial method, the methodology for the estimation of Recoverable Reinsurance Amounts should be included.

2) Contractual obligations:

- a) Claims and expirations - Claims for life, accidents, health and damage are recorded as soon as they are reported. Life insurance claims are based on the insured sums. Accident, illness and damage claims are adjusted based on the estimate of the amount of the obligations, and, at the same time, the pay back is recorded in the ceded reinsurance. Expirations are payments for expired endowments set forth in the insurance contract.
- b) Unreported claims - This reserve is intended for recognizing the amount of actual claims not yet reported to the Financial Group. The estimate is based on prior years' casualty rate, adjusting the actuarial calculations on a quarterly basis, pursuant to the methodology approved by the cap.5.4 CNSF.
- c) Dividends on policies - This reserve is determined based on actuarial studies, considering the casualty rate. The dividends are established in the insurance contract.
- d) Insurance funds under management - These are the dividends on policies earned by the insured and withheld by the Financial Group to manage, as established in the insurance contract.
- e) Security premiums - They are the amounts of segmented collections on the policies.

3) Catastrophic reserve:

The reserve for catastrophic risks is intended to cover the Financial Group's obligations assumed under insurance policies for earthquakes or other catastrophic risks. This reserve is increased as per the bases and percentages established by the CNSF. CNSF authorization is required to release this reserve.

Provisions

Provisions are recognized when the Financial Group has a current obligation resulting from a past event and is likely to result in the use of economic resources and can be reasonably estimated.

Employee retirement obligations

According to Mexican Federal Labor Law, the Financial Group has obligations derived from severance payments and seniority premiums payable to employees that cease to render their services under certain circumstances.

Defined benefit plan

The Financial Group records a liability for seniority premiums, pensions and post-retirement medical services as incurred based on calculations by independent actuaries using the projected unit credit method, using nominal interest rates. Accordingly, this recognizes the liability whose present value will cover the obligation from benefits projected to the estimated retirement date of the Financial Group's overall employees, as well as the obligation related to retired personnel.

The balance at the beginning of each period of actuarial gains and losses derived from pension plans exceeding 10% of the greater amount between the defined benefits obligation and plan assets are amortized in future periods against current results, in the case of pension plan, medical service and seniority premiums to retirement.

In the case of seniority premiums related to termination and remuneration at the end of the employment relation, earnings or losses are recognized immediately in the period that are generated, as specified by the NIF D-3, "Employee benefits".

The Financial Group applies the provision of NIF D-3 related to the recognition of the liability for severance payments for reasons other than restructuring, which is recorded using the projected unit credit method based on calculations by independent actuaries.

Defined contribution plan

As of January 2001, the Financial Group provided defined contribution pension plan in place. The participating employees are those hired as of this date as well as those hired prior to such date that enrolled voluntarily. The pension plan is invested in a fund, which is included in "Other assets".

Employees who were hired prior to January 1, 2001 and who decided to enroll voluntarily in the defined contribution pension plan received a contribution from the Financial Group for prior services equivalent to the actuarial benefit accrued in their previous defined benefit plan that was cancelled. The initial contribution was made from the plan assets that had been established for the original defined benefit plan and participants were immediately assigned 50% of such amount with the remaining 50% to be assigned over 10 years.

The initial payment to the defined contribution plan for past services was financed with funds established originally for the defined benefit plan as a result of the early termination of its obligations and recognized in accordance with the provision guidelines.

The labor obligations derived from the defined contribution pension plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan's participants.

Provisions for PTU are recorded in the results of the year in which they are incurred as administrative expenses. The Financial Group determines employee statutory profit sharing based on the criteria established in the guidelines set forth by the Mexican Constitution.

Foreign currency conversion

Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate at the close of each period. The exchange rate used to establish Mexican peso equivalence is the FIX exchange rate published by Banco de México. Foreign exchange fluctuations are recorded in the results of operations.

Interest from outstanding subordinated debentures

Accrued interest from outstanding subordinated debentures is recognized as it is accrued and translated according to the exchange rate in effect at each monthly close.

Transfer of financial assets

The Financial Group can act as the assignor or assignee, as applicable, in this type of transactions. Moreover the Financial Group evaluates whether or not to retain the risks and benefits associated with the asset property to determine whether or not there was a transfer of property in a transaction. In transactions involving the transfer of ownership in financial assets, the assignor yields control and substantially transfers all the risks and benefits over such assets. Therefore, the assignor derecognizes such assets and records the consideration received from the transaction. Conversely, the assignee recognizes such financial assets and the transfer consideration in its accounting records.

Share-based payments

The Financial Group grants stock options to key officers through different payment schemes based on stocks. The Financial Group has established trusts to manage the plans and contributes the necessary funds so that shares can be purchased directly from the market at the initiation of each plan.

The Financial Group records its stock option plans according to the guidelines of NIF D-8, "Share-based payments." The compensation expense is recorded at fair value as of the date the stock options are granted. Pursuant to NIF D-8 and given that the Financial Group grants its own stock options, the Financial Group records the expense as if the plan were payable in cash. This expense is then restated at a fair value in each reporting period as per the provisions known on such date.

The fair value of each share is estimated as of the date granted using the Black-Scholes option pricing model or the forwards valuation model, depending on the plans' features.

Memorandum accounts

Memorandum accounts are used to record assets or commitments that are not part of the Financial Group's general balance sheet, as no rights are acquired on the assets and such commitments are not acknowledged as liabilities until they materialize, respectively. The accumulated amounts in the memorandum accounts have only been subject to audit tests when their information is derived from an accounting record. The memorandum accounts not audited are indicated in each case:

- Contingent assets and liabilities (unaudited):
It records the amount of economic penalties imposed by the administrative or judicial authorities until such payments are made, as a motion for revocation has been filed. It also records the exposure to risk line item for its participation in the Expanded Use Electronic Payments System.
- Loan commitments (unaudited):
The balance represents the amount of the letters of credit granted by the Financial Group that are considered as irrevocable commercial loans not disposed by the borrowers. It includes the lines of credit granted to clients that were not disposed.
- Assets in trust or mandate (unaudited):
For the assets in trust, the value of the goods is recorded and any information related to their individual administration is recorded independently. For assets under mandate, the declared value of the assets, subject to the mandates executed by the Financial Group is recorded.
- Assets in custody or under management (unaudited):
This account records the movement of others' assets and securities that are received in custody or are to be managed by the Financial Group.
- Collateral received:
The balance represents all the collateral received in securities repurchase agreement operations when the Financial Group is the buyer.
- Collateral received and sold or given as a pledge:
The balance represents all the collateral received in securities repurchase agreements when the Financial Group is acting as the buyer, and which in turn are sold by the Financial Group acting as the seller.

Main subsidiaries' income recognition

Banco Mercantil del Norte

- Income from cash equivalents, securities' investments, repurchasing operations, hedging transactions and loan interest is recorded as income when accrued.
- The fees charged for the initial granting, restructuring and renewal of loans will be recorded as a deferred credit, which will be amortized as interest income.
- Securities purchase-sales results are recorded when performed.
- The revenues from loan asset recovery are recorded when accrued, collected or both agree to the Valuation Method.
- Permanent stock investments in affiliates are originally recorded at their acquisition cost and are valued using the equity method based on the last available financial statements.

Casa de Bolsa Banorte Ixe

- Recognition of income from services, financial advisory and securities intermediation fees and commissions generated by customer securities' operations are recorded as they are performed.
- Income from financial advisory is recorded when accrued as per the contract.
- Securities intermediation results are recorded when performed.
- Income and expenses - are recorded as generated or accrued as per the relative contracts.
- Share dividends - share dividends are recorded at zero value in investments; therefore they only affect the results when the shares are sold.
- Permanent stock investments in affiliates - they are originally recorded at their acquisition cost and are valued using the equity method based on the last available financial statements..

Arrendadora y Factor Banorte

- Credit from financial leasing operations, net - financial leasing operations are recorded as direct financing, wherein the account receivable is the total amount of the settled rents, and potential profit is the difference between such amount and the cost of the leased properties. Net financed capital is recorded on the Consolidated Balance Sheet, deducting the total of rents from the potential profit.
- Loans from operating leasing operations - represent company assets given to a third party for the latter's temporary use and enjoyment for a given term equal to or over six months. The operating leasing contract rents are recorded as revenues when accrued.
- Loans from factoring operations, net - funded or non-funded factoring is recorded as follows:
- Ceded portfolio - the amount is recorded in loan portfolios, minus the difference between loans and the financed amount.
- Profit from acquired documents (interest) - calculated in advance, per month completed and upon maturity, recorded in factoring, and both are applied to results when accrued.

- Recognition of income – interest from leasing and financial factoring is recognized as income when accrued; however the accumulation of interest is suspended whenever the uncollected interest and/or total loan is transferred to past-due loans. Accrued, normal and past-due interest during the period the loan is considered past-due is recognized as income when collected.
- Profits to be realized from financial leasing are recognized as income when accrued. The final value of the good in financial leasing is recognized as income when purchased.
- The fees for credit opening in leasing and factoring operations are recognized as income as accrued.

Seguros Banorte

Income from premiums – Recognized as follows:

- a. The premium revenue for group and collective life insurance is recorded in income as the segmented payment receipt is issued, deducting the premiums ceded in reinsurance.
- b. Premium revenue for accidents, health and damage is recorded in terms of the policies contracted in the year, even though their term is for over one year, deducting the premiums ceded in reinsurance.
- c. The rights on premiums are recognized in the income at the time of issuance except for the policies that the Insurer agrees with the insured, where the right policy is fractioned in each of the receipts in this scheme, the right policy is recognized in income as it accrues. Revenue from surcharges on policyholders is recognized in income at the time of accrual and the unearned portion is recorded as deferred credits.

Sólida Administradora de Portafolios

- a. The revenues from loan asset recovery are recorded: a) as collected, simultaneously recording the associated collection costs; b) the amount product of multiplying the outstanding balance times the estimated yield rate, thereby affecting the account receivable by the difference between the revenue and the collected amount; and c) the amount product of multiplying the estimated yield rate times the amount actually collected – the difference between the result and the collected amount affects the account receivable.
- b. Loan interest is recognized as accrued.
- c. Moreover the Financial Group recognizes an income from the trust's return on equity based on fulfilling the construction project's progress and/or sale, and suspends recording such income when the progress is not as expected in the plan included in the trust's contract. Impairment of investment projects is determined based on time for those projects not in development.

5 - CASH AND CASH EQUIVALENTS

As of December 31, 2016 and 2015, this line item was composed as follows:

	2016	2015
Cash	Ps. 20,156	Ps. 20,171
Banks	45,628	87,524
Other deposits and available funds	102	153
	Ps. 65,886	Ps. 107,848

“Banks” is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de México of Ps. 20.61494 and Ps. 17.2487 for 2016 and 2015, respectively, and is made up as follows:

	MEXICAN PESOS		USD		TOTAL	
	2016	2015	2016	2015	2016	2015
Call money	Ps. -	Ps. 10,156	Ps. 5,155	Ps. 8,279	Ps. 5,155	Ps. 18,435
Deposits with foreign credit institutions	-	-	14,477	21,836	14,477	21,836
Domestic banks	62	297	-	-	62	297
Banco de México	25,853	46,776	81	180	25,934	46,956
	Ps. 25,915	Ps. 57,229	Ps. 19,713	Ps. 30,295	Ps. 45,628	Ps. 87,524

In June 2014, Banco de Mexico issued Circular 9/2014, which establishes banking institutions’ obligation to constitute a new monetary regulation deposit, and modifies the interest rate such deposits pay. As of December 31, 2016 and 2015, the Financial Group had made monetary regulation deposits of Ps. 25,683 and Ps. 33,453, respectively. As of December 31, 2015, the balance with Banco de México is Ps. 13,323 relevant to the deposit auctions, as of December 31, 2016; there are no related balances in auctions.

As of December 31, 2016 and 2015, the total sum of restricted cash and cash equivalents is Ps. 34,466 and Ps. 58,332, respectively. This includes monetary regulation deposits, futures placed in the domestic and foreign market, call money and contracted transactions pending liquidation in 24 and 48 hours.

As of December 31, 2016 and 2015, “Other Deposits and Available Funds” includes:

	2016	2015
Minted metals in gold and silver	\$51	\$28
Cashable checks received, pending payment at a 3-day term	40	43
Remittances	11	82
	\$102	\$153

The exchange rates used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 581.13 and Ps. 376.10, per unit, respectively, in 2016; and Ps. 449.69 and Ps. 272.87, per unit, respectively, in 2015.

6 - INVESTMENTS IN SECURITIES

a. Trading securities

As of December 31, 2016 and 2015, trading securities are as follows:

				2016	2015
	ACQUISITION COST	ACCRUED INTEREST	VALUATION INCREASE (DECREASE)	BOOK VALUE	BOOK VALUE
CETES	Ps. 7,165	Ps. 75	(Ps. 22)	Ps. 7,218	Ps. 1,626
Bonds	388	1	(10)	379	4,137
Development Bonds	21,898	35	(8)	21,925	43,886
Saving Protection Bonds (BPAS)	117,637	597	58	118,292	159,850
Udibonos	1,046	2	9	1,057	1,826
Bank securities	11,535	21	1	11,557	9,076
Eurobonds	-	-	-	-	141
Securitization certificates	20,019	36	(21)	20,034	22,860
Other securities	161	1	6	168	50
Shares	532	-	226	758	324
Investment funds	378	-	11	389	1,169
	Ps. 180,759	Ps. 768	Ps. 250	Ps. 181,777	Ps. 244,945

During 2016 and 2015, the Financial Group recognized under "Brokerage revenues" a loss of Ps. 207 and Ps. 157, respectively, for the fair value valuation of these instruments.

As of December 31, 2016 and 2015, there are Ps. 168,781 and Ps. 237,746, respectively, in restricted trading securities associated mainly with repurchase operations.

b. Securities available for sale

As of December 31, 2016 and 2015, securities available for sale were as follows:

				2016	2015
	ACQUISITION COST	ACCRUED INTEREST	VALUATION INCREASE (DECREASE)	BOOK VALUE	BOOK VALUE
US Government Bonds	Ps. -	Ps. -	Ps. -	Ps. -	Ps. 7,537
CETES	108	-	-	108	98
Bonds	8,256	4	(41)	8,219	374
Development Bonds	100	-	-	100	100
Saving Protection Bonds (BPAS)	127,786	1,725	(38)	129,474	71,179
Bank securities	5,186	18	(62)	5,142	923
Shares	7,929	-	(2,880)	5,049	2,380
Eurobonds	34,417	790	(722)	34,486	18,658
Investment funds	51	-	7	58	3,400
CBIC	12,828	66	(504)	12,391	8,816
Other securities	60	-	-	60	-
	Ps. 196,721	Ps. 2,603	(Ps. 4,240)	Ps. 195,087	Ps. 113,465

As of December 31, 2016 and 2015, there are Ps. 139,679 and Ps. 80,431, respectively, in restricted securities available for sale, mainly associated with securities repurchasing transactions.

As of December 31, 2016, there were 77,783,110 of BREMSR securities acquired as of May 2016, these BREMSRs were initially classified in the available-for-sale securities category due to the legal impossibility of being classified as trading securities since they did not have a secondary market, ie they are not subject to trading operations. They could not be classified under the category of securities held to maturity because this category was restricted in accordance with paragraph 13 of criterion B-2. In addition, it is contemplated to hedge these securities through cash flow hedging operations for changes in the TIIE28 interest rate, which is feasible only in the category of available-for-sale securities in accordance with paragraph 60 of the Criterion B-5.

During 2016, as a result of the restructuring processes and agreements reached with URBI in which the Financial Group participated, it received as payment in payment shares of said company for an amount equivalent to the outstanding unsecured credit exposure and net of reserves, which decreased the balance of past due loans at \$ 1,476 (see Note 2b).

During 2015, as a result of the restructuring processes and agreements reached with GEO and Homex, in which the Company participated, the Financial Group received as payment the shares of said companies for an amount equivalent to the unsecured credit exposure, net of reserves, which decreased the outstanding loan portfolio by \$ 1,631

The shares and optional securities to subscribe shares received as payment in payment were initially recorded as "Assets awarded" based on the requirements established in the accounting criteria B-7 "Assigned Property".

Subsequently, in accordance with its intention and business plan, the Financial Group reclassified shares and optional securities to receive shares in Securities Investments (in the "Available-for-sale securities" category, see Note 6b) and Derivatives (See Note 8), respectively. The Financial Group values these assets at fair value.

At December 31, 2016 and 2015, the impairment from market valuation of these shares was (Ps. 2,744) and (Ps. 753), respectively, recorded in stockholders' equity in the income statement for valuation of available-for-sale securities.

During 2015, as part of the restructuring agreement with GEO, Sólida received shares in payment of a \$ 189 collection right.

During 2016, As part of the restructuring agreement with URBI, Sólida received shares as payment in payment of a right to collect and receivable for Ps. 320.

c. Securities held to maturity

As of December 31, 2016 and 2015, securities held to maturity are as follows:

Medium and long-term debt instruments:

			2016	2015
	ACQUISITION COST	ACCRUED INTEREST	BOOK VALUE	BOOK VALUE
CETES Specials	Ps. 950	Ps. -	Ps. 950	Ps. 912
Bonds	256	2	258	1,608
Development Bonds	-	-	-	200
CETES	-	-	-	57
Udibonos	66,994	111	67,105	58,578
Bank securities	449	193	642	613
Eurobonds	-	-	-	214
Securitization certificates	12,017	948	12,965	20,631
	Ps. 80,666	Ps. 1,254	Ps. 81,920	Ps. 83,115

As of December 31, 2016 and 2015, there are Ps. 5,342 and Ps. 4,398, respectively, in restricted trading securities associated mainly with repurchasing operations.

As of December 31, 2016, the maturities of the securities (expressed at their acquisition cost), are as follows:

	MORE THAN ONE AND UP TO 5 YEARS	MORE AND 5 AND UP TO 10 YEARS	MORE THAN 10 YEARS	TOTAL
Government bonds- support program for Special Federal Treasury Certificates	Ps. -	Ps. -	Ps. 950	Ps. 950
Bonds	-	-	256	256
Udibonos	148	846	66,000	66,994
Bank securities	-	449	-	449
Securitization certificates	-	-	12,017	12,017
	Ps. 148	Ps. 1,295	Ps. 79,223	Ps. 80,666

Some of the investments in securities are given as collateral in derivative transactions without any restriction; therefore, the receiver has the right to trade them and offer them as collateral.

d. Collateral

The fair value of the collateral given in derivative transactions as of December 31, 2016 and 2015 is as follows:

		2016	
		FAIR VALUE IN MILLIONS	
TYPE OF COLLATERAL:	INSTRUMENT CATEGORY	PESOS	USD
Cash	-	Ps. 9	16,002
		Ps. 9	Ps. 16,002

		2015	
		FAIR VALUE IN MILLIONS	
TYPE OF COLLATERAL:	INSTRUMENT CATEGORY	PESOS	USD
Cash	-	Ps. 470	536
PEMEX bonds	Available for sale	96	63
		Ps. 566	599

As of December 31, 2016 and 2015, the Financial Group had no instruments received as collateral.

As of December 2016 and 2015, interest income was Ps. 11,470 and Ps. 16,698, respectively.

CONCEPT	2016	2015
Trading securities	Ps. 13,693	Ps. 12,327
Securities available for sale	5,440	3,996
Securities held to maturity	377	375
	Ps. 19,510	Ps. 16,698

e. Impaired securities

The objective evidence that a negotiable instrument is impaired includes observable information on, among others, the following events:

- a) considerable financial difficulties of the instrument's issuer;
- b) the issuer may be declared bankrupt or in some other financial reorganization;
- c) breach of contractual clauses, such as failure to pay interest or the principal;
- d) unavailability of an active market for the instrument in question due to financial difficulties; or
- e) a measurable reduction in future estimated cash flows of a group of instruments from the initial recording of such assets, although the reduction cannot be identified with individual instruments of the group, including:
 - i. adverse changes in the payment status of the issuers in the group, or
 - ii. local or national economic conditions that are correlated with the groups defaults.

As of December 31, 2016 and 2015 the amount recorder for the impairment of securities held to maturity was Ps. 267 and Ps.37.

During 2016 and 2015, accrued interest income from impaired instruments was Ps. 1 and Ps. 1, respectively.

f) Reclassification of Securities held to maturity

In December 2014 the Financial Group reclassified a portfolio of Securities held to maturity into the Available Securities category, consisting mainly of stock certificates and Eurobonds of private companies in the amount of Ps. 4,447. The book value of the securities was Ps. 4,447, with a market value of Ps. 4,396, recognizing a loss in stockholders' equity of Ps. 51.

In accordance with what is established in criterion B-2 "Investments in Securities" of the Commission, the Financial Group may not classify securities acquired as of that date and up to December 31, 2016 in the category of Securities held to maturity.

7 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS

As of December 31, 2016 and 2015, the creditor balance in repurchase transactions consist of:

Acting as seller of securities

INSTRUMENT	2016	2015
CETES	Ps. 10	Ps. 4
Development Bonds	19,308	41,208
Bonds IPAB	15,272	37,507
Quarterly IPAB bonds	167,540	126,942
Semi-annual IPAB bonds	63,886	60,836
20-year bonds	153	3,944
UDIBONOS	9	1,761
Government securities	266,178	272,202
Promissory Notes	1,887	4,961
CEDES	7,017	3,169
CEBUR Bank	15,254	15,032
Financial Institution Negotiable Instruments	703	734
Bank securities	24,888	23,896
Short-term CEBUR	5,451	16,512
Mortgage certificates	10,717	48
Certificates of deposit	1,543	2,497
Private securities	17,711	19,057
	Ps. 308,777	Ps. 315,155

With the Financial Group acting as the vendor, accrued premiums were charged to the results of operations as of December 31, 2016 and 2015 for Ps. 13,848 and Ps. 11,135, respectively, which are presented in the "Interest Expenses heading."

During 2016, the period of repurchase transactions carried out by the Financial Group in its capacity as vendor ranged in term from 1 to 364 days.

Acting as securities purchaser

INSTRUMENT	2016				2015			
	REPURCHASE AGREEMENT FROM DEBTORS	RECEIVED, SOLD COLLATERAL IN REPURCHASE	DEBIT DIFFERENCE	CREDIT DIFFERENCE	REPURCHASE AGREEMENT FROM DEBTORS	RECEIVED, SOLD COLLATERAL IN REPURCHASE	DEBIT DIFFERENCE	CREDIT DIFFERENCE
Cetes	Ps. -	Ps. -	Ps. -	Ps. -	Ps. 339	Ps. 339	Ps. -	Ps. -
Development Bonds	101	101	-	-	23,412	23,256	156	-
Bonds IPAB	-	-	-	-	16,617	16,391	226	-
Quarterly IPAB bonds	13,067	13,067	-	-	22,971	22,871	101	1
Semi-annual IPAB bonds	108	108	-	-	13,021	13,021	-	-
Udibonos	-	-	-	-	500	500	-	-
20-year bonds	1,701	1,701	-	-	3,716	3,716	-	-
Government securities	14,977	14,977	-	-	80,576	80,094	483	1
CEDES	2,008	2,008	-	-	2,094	2,094	-	-
Bank bonds	1,529	1,529	-	-	1,697	1,697	-	-
Securitized bank certificates	916	916	-	-	496	496	-	-
Bank securities	4,453	4,453	-	-	4,287	4,287	-	-
Short-term CEBUR	3,322	3,322	-	-	5,127	5,117	10	-
Private securities	3,322	3,322	-	-	5,127	5,117	10	-
	Ps. 22,752	Ps. 22,752	Ps. -	Ps. -	Ps. 89,990	Ps. 89,498	Ps. 493	Ps. 1

With the Financial Group acting as the purchaser, accrued premiums charged to the results of operations as of December 31, 2016 and 2015 were Ps. 582 and Ps. 441, respectively, which are presented in the "Interest Income" Heading.

During 2016, repurchase transactions carried out by the Financial Group in its capacity as purchaser ranged in term from 1 to 364 days

By December 31, 2016, the amount of securities corresponding to guarantees granted and received in repurchase transactions that involved the transfer of property totaled Ps. 89,288 and Ps. 101,473, respectively, and by December 31, 2015, the totals were Ps. 147,797 in guarantees granted and Ps. 235,143 in guarantees received.

8 - DERIVATIVE FINANCIAL INSTRUMENTS

Transactions carried out by the Financial Group involving derivatives correspond mainly to futures, swaps and options contracts. These transactions are done to hedge various risks and for trading purposes.

As of December 31, 2016, the Financial Group has evaluated the effectiveness of derivatives' transactions for hedging purposes and has concluded that they are highly effective.

As of December 31, 2016 and 2015, the Financial Group's derivatives positions held for trading purposes are as follows:

ASSET POSITION	2016	2015
Forwards		
Foreign currency forwards	Ps. 9	Ps. 16
Options		
Interest rate options	1,051	495
Stock options	4	301
Currency	263	-
Swaps		
Interest rate swaps	34,570	15,734
Exchange rate swaps	5,237	2,522
Total trading	41,134	19,068
Options		
Rate Options	46	-
Swaps		
Interest rate swaps	696	27
Exchange rate swaps	-	52
Total hedging	742	79
Total position	Ps. 41,876	Ps. 19,147

LIABILITY POSITION	2016	2015
Forwards		
Foreign currency forwards	Ps. 28	Ps. 74
Options		
Interest rate options	1,112	346
Currency options	1	-
Swaps		
Interest rate swaps	32,937	15,062
Exchange rate swaps	6,325	4,458
Total trading	40,403	19,940
Swaps		
Interest rate swaps	168	1,149
Exchange rate swaps	9,204	3,855
Total hedging	9,372	5,004
Total position	Ps. 49,775	Ps. 24,944

The following are notional bonds in different currencies, depending on the type of product, by December 31, 2016:

Trading instruments

INSTRUMENT	MXN	USD	EUR
Foreign currency forwards	Ps. 777	Ps. 37	Ps. 2
Interest rate options	137,676	14,214	-
Stock options	99	-	-
Foreign currency swaps (receiving leg)	34,566	1,019	-
Foreign currency swaps (paying leg)	24,029	1,644	-
Interest rate swaps (receiving leg)	1,234,402	21,614	-
Interest rate swaps (paying leg)	1,234,402	21,614	-

Hedging instruments

INSTRUMENT	MXN	USD	EUR	GBP
Interest rate options	Ps. 5,900	Ps. -	Ps. -	Ps. -
Foreign currency swaps (receiving leg)	12,951	-	-	-
Foreign currency swaps (paying leg)	-	181	462	106
Interest rate swaps (receiving leg)	21,135	-	-	-
Interest rate swaps (paying leg)	21,135	-	-	-

The hedging instruments operated and their main underlying instruments are as follows:

Forwards	Options	Swaps	CCS
Fx-USD	Fx-USD	TIIE 28	TIIE 28
Fx-EUR	TIIE 28	TIIE 91	TIIE 91
Fx-CAD	TIIE 91	CETES 91	Libor
	Libor	Libor	Euribor
			UDI

The risk management policies and internal control procedures for managing risks inherent to derivatives are described in Note 35

Transactions carried out for hedging purposes have maturities from 2016 to 2032 and are intended to mitigate the financial risk derived from long-term loans offered by the Financial Group at fixed nominal rates, as well as the exchange rate risk generated by market instruments in the Financial Group's portfolio

The book value of collateral used to ensure compliance with obligations derived from currency swap contracts as of December 31, 2016 is USD 776,059 thousand, and Ps. 8,700 thousand, while as of December 31, 2015 it was USD 600,000 thousand and Ps. 566,000 . Futures transactions are made through recognized markets, and as of December 31, 2016 they represent 1% of the nominal amount of all the derivatives' operations contracts; the remaining 99% correspond to option, swap and fx forwards transactions in Over the Counter (OTC) markets.

As of December 31, 2016 and 2015, the collateral was comprised mainly of cash, PEMEX bonds, and short-term government bonds restricted under the categories of trading and securities available for sale. The restriction maturity date for this collateral is from 2016 to 2027. Their fair value is shown in Note 6 d).

As of December 31, 2016, the Parent Company does not have collateral received in derivative transactions, and as of December 31, 2015, the Parent has Ps. 49.

During 2016 and 2015, the net earnings from the valuation and realization of derivative financial instruments were Ps. 371 and Ps. 553, respectively.

The net amount of estimated gains or losses to date originated by transactions or events that are recorded in cumulative other comprehensive income in the financial statements and that are expected to be reclassified to earnings within the next 12 months totals Ps. 81.

As of December 31, 2016 and 2015, the main positions hedged by the Financial Group and the derivatives designated to cover such positions are:

Cash flow hedging:

- Forecast funding using TIE rate Caps and Swaps.
- Recorded assets in foreign currency using Cross Currency Swaps.
- Recorded liabilities in foreign currency using Cross Currency Swaps.

As of December 31, 2016, there are 97 hedge files related to hedging transactions. Their effectiveness ranges between 91% and 100%, well within the range established by the accounting standards in effect (80% to 125%). Furthermore, there is no over hedging on any of the derivatives, so as of December 31, 2016, there are no ineffective portions that are recorded at the market value that the Financial Group has to record in earnings.

The following are the Financial Group's hedged cash flows as of December 31, 2016, expected to occur and affect earnings:

CONCEPT	UP TO 3 MONTHS	MORE THAN 3 MONTHS AND UP TO 1 YEAR	MORE THAN 1 AND UP TO 5 YEARS	MORE THAN 5 YEARS
Assets denominated in USD	Ps. 180	Ps. 185	Ps. 1,474	Ps. 139
Assets denominated in Euros	26	199	1,105	1,133
Assets denominated in GBP	156	21	887	313
	Ps. 362	Ps. 405	Ps. 3,466	Ps. 1,585

The fair value of the instruments designated as cash flows hedging, recognized in overall earnings in stockholders equity as of December 31, 2016 and 2015 totaled (Ps. 2,131) and (Ps. 1,398), respectively. Furthermore, Ps. 63 and Ps. 16, respectively, were reclassified from stockholders' equity to results.

The gains recognized in derivatives financial instruments' results designated for trading were Ps. 382 and Ps. 458, on December 31, 2016 and 2015, respectively.

Trading derivatives and hedging derivatives: the loan risk is minimized through means of contractual compensation agreements, in which asset and liability derivatives with the same counterparty are settled for their net balance. Similarly, there may be other types of collateral such as credit lines, depending on the counterparty's solvency and the nature of the transaction.

The following table shows the cash flows hedging valuation balance:

BALANCE	VALUATION OF CASH FLOWS HEDGING INSTRUMENTS	NET CHANGE IN PERIOD	RECLASSIFIED TO INCOME
Balance, January 1, 2007	(Ps. 58)	Ps. -	Ps. -
Balance, December 31, 2007	(308)	(250)	-
Balance, December 31, 2008	(1,567)	(1,259)	18
Balance, December 31, 2009	(1,394)	173	47
Balance, December 31, 2010	(2,114)	(720)	42
Balance, December 31, 2011	(2,907)	(793)	15
Balance, December 31, 2012	(2,785)	122	75
Balance, December 31, 2013	(1,541)	1,244	75
Balance, December 31, 2014	(1,284)	257	(18)
Balance, December 31, 2015	(1,398)	(114)	16
Balance, December 31, 2016	(2,131)	(\$773)	\$63

During October 2016, the Financial Group received optional shares to subscribe for URBI shares as part of the restructuring process (see Note 2). These options were recorded as a Derivative Financial Instrument in the amount of Ps. 36. At December 31, 2016, a loss of (Ps. 26) was recognized as a result of the market valuation, which was recorded in the Income from Intermediation. At December 31, 2016, for the optional securities to subscribe GEO shares, a loss of Ps. 49 was recognized as a result of the market valuation, which was recorded in the Income from Intermediation..

9 - LOAN PORTFOLIO

As of December 31, 2016 and 2015, the loan portfolio by loan type is as follows:

	PERFORMING LOAN PORTFOLIO		PAST-DUE LOAN PORTFOLIO		TOTAL	
	2016	2015	2016	2015	2016	2015
Commercial loans						
Denominated in domestic currency						
Commercial	Ps. 177,017	Ps. 156,232	Ps. 5,281	Ps. 7,196	Ps. 182,298	Ps. 163,428
Rediscounted portfolio	7,561	6,336	264	661	7,825	6,997
Denominated in USD						
Commercial	35,256	42,939	127	79	35,384	43,018
Rediscounted portfolio	4,384	3,542	-	-	4,384	3,542
Total commercial loans	224,218	209,049	5,672	7,936	229,891	216,985
Loans to financial institutions	4,650	3,331	344	-	4,994	3,331
Consumer loans						
Credit card	28,445	24,854	1,623	1,498	30,068	26,352
Other consumer loans	59,887	50,884	1,624	1,397	61,511	52,281
Mortgage loans						
Denominated in domestic currency	114,618	98,236	1,034	1,025	115,652	99,261
Denominated in USD		1,480		33	-	1,513
Denominated in UDIS	188	236	15	14	203	250
Government loans	134,798	130,118	-	-	134,798	130,118
	342,587	309,139	4,640	3,967	347,226	313,106
Total loan portfolio	Ps. 566,805	Ps. 518,188	Ps. 10,312	Ps. 11,903	Ps. 577,117	Ps. 530,091

Restructured loans

The restructured loans on December 31, 2016 and 2015 that modified their terms and rates are shown below:

	2016		2015	
	PERFORMING	PAST-DUE	PERFORMING	PAST-DUE
Commercial loans				
Business loans	Ps. 5,018	Ps. 1,465	Ps. 3,559	Ps. 1,402
Financial institutions' loans	-	-	5	-
Government loans	-	-	18,585	-
Consumer loans	-	-	11	1
Mortgage loans	-	-	21	45
	Ps. 5,018	Ps. 1,465	Ps. 22,181	Ps. 1,448

As of December 31, 2016, past-due loans showed the following periods of delinquency:

	FROM 1 TO 180 DAYS	FROM 181 TO 365 DAYS	FROM 366 DAYS TO 2 YEARS	MORE THAN 2 YEARS	TOTAL
Commercial loans					
Business loans	Ps. 656	Ps. -	Ps. -	Ps. 5,360	Ps. 6,016
Consumer loans	3,127	115	1	4	3,247
Mortgage loans	731	318	-	-	1,049
	Ps. 4,514	Ps. 433	Ps. 1	Ps. 5,364	Ps. 10,312

As of December 31, 2015, past-due loans showed the following periods of delinquency:

	FROM 1 TO 180 DAYS	FROM 181 TO 365 DAYS	FROM 366 DAYS TO 2 YEARS	MORE THAN 2 YEARS	TOTAL
Commercial loans					
Business loans	Ps. 1,158	Ps. 1,113	Ps. 1,737	Ps. 3,915	Ps. 7,923
Consumer loans	2,808	96	1	3	2,908
Mortgage loans	594	478	-	-	1,072
	Ps. 4,560	Ps. 1,687	Ps. 1,738	Ps. 3,918	Ps. 11,903

Past due loan movements for the years ended on December 31, 2016 and 2015 are shown below:

	2016	2015
Balance at the beginning of the year	Ps. 11,903	Ps. 14,294
Liquidations	(3,164)	(4,484)
Write-offs*	(11,006)	(9,728)
Renewals	(2,538)	(893)
Loan portfolio purchases	1,776	2,064
Discounts	(320)	(539)
Foreclosures	(260)	(189)
Loan Portfolio Sales	(1,492)	(1,302)
Consumer loans	(6,018)	(3,537)
Mortgage loans	21,404	16,184
Fluctuation from foreign exchange rate	27	21
Fair value IXE	-	12
Year-end balance	Ps. 10,312	Ps. 11,903

*Corresponds to 100% hedged loans.

As of December 31, 2015, the balance of deferred loan origination fees was Ps. 2,456 and the amount recorded in results was Ps. 1,206. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 2,255, and the amount recorded in results was Ps. 490. As of December 31, 2015, the balance of deferred loan origination fees was Ps. 2,094, and the amount recorded in results was Ps. 1,256. Furthermore, the deferred balance of costs and expenses associated with initial loan originations was Ps. 1,359, and the amount recorded in results was Ps. 382. The average term over which the deferred fee balance and the costs and expenses will be recorded is equivalent to the average term of the portfolio balance.

The collected fees and costs are presented net in the line item of Deferred Loans and Advance Collections within the Consolidated Balance Sheets as well as in Interest Income and Interest Expenses, respectively, in the Consolidated Income Statements.

The average terms of the portfolio's main balances are: a) commercial, 2.03 years; b) financial institutions, 3.49 years; c) mortgage, 18.81 years; d) government loans, 10.02 years; and e) consumer, 3.51 years.

During the periods ended on December 31, 2016 and 2015, the balance of written off loans that had been fully reserved as past due was Ps. 11,006 and Ps. 9,728, respectively.

On December 31, 2016 and 2015, revenues from recoveries of previously written-off loan portfolios were Ps. 1,549 and Ps. 871, respectively.

The loans granted per economic sectors as of December 31, 2016 and 2015, are shown below:

	2016		2015	
	AMOUNT	CONCENTRATION PERCENTAGE	AMOUNT	CONCENTRATION PERCENTAGE
Private (companies and individuals)	Ps. 229,890	39.84%	Ps. 216,984	40.75%
Financial institutions	4,994	0.87%	3,331	0.63%
Credit card and consumer	91,579	15.87%	78,634	15.02%
Mortgage	115,856	20.07%	101,024	19.06%
Government loans	134,798	23.36%	130,118	24.55%
	Ps. 577,117	100.00%	Ps. 530,091	100.00%

Policies and Procedures for Granting Loans

The granting, control and recovery of loans are regulated by the Financial Group's Credit Manual, which has been authorized by the Board of Directors. Accordingly, administrative portfolio control is performed in the following areas:

- I. Business Areas (includes Corporate, Commercial, Business, Governmental and Consumer Banking), primarily through the branch network.
- II. Operations Areas
- III. General Comprehensive Risk Management
- IV. Recovery Management

Similarly, the Financial Group has manuals establishing the policies and procedures to be utilized for credit risk management purposes.

The structure of the credit management process is based on the following stages:

- a) Product design
- b) Promotion
- c) Evaluation
- d) Formalization
- e) Operation
- f) Administration
- g) Recovery

Procedures have also been implemented to ensure that past-due loans are timely transferred and recorded in the accounting, and those loans with recovery problems are properly and promptly identified.

Pursuant to the Commission Circular B6, "Loan Portfolio", the distressed portfolio is defined as the commercial loans which, based on the current information and facts as well as on the loan revision process, are very unlikely to be fully recovered (both principal and interest) pursuant to the original terms and conditions. The performing and past due portfolios are susceptible to be identified as a distressed portfolio. D and E risk degrees of the commercial loans rating are shown below as distressed portfolio :

	2016	2015
Distressed commercial loans	Ps. 7,177	Ps. 9,196
Performing	1,380	1,442
Past-due	5,797	7,754
Commercial loans	389,706	382,305
Performing	389,490	382,139
Past-due	216	166
Total rated commercial loans	396,883	391,501
Total portfolio	Ps. 604,327	Ps. 572,237
Distressed commercial loans/total portfolio	1.19%	1.61%

The Financial Group's Treasury Department is the central unit responsible for balancing resource requirements and eliminating the interest rate risk derived from fixed rate transactions through the use of hedging and arbitrage strategies.

2015							
REQUIRED ALLOWANCES FOR LOSSES							
RISK CATEGORY	LOAN PORTFOLIO	COMPANIES	GOVERNMENT	FINANCIAL INSTITUTIONS' LOANS	CONSUMER PORTFOLIO	MORTGAGE PORTFOLIO	TOTAL
Risk A1	Ps. 416,795	Ps. 836	Ps. 384	Ps. 168	Ps. 374	Ps. 138	Ps. 1,900
Risk A2	68,672	316	238	6	383	43	986
Risk B1	23,515	120	87	1	559	9	776
Risk B2	22,104	85	32	-	759	18	894
Risk B3	13,076	242	1	3	358	11	615
Risk C1	6,882	115	45	1	274	42	477
Risk C2	5,089	91	-	2	527	68	688
Risk D	12,409	3,075	-	-	1,590	295	4,960
Risk E	3,717	882	-	-	1,345	77	2,304
Unclassified	(22)	-	-	-	-	-	-
	Ps. 572,237	Ps. 5,762	Ps. 787	Ps. 181	Ps. 6,169	Ps. 701	Ps. 13,600
Less: recorded allowance	-	-	-	-	-	-	13,813
Reserve Supplement*							Ps. 213

* The recorded reserves supplement conforms to the Provisions to cover 100% of the past-due interest and for the effects of inquiries in the credit bureau.

As of December 31, 2016 and 2015, the provisions to cover 100% of the rating base for loan portfolios includes Ps. 11,357 and Ps. 9,252, respectively, for Granted Guarantors and Loan Acquisitions, which were recorded in memorandum accounts. Ps. 15,802 and Ps. 32,894 were also added for loans to related parties.

As of December 31, 2016 and 2015, the estimated allowance for loan losses is determined based on portfolio balances at those dates.

As of December 31, 2016 and 2015, the allowance for loan losses represents 139% and 116%, respectively, of the past-due portfolio.

The estimated allowance includes the classification of loans granted in foreign currency, which are evaluated at the exchange rate in effect as of December 31, 2016 and 2015.

Pursuant to the regulation in effect, as of December 31, 2016 the Financial Group rated the commercial (except loans intended for investment projects having their own source of payment), mortgage, revolving and non-revolving consumer loans using the methodologies based on expected losses.

Exposure to Default, Probability of Non-Compliance and Severity of the Loss are shown below for each type of loan as of December 31, 2016.

TYPE OF LOAN	EXPOSURE TO DEFAULT	WEIGHTED PROBABILITY OF NON-COMPLIANCE	WEIGHTED SEVERITY OF LOSS
Commercial*	339,133	5.6%	26.7%
Mortgage	115,856	2.6%	24.9%
Non-revolving consumer	61,512	9.5%	64.3%
Revolving Consumer loan	45,315	11.4%	76.1%

* Loans to financial intermediaries and loan intended for investment projects having their own source of payment are not included.

Movements in allowance for loan losses

An analysis of the movements in allowance for loan losses is detailed below:

	2016	2015
Balance at the beginning of the year	Ps. 13,813	Ps. 15,287
Increase charged to results	12,970	10,382
Discounts and write-offs	(12,947)	(11,911)
Rebates granted to housing debtors	(8)	(7)
Recognized against results of previous years	672	-
Reclassification INB	(197)	-
Others	81	62
Year-end balance	Ps. 14,384	Ps. 13,813

As of December 31, 2016, the net amount of preventive loan loss reserves charged to the Consolidated Income Statement totals Ps. 13,313 and is presented net of (Ps. 424) paid to Other income (or expense), and due to the variation of the USD \$81 exchange rate, such amounts are affected against results is comprised of Ps. 10,382 credited directly to the estimate. As of December 31, 2015, the net amount of preventive loan loss reserves charged to the Consolidated Income Statement totals Ps. 10,687, and is presented net of (Ps. 399) paid to Other income or expenses; due to the variation of the USD \$62 exchange rate, such amounts are affected against results is comprised of Ps. 10,382 credited directly to the estimate.

12 - ACQUIRED COLLECTION RIGHTS

The acquired collection rights are comprised as follows:

VALUATION METHOD	2016	2015
Cash basis method	Ps. 936	Ps. 824
Cost recovery method	1,050	1,336
Interest method	39	58
	Ps. 2,025	Ps. 2,218

As of December 31, 2016, derived from applying the valuation methods (described in Note 4), the Financial Group recognized income from credit asset portfolios of Ps. 531, coupled with the corresponding amortization of Ps. 389, the effects of which were recognized under the "Other income (expense)" heading in the Consolidated Income Statement. For the year ended December 31, 2015, the Financial Group recognized income of Ps. 641, together with the respective amortization of Ps. 484. The Financial Group performs an analysis based on events or information to estimate the amount of expected cash flows to determine the estimated rate of return used in applying the valuation method for the amortization of the accounts receivable. If based on current events information, the analysis demonstrates that the expected future cash flows will decrease to the degree that they will not cover the book value, it will constitute an estimate for non-recoverability or difficult collection against the year's results for the amount that such expected cash flows are lower than the book value of the accounts receivable.

Assets different from cash that the Financial Group has received as part of portfolio collection or recovery have been mainly in real estate property.

The main feature considered for segmenting acquired portfolios has been the type of loan.

13 - PREMIUM RECEIVABLES, NET

This item is made up as follows:

	2016	2015
Maritime and transportation	Ps. 63	Ps. 1
Automobile	1,512	1,229
Various	985	1,904
Accidents and health	646	565
Life	890	383
Pensions	56	50
	4,152	4,132
Federal public administration agencies' indebtedness	93	282
	Ps. 4,245	Ps. 4,414

14 - ACCOUNTS RECEIVABLE FROM REINSURANCE

This item is made up as follows:

	2016	2015
Insurance and annuities	Ps. 2,768	Ps. 1,745
Reinsurers' participation for pending claims	3,609	2,692
Reinsurers' participation for current risk	792	1,416
Other participations	46	21
Preemptive credit risk assessment of Foreign Reinsurers Foreign	(3)	-
Estimate for punishments	(46)	-
	Ps. 7,166	Ps. 5,874

15 - OTHER ACCOUNTS RECEIVABLE, NET

This item is made up as follows:

	2016	2015
Loans to officers and employees	Ps. 2,573	Ps. 2,440
Debtors from liquidation settlements	18,089	5,106
Debtors from cash collateral	16,011	9,733
Real estate property portfolios	1,082	851
Fiduciary rights*	8,785	8,732
Sundry debtors in Mexican pesos	3,905	3,559
Sundry debtors in foreign currency	78	1,038
Others	216	368
	50,739	31,827
Allowance for doubtful accounts	(373)	(283)
	Ps. 50,366	Ps. 31,544

* The Financial Group has participation in trusts jointly with GEO, URBI and Homex. Such trusts were constituted for housing developments construction. Moreover the Financial Group recognizes an income from the trust's return on its participation based on fulfilling the construction project's progress and/or sale, and suspends recording such income when the progress is not as expected in the plan included in the trust's contract, as described in Note 4. As of December 31, 2016 and 2015, the Financial Group recorded impairment of Ps. 75 and Ps. 170, respectively, in investment projects.

Loans to officers and employees mature in 3 to 30 years, and accrue an interest rate from TIIE more 0.6% to TIIE 1%.

16 - FORECLOSED ASSETS, NET

As of December 31, 2016 and 2015, the foreclosed assets balance is as follows:

	2016	2015
Moveable property	Ps. 88	Ps. 116
Real estate property	3,262	3,593
Goods pledged for sale	15	16
	3,365	3,725
Allowance for losses on foreclosed assets	(32)	(35)
Allowance for losses on foreclosed real estate assets	(1,717)	(1,425)
Allowance for losses on assets pledged for sale	(6)	(6)
	(1,755)	(1,466)
	Ps. 1,610	Ps. 2,259

As of December 31, 2016, aging of the reserves for foreclosed assets is made up as follows:

CONCEPT / MONTH	12 TO 18		18 TO 24		MORE THAN 24	TOTAL
Moveable property	Ps. -		Ps. -		Ps. 32	Ps. 32
Real estate property	19	10	73	164	44	1,717
Goods pledged for sale	-	-	-	-	-	6
	Ps. 19	Ps. 10	Ps. 73	Ps. 164	Ps. 44	Ps. 1,755

17 - PROPERTY, FURNITURE AND EQUIPMENT, NET

This item is made up as follows:

	2016	2015
This item is made up as follows:	Ps. 13,706	Ps. 12,313
Inmuebles destinados a oficinas	8,510	8,376
Gastos de instalación	5,470	4,970
	27,686	25,659
Less - Accumulated depreciation and amortization	(11,857)	(11,122)
	Ps. 15,829	Ps. 14,537

Depreciation recorded in the results of 2016 and 2015 was Ps. 1,170 and Ps. 1,325, respectively.

The average estimated useful lives of the Financial Group's assets subject to depreciation are listed below:

	USEFUL LIFE
Furniture and equipment	From 4 to 10 years
Real estate	From 4 to 99 years
Installation costs	10 years

18 - PERMANENT STOCK INVESTMENTS

Investments in associated companies and venturers are valued according to the equity method, as detailed below:

	SHARE %	2016	2015
Afore XXI-Banorte, S.A. de C.V.	50%	Ps. 13,331	Ps. 13,160
Concesionaria Internacional Anzaldúas, S.A. de C.V.	40%	-	15
Capital I CI-3, S.A.P.I. de C.V.	50%	43	43
Maxcom Telecomunicaciones, S.A.B. de C.V.	8.11%	191	256
Controladora PROSA, S.A. de C.V.	19.73%	101	73
Sociedades de Inversión Ixe Fondos	Varios	99	92
Fondo Chiapas, S.A. de C.V.	8.96%	15	13
Others	Varios	(16)	153
		Ps. 13,764	Ps. 13,805

The Financial Group exercises significant influence over its affiliates valued under the equity method through its representation in the board of directors or equivalent management body, as well as through significant intercompany transactions.

The relevant activities of the Afore are directed by both the Financial Group and the Mexican Institute of Social Security [*Instituto Mexicano del Seguro Social*], with equal rights and responsibilities. Therefore the Financial Group has no control over such entity and does not consolidate it.

19 - DEFERRED TAXES, NET

The tax reported by the Financial Group is calculated based on the current taxable result of the year and enacted tax regulations. However, due to temporary differences between how income and expenses are recognized for accounting and tax purposes, as well as the differences between the accounting and tax balance sheet accounts, the Financial Group has recognized a recoverable net deferred tax asset of Ps. 3,994 and Ps. 2,785 as of December 31, 2016 and 2015, respectively, as detailed below:

	2016		2015	
	TEMPORARY DIFFERENCES	DEFERRED EFFECT	TEMPORARY DIFFERENCES	DEFERRED EFFECT
Temporary Differences - Assets				
Allowance for loan losses	Ps. 275	Ps. 83	Ps. 3,729	Ps. 1,135
Tax loss carryforwards	5,191	1,557	5,786	1,736
Tax losses in foreclosure sales	-	-	270	94
Tax losses in stock sales	-	-	8	2
Surplus preventive allowances for credit risks over the net tax limit	14,887	4,466	9,337	2,801
Excess of tax over book value of foreclosed and fixed assets	3,514	1,051	2,960	880
PTU	385	115	370	111
Fees collected in advance	3,233	970	2,937	881
Accounting provisions		1,048	3,065	919
Financial instruments valuation	156	47	248	78
Total assets	Ps. 31,133	Ps. 9,337	Ps. 28,710	Ps. 8,637

	2016		2015	
	TEMPORARY DIFFERENCES	DEFERRED EFFECT	TEMPORARY DIFFERENCES	DEFERRED EFFECT
Temporary Differences - Liabilities				
Excess of tax over book value of foreclosed and fixed assets and expected payments	Ps. 316	Ps. 95	Ps. 331	Ps. 99
Portfolios acquired	1,025	307	1,300	390
Capitalizable projects' expenses	8,977	2,693	6,478	1,943
Provisions	-	-	239	72
Financial instruments valuation	1,881	564	4,671	1,401
Contributions to pension funds	3,192	958	3,608	1,082
Intangible assets	1,410	422	1,645	467
Deferred from the IXE purchase method	782	235	906	272
Other	234	69	417	126
Total Liabilities	17,817	5,343	19,595	5,852
Deferred tax, net		Ps. 3,994		Ps. 2,785

As explained in Note 29, for 2016 and 2015 the applicable ISR rate is 30%.

Banorte USA's deferred tax assets and liabilities are determined using the liability method. According to this method, the net asset or liability of deferred taxes is determined based on the tax effects of temporary differences between the book and tax base of assets and liabilities. Due to the consolidation of Banorte USA, as of December 31, 2016 and 2015 a net amount of Ps. 16 and 137, respectively, was added to deferred taxes determined at a rate of 35% as per the tax law of the USA.

20 - OTHER ASSETS

This item is made up as follows:

	2016	2015
Net asset forecast from labor obligations and savings fund	Ps. 2,885	Ps. 3,653
Payments to amortize	16,398	14,634
Accumulated payment amortization	(2,220)	(1,654)
Goodwill	12,679	16,362
	Ps. 29,742	Ps. 32,995

As of December 31, 2016 and 2015, goodwill is as follows:

	2016	2015
Ixe Grupo Financiero, S.A.B. de C.V.	Ps. 11,537	Ps. 11,537
INB Financial Corp.	-	3,746
Banorte-Ixe Tarjetas, S.A. de C.V., SOFOM, ER	727	727
Uniteller Financial Services	400	335
Generali México Compañía de Seguros, S.A.	15	17
	Ps. 12,679	Ps. 16,362

As mentioned in Note 4, goodwill is not amortized since 2007 and since then is subject to annual impairment tests. No impairment to goodwill value was detected as of December 31, 2016 and 2015.

21 - DEPOSITS

Liquidity coefficient

The “Investment regime for transactions in foreign currency and conditions to be fulfilled during the term of transactions in such currency”, designed for credit institutions by Banco de México, establishes the mechanism for determining the liquidity coefficient of liabilities denominated in foreign currency.

In accordance with such regime, during 2016 and 2015, the Financial Group generated a liquidity requirement of USD 383,170 thousand and USD 381,288 thousand, respectively, and held investments in liquid assets of USD 1,106,523 thousand and USD 908,846 thousand, representing a surplus of USD 383,170 thousand and USD 433,934 thousand, respectively.

Deposits

The liabilities derived from core deposits are made up as follows:

	2016	2015
Demand deposits		
Non-interest bearing checking accounts:		
Cash deposits	Ps. 210,850	Ps. 153,616
Checking accounts in US dollars for individual residents on the Mexican border	2,621	1,780
Demand deposits accounts	16,572	20,522
Interest bearing checking accounts:		
Other bank checking deposit	80,433	80,096
Savings accounts	-	3
Checking accounts in US dollars for individual residents on the Mexican border	2,110	1,792
Demand deposits accounts	68,617	89,767
	381,203	347,576
Time deposits		
General public:		
Fixed-term deposits	20,063	24,334
Retail time deposits	140,121	181,148
Promissory note with interest payable at maturity PRLV primary market for individuals	22,838	2,111
Promissory note with interest payable at maturity PRLV primary market for moral people	6,776	-
Foreign residents deposits	14	13
Provision for interest	649	334
	190,461	207,940
Money market:		
Over the counter promissory notes	1,458	4,603
Provision for interest	1	3
	1,459	4,606
	191,920	212,546
Senior debt issued	85	100
Senior debt issued	1,352	1,240
	Ps. 574,560	Ps. 561,462

The funding rates which the Financial Group uses as reference are: a) for Mexican pesos, Interbank Interest Rate (TIIE), Average Cost of Funds (CCP) and; b) for foreign currency, the London Interbank Offered Rate (LIBOR).

These liabilities incur interest depending on the type of instrument and average balance held in the investments. The average interest rates and their currency of reference are shown below:

Immediately due and payable deposits:

FOREIGN EXCHANGE	2016				2015			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Mexican pesos and UDIS	0.49%	0.46%	0.47%	0.47%	0.47%	0.52%	0.54%	0.54%
Foreign currency	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
<u>Banorte USA (INB)</u>								
Demand deposits accounts	-%	-%	-%	-%	0.01%	0.01%	0.01%	0.01%
Money market	-%	-%	-%	-%	0.03%	0.03%	0.02%	0.02%

Time deposits:

FOREIGN EXCHANGE	2016				2015			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<u>General public</u>								
Mexican pesos and UDIS	2.75%	3.12%	3.43%	3.98%	2.42%	2.56%	2.59%	2.59%
Foreign currency	0.37%	0.23%	0.18%	0.22%	0.51%	0.51%	0.55%	0.53%
Money market	3.52%	3.10%	2.76%	3.72%	3.09%	3.15%	3.24%	3.29%
Banorte USA (INB)	-%	-%	-%	-%	0.33%	0.31%	0.27%	0.18%

As of December 31, 2016 and 2015, the terms set for these deposits are as follows:

	2016			TOTAL
	FROM 1 TO 179 DAYS	FROM 6 TO 12 MONTHS	MORE THAN 1 YEAR	
General public				
Fixed-term deposits	Ps. 16,807	Ps. 1,384	Ps. 672	Ps. 18,864
Retail time deposits	163,040	6,388	259	169,687
Promissory note with interest payable at maturity PRLV primary market for individuals	1,143	63	43	1,249
Foreign residents deposits	14	-	-	14
Provision for interest	562	82	4	648
	181,566	7,917	978	190,461
Money market:				
Promissory notes	-	-	1,458	1,458
Provision for interest	-	-	1	1
	-	-	1,459	1,459
Senior debt issued	85	-	-	85
Global account of captation without movements	1,352	-	-	1,352
	Ps. 183,003	Ps. 7,917	Ps. 2,437	Ps. 193,357

	2015			TOTAL
	FROM 1 TO 179 DAYS	FROM 6 TO 12 MONTHS	MORE THAN 1 YEAR	
General public:				
Fixed-term deposits	Ps. 22,589	Ps. 1,346	Ps. 399	Ps. 24,334
Retail time deposits	177,856	3,172	120	181,148
Promissory note with interest payable at maturity PRLV primary market for individuals	1,936	174	1	2,111
Foreign residents deposits	13	-	-	13
Provision for interest	304	29	1	334
	202,698	4,721	521	207,940
Money market:				
Promissory notes	-	-	4,603	4,603
Provision for interest	-	-	3	3
	-	-	4,606	4,606
Senior debt issued	-	-	100	100
Global account of captation without movements	1,240	-	-	1,240
	Ps. 203,938	Ps. 4,721	Ps. 5,227	Ps. 213,886

22 - INTERBANK AND OTHER LOANS

The loans received from other banks as of December 31, 2016 and 2015 are as follows:

	MEXICAN PESOS		DENOMINATED IN USD		TOTAL	
	2016	2015	2016	2015	2016	2015
Immediately due:						
Domestic banks (Call money)	Ps. 4,019	Ps. 1	Ps. -	Ps. -	Ps. 4,019	Ps. 1
Short-term:						
Commercial banking	9,040	8,925	67	101	9,107	9,026
Development banking	315	541	520	484	835	1,025
Public trusts	6,336	5,812	857	611	7,193	6,423
Provision for interest	14	2	6	5	20	7
	15,705	15,280	1,450	1,201	17,155	16,481
Long-term:						
Commercial banking	8,283	7,166	2,568	1,725	10,851	8,891
Development banking	-	-	2,751	2,330	2,751	2,330
Public trusts	3,537	3,057	323	273	3,860	3,330
	11,820	10,223	5,642	4,328	17,462	14,551
	Ps. 31,544	Ps. 25,504	Ps. 7,092	Ps. 5,529	Ps. 38,636	Ps. 31,033

These liabilities incur interest depending on the type of instrument and average balance of the loans.

The average interest rates are shown below:

FOREIGN EXCHANGE	2016				2015			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Call money								
Mexican pesos and UDIS	3.27%	3.15%	4.15%	5.07%	2.87%	2.90%	2.88%	3.14%
Other bank loans								
Mexican pesos and UDIS	4.28%	4.33%	4.85%	5.14%	4.20%	4.03%	4.19%	4.15%
Foreign currency	2.14%	2.06%	2.16%	2.39%	2.03%	2.01%	1.81%	1.88%

Banorte USA liabilities accrue interest at an average rate of 0.59%, as of December 31, 2016, the liabilities were reclassified as indicated in Note 3. Moreover, Arrendadora y Factor Banorte's loans accrue an average interest rate of 5.90% and 4.53% in Mexican pesos and 2.36% and 1.60% in U.S. dollars as of December 31, 2016 and 2015, respectively.

23 - TECHNICAL RESERVES

	2016	2015
Current risk:		
Life	Ps. 74,839	Ps. 66,742
Accidents and health	1,579	1,405
Damages	3,256	4,110
	79,674	72,257
Contractual obligations:		
Claims and expirations	4,860	3,909
Unreported claims	2,449	1,786
Dividends on policies	170	121
Insurance funds under management	1	1
Security premiums	185	213
	7,665	6,030
Contingency:		
Catastrophic risk	992	869
Contingencies	1,443	1,292
Special	595	497
	3,030	2,658
	Ps. 90,369	Ps. 80,945

24 - SUNDRY CREDITORS AND OTHER PAYABLES

This item is made up as follows:

	2016	2015
Cashier and certified checks and other negotiable instruments	Ps. 2,729	Ps. 2,956
Provision for employee retirement obligations and saving fund	500	461
Provisions for other obligations	7,475	6,066
Deposits under guarantee	-	515
Withholding taxes	-	1,659
End of month deposits and collects yet to apply	-	1,800
Others	7,333	4,001
	Ps. 18,037	Ps. 17,458

25 - EMPLOYEE RETIREMENT OBLIGATIONS

The Financial Group recognizes the liabilities for pension plans and seniority premiums using the “Projected Unit Credit Method”, which considers the benefits accrued at the date of the Consolidated Balance Sheets and the benefits generated during the year.

The amount of current and projected benefits as of December 31, 2016 and 2015, related to the Defined Benefit Pension Plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

	2016			
	PENSION PLAN	SENIORITY PREMIUMS	MEDICAL SERVICES	TOTAL
Projected benefit obligation (PBO)	(Ps. 1,227)	(Ps. 239)	(Ps. 3,399)	(Ps. 4,866)
Fund market value	1,228	339	3,852	5,419
Funded status	1	100	453	553
Unrecognized prior service cost	-	-	146	146
Unrecognized actuarial losses	667	17	1,368	2,052
Net projected asset	Ps. 668	Ps. 117	Ps. 1,967	Ps. 2,752

	2015			
	PENSION PLAN	SENIORITY PREMIUMS	MEDICAL SERVICES	TOTAL
Projected benefit obligation (PBO)	(Ps. 1,265)	(Ps. 245)	(Ps. 3,439)	(Ps. 4,949)
Fund market value	1,407	354	3,843	5,604
Funded status	142	109	404	655
Unrecognized prior service cost	2	-	183	185
Unrecognized actuarial losses	886	22	1,815	2,723
Net projected asset	Ps. 1,030	Ps. 131	Ps. 2,402	Ps. 3,563

Moreover, as of December 31, 2016, a separate fund amounting to Ps. 5,419, (Ps. 5,604 in 2015) has been set aside to meet the above-mentioned obligations, in accordance with NIF D-3 and is recorded under “Other assets”.

The net periodic pension cost is as follows:

	2016	2015
Service cost	Ps. 206	Ps. 213
Interest cost	406	400
Expected return on plan assets	(472)	(504)
Amortizations of unrecognized items:		
Profits (actuarial losses)	132	96
Cost of the advance reduction/liquidation of obligations	(85)	(165)
Plan modifications	-	11
Cost for immediate recognition of P/(G)	-	17
Net periodic pension cost	Ps. 187	Ps. 68

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2016 and 2015, are shown below:

CONCEPT	2016 NOMINAL	2015 NOMINAL
Discount rate	9.00%	8.25%
Rate of wage increase	4.50%	4.50%
Long-term inflation rate	3.50%	3.50%
Expected long-term rate of return on plan assets	8.75%	8.75%

The liability for severance indemnities due to causes other than organization restructuring, which was also determined by independent actuaries, is comprised as follows:

CONCEPT	2016	2015
Defined and projected benefit obligations	(Ps. 248)	(Ps. 251)
Net projected liability	(Ps. 248)	(Ps. 251)

The net periodic pension cost is as follows:

CONCEPT	2016	2015
Service cost	Ps. 37	Ps. 37
Interest cost	15	14
Cost / (income) for immediate recognition of P/(G)	-	(46)
Net periodic pension cost	Ps. 52	Ps. 5

Pursuant to the law, the Financial Group makes payments equivalent to 2% of its workers' salary to the contribution plan defined for the retirement saving fund established by law. The expense for this concept was Ps. 54 in 2016 and Ps. 96 in 2015.

The balance of the employee retirement obligations presented in this Note refers to the Financial Group's Defined Benefit Pension Plan for those employees who remain enrolled.

The labor obligations derived from the Defined Contribution Pension Plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan's participants. This pension plan is invested in a fund as of December 31, 2016 and 2015, equivalent to Ps. 2,506 and Ps. 2,290, respectively, which is recorded under "Other assets" and is equivalent to the recorded plan liability.

As of December 31, 2016 and 2015, the PTU provision was Ps. 396 and Ps. 375, respectively.

26 - SUBORDINATED DEBENTURES

As of December 31, 2016 and 2015, the subordinated debentures in circulation are as follows:

	2016	2015
Non-preferred subordinated obligations not susceptible to be converted into share capital BANOC36 311004 with maturity in October 2031, denominated in USD, with an interest rate of 5.75% payable semiannually and amortizing the capital at maturity.	Ps. 10,310	Ps. -
Preferred subordinated nonconvertible debentures, QBANORTE 12 maturing in May 2022, paying interest at the 28-day TIIE rate plus 1.5%, payable in 130 periods of 28 days each.	3,200	3,200
Non preferred subordinated nonconvertible debentures (Q BANORTE 08 debentures), maturing in February 2018, paying interest at the 28-day TIIE rate plus 0.60%.	3,000	3,000
Preferred subordinated nonconvertible debentures (Q BANORTE 08-2), maturing in June 2018, paying interest at the 28-day TIIE rate plus 0.77%.	-	2,750
Non preferred subordinated nonconvertible debentures BANO28 131021, maturing in October 2021, denominated in US dollars, at an interest rate of 6.862%, payable semiannually with a final principal payment at maturity.	-	3,449
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, paying interest at a 4.95% annual rate.	2,487	2,406
Non preferred subordinated nonconvertible debentures IXEGB40 141020, maturing in October 2020, denominated in US dollars, at an interest rate of 9.25%, payable semiannually with a final principal payment at maturity.	2,474	2,070
Subordinated debentures, maturing in June 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.75%.	212	178
Preferred subordinated debentures maturing in April 2034, denominated in US dollars, at a 3-month LIBOR interest rate plus 2.72%.	212	178
Accrued interest	22	154
	Ps. 21,917	Ps. 17,385

Subordinated non-preferred liabilities not likely to become BANOC36 311004 issued during 2016 generated expenses of \$ 58.

The costs related to these debentures are amortized using the straight-line method over the term of the debt. The amortization charged to results were Ps. 10 and Ps. 9 in 2016 and 2015, respectively.

27 - TRANSACTIONS AND BALANCES WITH NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Pursuant to Article 73 Bis of the LIC, the loans granted by Banking Institutions to related parties may not exceed 35% of the basic part of its net capital.

For the years ended December 31, 2016 and 2015, the amount of the loans granted to related parties were as follows:

INSTITUTION GRANTING THE LOAN	2016	% OVER THE LIMIT	2015	% OVER THE LIMIT
Banco Mercantil del Norte, S.A.	Ps. 9,792	11.8%	Ps. 7,552	10.5%

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

Loan portfolio sales

Sale of loan portfolio packages between related parties (nominal values)

In February 2003 Banorte sold Ps. 1,925 of its proprietary portfolio (with interest) to its subsidiary Sólida at a price of Ps. 378. Of this transaction, Ps. 1,861 was related to past due amounts and Ps. 64 to the performing loan portfolio. The transaction was recorded based on figures as of August 2002, therefore the final amount affecting the February 2003 balance sheet was Ps. 1,856, considering the collections made since August 2002. Coupled with the sold loan portfolio, Ps. 1,577 of the associated allowance for loan losses was transferred as well.

In official letter 601-II-323110 dated November 5, 2003, the Commission established the accounting criteria to be applied to this transaction and issued a series of rulings whereby the Financial Group must provide detailed information on the activities of this transaction throughout its duration, in the understanding that this transaction was a one-time event and not a recurring portfolio transfer procedure.

Pursuant to the foregoing, below is a summary of the activity of the loan portfolio sold to Sólida since August 2002 and for the years of 2016 and 2015:

TYPE OF PORTFOLIO	MEXICAN PESOS			FOREIGN CURRENCY			TOTAL		
	AUG 02	DEC 16	DEC 15	AUG 02	DEC 16	DEC 15	AUG 02	DEC 16	DEC 15
Performing loan portfolio									
Commercial	Ps. 5	Ps. -	Ps. -	Ps. 5	Ps. -	Ps. -	Ps. 10	Ps. -	Ps. -
Mortgage	54	22	22	-	-	-	54	22	22
Total	59	22	22	5	-	-	64	22	22
Past-due loan portfolio									
Commercial	405	237	193	293	11	13	698	248	205
Consumer	81	71	71	-	-	-	81	71	71
Mortgage	1,112	214	203	-	-	-	1,112	214	203
Total	1,598	522	467	293	11	13	1,891	533	480
Total portfolio	1,657	544	489	298	11	13	1,955	555	502
Allowance for loan losses⁽¹⁾									
Commercial	326	236	193	246	11	13	572	247	206
Consumer	77	71	71	-	-	-	77	71	71
Mortgage	669	226	214	-	-	-	669	226	214
Total allowance for loan loss	1,072	533	478	246	11	-	1,318	544	491
Net portfolio	Ps. 585	Ps. 11	Ps. 11	Ps. 52	Ps. -	Ps. -	Ps. 637	Ps. 11	Ps. 11

(1) Allowances required based on the classification methodology applied in the Financial Group that maintained a 98.83% equity interest in Sólida during 2016 and 2015.

As of December 31, 2016 and 2015, the composition of the Financial Group's loan portfolio excluding its subsidiaries is as follows:

TYPE OF PORTFOLIO	MEXICAN PESOS		FOREIGN CURRENCY		TOTAL	
	DEC 16	DEC 15	DEC 16	DEC 15	DEC 16	DEC 15
Commercial loans	Ps. 313,319	Ps. 303,835	Ps. 42,279	Ps. 35,435	Ps. 355,598	Ps. 339,270
Consumer loans	86,632	49,269	-	-	86,632	49,269
Mortgage loans	114,828	98,493	-	-	114,828	98,493
Performing loan portfolio	514,779	451,597	42,279	35,435	557,058	487,032
Commercial loans	5,862	7,881	141	80	6,003	7,961
Consumer loans	3,271	1,491	-	-	3,271	1,491
Mortgage loans	1,252	1,253	-	-	1,252	1,253
Past-due loan portfolio	10,385	10,625	141	80	10,526	10,705
Total portfolio	525,164	462,222	42,220	35,515	567,584	497,737
Allowance for loan losses	14,116	10,726	323	315	14,439	11,041
Net portfolio	Ps. 511,048	Ps. 451,496	Ps. 42,097	Ps. 35,200	Ps. 553,146	Ps. 486,696
Allowance for loan losses					137.18%	103.14%
% of past-due portfolio					1.85%	2.15%

28 - INFORMATION BY SEGMENT

The main operations and balances per concept and/or business segment in the General Balance Sheet and the Income Statement are comprised as follows:

a. Interest and fees income is made up as follows:

	2016					
	INTEREST		FEES		TOTAL	
	MXP	F.E.	MXP	F.E.	MXP	F.E.
Cash and cash equivalents	Ps. 1,634	Ps. -	Ps. -	Ps. -	Ps. 1,634	Ps. -
Margin securities	119	-	-	-	119	-
Investment in securities	19,510	-	-	-	19,510	-
Securities repurchasing and loans	582	-	-	-	582	-
Hedging transactions	2,324	-	-	-	2,324	-
Commercial loans	22,630	-	472	-	23,102	-
Mortgage loans	10,501	-	471	-	10,972	-
Consumer loans	19,273	-	263	-	19,536	-
Others	2,485	-	-	-	2,484	-
	Ps. 79,058	Ps. -	Ps. 1,206	Ps. -	Ps. 80,264	Ps. -

	2015					
	INTEREST		FEES		TOTAL	
	MXP	F.E.	MXP	F.E.	MXP	F.E.
Cash and cash equivalents	Ps. 1,234	Ps. -	Ps. -	Ps. -	Ps. 1,234	Ps. -
Margin securities	25	-	-	-	25	-
Investment in securities	16,569	-	-	-	16,569	-
Securities repurchasing and loans	441	-	-	-	441	-
Hedging transactions	2,337	-	-	-	2,337	-
Commercial loans	19,446	-	553	-	19,999	-
Mortgage loans	9,502	-	426	-	9,928	-
Consumer loans	16,945	-	228	-	17,173	-
Others	1,596	-	-	-	1,596	-
	Ps. 68,098	Ps. -	Ps. 1,207	Ps. -	Ps. 69,302	Ps. -

b. The balances by service sector of the Financial Group, without considering the eliminations relative to the consolidation of the financial statements, are as follows:

	2016	2015
Banking sector:		
Net income	Ps. 15,044	Ps. 13,518
Stockholders' equity	92,787	102,583
Total portfolio	567,032	521,227
Past-due loan portfolio	10,060	11,634
Allowance for loan losses	(13,941)	(13,334)
Total net assets	1,030,435	917,610
Brokerage sector:		
Net income	832	790
Stockholders' equity	2,753	3,309
Portfolio balance	757,423	724,410
Total net assets	81,175	149,848
Long term saving sector*		
Net income	5,727	5,097
Stockholders' equity	22,513	31,628
Total net assets	119,283	120,194
Other finance companies sector:		
Net income	178	496
Stockholders' equity	9,050	9,563
Total portfolio**	29,170	25,795
Past-due loan portfolio	253	269
Allowance for loan losses	(442)	(478)
Total net assets	43,483	41,096
Grupo Financiero Banorte (Financial Group)		
Net income	19,292	17,093
Stockholders' equity	138,720	133,442
Total assets	138,720	133,445

* For presentation purposes it includes the financial information of the 100% Afore, which as of the fourth quarter of 2016 is recognized in Seguros Banorte by 50% under the equity method. For 2015, the financial information of the 100% Afore was recognized in the Banking Sector by 50% under the participation method.

** Includes portfolio of goods in pure lease and property in fixed assets for \$ 40 recorded in real estate, furniture and equipment (net) for 2016 and \$ 28 for 2015.

c. The trading results for the years ended December 31, 2015 and 2014 are as follows:

	2016	2015
Valuation results		
Trading securities	Ps. 157	(Ps. 154)
Decrease in securities	(286)	(37)
Derivatives financial instruments	386	443
Total valuation results	257	252
Trading results		
Trading securities	(44)	717
Securities available for sale	554	640
Securities held to maturity	-	(13)
Derivatives financial instruments	(14)	110
Total securities' trading results	496	1,454
Spot foreign currency	1,505	1,235
Foreign currency valuation	73	7
Minted metals trading	6	5
Minted metals valuation	10	1
Total foreign currency trading results	1,594	1,248
Total trading results	2,090	2,702
Total trading results	Ps. 2,346	Ps. 2,954

d. The performing loan portfolio, grouped by economic sector and geographical location, is as follows

ECONOMIC SECTOR	2016	%	2015
Agriculture	Ps. 7,546	1.3%	Ps. 6,526
Commerce	53,059	9.3%	49,442
Construction	39,692	7.0%	31,907
Manufacturing	35,351	6.2%	31,213
Mining	150	0.3%	210
Services	7,444	1.3%	7,775
Financial and real estate services	46,767	8.2%	38,750
Transportation	16,182	2.9%	11,986
Government	134,798	23.8%	130,119
INB commercial	-	0.0%	14,689
Mortgage	114,807	20.2%	99,952
Credit card	28,445	5.1%	25,838
Other consumer loans	59,882	10.4%	50,880
Leasing	11,505	2.1%	9,496
Factoring	11,177	1.9%	9,405
	Ps. 566,805	100%	Ps. 518,188

e. The past-due loan portfolio, grouped by economic sector and geographical location, is as follows

ECONOMIC SECTOR	2016	%	2015
Agriculture	Ps. 183	2%	Ps. 201
Commerce	1,296	13%	1,503
Construction	3,247	31%	4,614
Manufacturing	493	5%	615
Mining	-	-%	9
Services	469	5%	493
Financial and real estate services	61	1%	95
Transportation	87	1%	207
INB commercial	-	-%	10
Mortgage	1,049	10%	1,072
Credit card	1,623	16%	1,511
Other consumer loans	1,624	15%	1,398
Leasing	132	1%	99
Factoring	48	0%	76
	Ps. 10,312	100%	Ps. 11,903

f. Deposit accounts grouped by product and geographical location are as follows:

PRODUCT	2016							TOTAL
	GEOGRAPHICAL LOCATION							
	MONTERREY	MEXICO CITY	WEST	NORTH WEST	SOUTH-EAST	TREASURY AND OTHER	FOREIGN	
Non-interest bearing checking accounts	Ps. 46,533	Ps. 75,880	Ps. 23,494	Ps. 21,901	Ps. 27,042	Ps. 499	Ps. -	Ps. 195,349
Interest-bearing checking accounts	15,877	49,825	10,102	9,007	23,096	495	-	108,402
Current account Ps. and pre-established	6,421	11,987	3,152	2,902	4,313	2	-	28,777
Non-interest bearing demand deposits, USD	7,165	15,415	1,396	7,017	1,871	626	-	33,490
Interest bearing demand deposits, USD	6,345	5,740	966	3,931	803	-	-	17,785
Retail time deposits	31,467	68,789	14,734	12,367	20,704	650	-	148,711
Time deposits, USD	7,675	4,788	1,741	2,519	1,036	27	-	17,786
Customers Money market	11,362	6,956	2,007	1,368	1,054	44	-	22,791
Financial intermediaries	(75)	-	-	-	-	1,543	-	1,468
Total deposits	Ps. 132,770	Ps. 239,380	Ps. 57,592	Ps. 61,012	Ps. 79,919	Ps. 3,886	Ps. -	Ps. 574,560

PRODUCT	2015							
	GEOGRAPHICAL LOCATION							
	MONTERREY	MEXICO CITY	WEST	NORTH WEST	SOUTH-EAST	TREASURY AND OTHER	FOREIGN	TOTAL
Non-interest bearing checking accounts	Ps. 36,065	Ps. 59,325	Ps. 16,214	Ps. 15,730	Ps. 20,488	Ps. 350	Ps. -	Ps. 148,172
Interest-bearing checking accounts	18,300	57,547	9,403	9,810	21,869	428	-	117,357
Savings accounts	1	1	-	-	-	1	-	3
Current account Ps. and pre-established	8,985	13,881	4,180	4,960	6,027	258	-	38,291
Non-interest bearing demand deposits, USD	4,561	7,098	809	3,855	1,434	526	7,288	25,571
Interest bearing demand deposits, USD	4,914	4,375	687	3,919	739	1	6,384	21,019
Savings accounts in USD	-	-	-	-	-	-	518	518
Retail time deposits	26,130	57,835	12,260	10,548	17,342	337	-	124,452
Time deposits, USD	11,824	6,559	1,403	2,682	712	23	7,981	31,184
Customers money market	24,268	15,847	4,747	2,748	2,561	21	-	50,192
Financial intermediaries	-	-	-	-	-	4,703	-	4,703
Total deposits	Ps. 135,048	Ps. 222,468	Ps. 49,703	Ps. 54,252	Ps. 71,172	Ps. 6,648	Ps. 22,171	Ps. 561,462

29 - INCOME TAXES

The Financial Group is subject to Income Tax (ISR).

ISR

Pursuant to the ISR Law the rate for 2016 and 2015 was 30% and will continue at the same rate for subsequent years.

Reconciliation of the ISR legal rate and the effective rate expressed as a percentage of the profit before ISR and PTU is:

	2016	2015
Legal rate	30%	30%
Tax inflation	(2%)	(1%)
Non-tax accounting write-offs	3%	2%
Other entries	(5%)	(5%)
Effective rate	26%	26%

30 - STOCKHOLDERS' EQUITY

The Financial Group's shareholders' common stock is comprised as follows:

PAID-IN CAPITAL	NUMBER OF SHARES WITH A NOMINAL VALUE OF PS. 3.50	
	2016	2015
"O" Series	2,749,220,050	2,758,464,252

PAID-IN CAPITAL	HISTORICAL AMOUNTS	
	2016	2015
"O" Series	Ps. 9,619	Ps. 9,651
Restatement in Mexican pesos through December 2007	4,955	4,955
	Ps. 14,574	Ps. 14,606

As of December 31, 2016 the outstanding shares performed as follows:

Outstanding shares as of January 1, 2016	2,758,464,252
Share repurchase for executive shares' plan payable in equity instruments	(14,260,000)
Liquidation of shares to executives	5,015,798
Outstanding shares as of December 31, 2016	2,749,220,050

Restrictions on profits

The distribution of stockholders' equity, except restated paid-in capital and retained tax earnings, will be subject to income tax on dividends payable by the Financial Group at the effective rate. Any tax paid on such distribution may be credited against that year's income tax paid on dividends and the two immediate fiscal years following such payment, charged against that year's tax and the provisional payments made.

The dividends paid derived from the profits generated as of January 1, 2014 to individuals residing in Mexico and abroad may be subject to additional 10% ISR which will be withheld by the Financial Group.

The following are prior years' results that may be subject to withheld ISR for up to 10% on the paid out dividends:

YEAR	AMOUNT THAT MAY BE SUBJECT TO WITHHOLDING	AMOUNT NOT SUBJECT TO WITHHOLDING
Utilidades acumuladas hasta el 31 de diciembre de 2013	Ps. -	Ps. 39,303
Profit of the year 2014	50,407	-
Profit of the year 2015	62,860	-
Profit of the year 2016	68,492	-

As of December 31, the stockholders' equity tax account balances are as follows:

	2016	2015
Capital contribution account	Ps. 67,884	Ps. 65,677
Net tax profit account at the end of 2013 (CUFIN)	11,255	10,619
CUFIN as of 2014	3,567	-
Total	Ps. 82,707	Ps. 76,296

The Financial Group's net profit is subject to the requirement of transferring at least 5% of each year's net income to the legal reserve until the reserve equals 20% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Financial Group, except in the form of a stock dividend. As of December 31, 2016 and 2015, the legal reserve is Ps. 2,933 and represents 20% of paid-in capital.

Share-based payments

The Financial Group grants stock options to key officers through different payment schemes based on stocks. The Financial Group has established trusts to manage the plans and contributes the necessary funds so that shares can be purchased directly from the market at the initiation of each plan.

The Financial Group records its stock option plans according to the guidelines of NIF D-8, "Share-based payments". The compensation expense is recorded at fair value as of the date the stock options are granted. The NIF D-8 guidelines stipulate that the fair value determined at the beginning is not revalued at a later date.

Capitalization Ratio (Banorte)

The capitalization rules for financial institutions establish requirements for specific levels of net capital, as a percentage of assets subject to both market and credit risk.

The information for December 31, 2016 sent to Banco de México to review is shown below.

- Banorte's capitalization ratio as of December 31, 2016 was 15.28% of total risk (market, credit and operational), and 20.51% of credit risk, which in both cases exceed the current regulatory requirements.

The amount of net capital, divided by basic and complementary capital, is detailed below (these figures may differ from those in the basic financial statements):

NET CAPITAL AS OF DECEMBER 31, 2016	
Tier 1 common equity prior to regulatory adjustments.	Ps. 90,236
Goodwill (net of applicable deferred profit taxes)	986
Other intangibles different from mortgage service right (net of applicable deferred profit taxes)	5,851
Result from valuation of instruments for cash flow hedging	2,754
Benefits on the remainder in securitization transactions	155
Investments in its own shares	110
Substantial investments in ordinary shares of banks, financial institutions and insurers outside the scope of the regulatory consolidation, net of the short-term demandable positions, where the Financial Group owns over 10% of the capital stock issued (amount over the 10% threshold)	5,616
National regulatory adjustments	1,985
Total regulatory adjustments to Tier 1 common equity	Ps. 12,718
Tier 1 common equity (CET1)	Ps. 77,518
Additional Tier 1 equity (AT1)	3,830
Tier 1 Equity (T1 = CET1 + AT1)	Ps. 81,348
Capital instruments issued directly, subject to gradual elimination of Tier 2 equity Reserves	15,997
Reserves	646
Tier 2 equity (T2 = CET1 + AT1)	Ps. 16,643
Total capital (TC = T1 + T2)	Ps. 97,991

Assets subject to risk are detailed below:

Assets subject to market risk

CONCEPT	POSITIONS WEIGHTED BY RISK	CAPITAL REQUIREMENT
Nominal interest rate securities' transactions in Mexican pesos	Ps. 51,214	Ps. 4,097
Floating rate securities' transactions in Mexican pesos	9,575	766
Real interest rate or UDI denominated securities' transactions in Mexican pesos	2,230	178
UDIS or inflation indexed (INPC) securities' transactions	\$0	1
Nominal interest rate foreign exchange denominated securities' transaction in Mexican pesos	8,787	703
Positions in foreign exchange or exchange rate indexed securities transactions.	7,598	608
Positions in shares or whose yield is indexed to the price of a share or group of shares	1,741	139
Total	Ps. 81,145	Ps. 6,492

Assets subject to credit risk

CONCEPT	RISK WEIGHTED ASSETS	CAPITAL REQUIREMENT
Group I_B (weighted at 20%)	Ps. 531	Ps. 43
Group III (weighted at 20%)	9,060	725
Group III (weighted at 50%)	2,253	180
Group III (weighted at 100%)	9,837	787
Group IV (weighted at 20%)	7,898	632
Group V (weighted at 20%)	16,860	1,349
Group V (weighted at 50%)	5,780	462
Group V (weighted at 115%)	-	-
Group V (weighted at 150%)	3,584	287
Group VI (weighted at 50%)	21,283	1,703
Group VI (weighted at 75%)	7,091	567
Group VI (weighted at 100%)	143,346	11,468
Group VII_A (weighted at 20%)	8,188	655
Group VII_A (weighted at 50%)	4,429	354
Group VII_A (weighted at 100%)	145,178	11,614
Group VII_A (weighted at 115%)	-	-
Group VII_A (weighted at 150%)	462	37
Group VII_B (weighted at 20%)	4,052	324
Group VIII (weighted at 115%)	3,892	311
Group VIII (weighted at 150%)	991	79
Group IX (weighted at 10%)	-	-
Group IX (weighted at 50%)	-	-
Group IX (weighted at 100%)	27,443	2,195
Securitized assets with a Risk Degree of 1 (weighted at 20%)	1,132	91
Securitized assets with a Risk Degree of 2 (weighted at 50%)	1,821	146
Securitized assets with a Risk Degree of 3 (weighted at 100%)	52	4
Sum	Ps. 425,163	Ps. 34,013
For permanent shares, furniture and real property, and advance payments and deferred charges	32,006	2,560
Total	Ps. 457,169	Ps. 36,573

Assets subject to operational risk

	RISK WEIGHTED ASSETS	CAPITAL REQUIREMENT
Total	Ps. 82,153	Ps. 6,572

Institution of Local Systemic Importance

During 2016, Banorte was designated an Institution of Local Systemic Importance, so it must maintain a capital preservation supplement of 0.90 pp, to be constituted progressively in a maximum term of four years and beginning in December 2016. With the above, Banorte's minimum Capitalization Index amounts to 10.73% at the end of 2016, corresponding to the regulatory minimum of 10.5% plus the capital supplement constituted.

Management

Pursuant the current regulations and the Commission's requirements, Banorte is developing its Capital Sufficiency Assessment which will consider the risks the Institution is exposed to as well as its major vulnerabilities in order to prove the Institution's solvency by means of financial forecasts with adverse macro-economic scenarios.

In order to manage capital, a weekly follow-up analysis is conducted on the requirements derived from the risk position, as well as supporting through strategy or transactions' simulations the various areas of business in order to determine their consumption.

For more detail, see (Exhibit 1-O), supplementary information to the fourth quarter of 2016, according to the capitalization ratio's information disclosure obligations. Located in the site www.banorte.com/investor-relations.

31 - FOREIGN CURRENCY POSITION

As of December 31, 2016 and 2015, the Financial Group holds certain assets and liabilities in foreign currency, mainly US dollars, converted to the exchange rate issued by Banco de México at Ps. 20.6194 and Ps. 17.2487 per USD 1.00, respectively, as shown below:

	THOUSANDS OF US DOLLARS	
	2016	2015
Assets	7,378,443	7,463,464
Liabilities	7,306,379	7,090,311
Net asset position in US dollars	72,064	373,153
Net asset position in Mexican pesos	Ps. 1,486	Ps. 6,436

32 - POSITION IN UDIS

As of December 31, 2016 and 2015, the Financial Group holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current conversion factor of Ps. 5.562883 and Ps. 5.381175, per UDI, respectively, as shown below:

	THOUSANDS OF UDIS	
	2016	2015
Assets	230,900	524,085
Liabilities	455,638	455,470
Net asset position in UDIS	(224,738)	68,615
Net asset position in Mexican pesos	(Ps. 1,250)	Ps. 369

33 - EARNINGS PER SHARE

Earnings per share are the result of dividing the net income by the weighted average of the Financial Group's shares in circulation during the year.

Earnings per share for the years ended December 31, 2016 and 2015 are shown below:

			2016	2015
	NET INCOME	WEIGHTED SHARE AVERAGE	EARNINGS PER SHARE	EARNINGS PER SHARE
Net income per share	Ps. 19,065	2,754,050,771	Ps. 6.9225	Ps. 6.1086
Net income per share	243	2,754,050,771	0.0882	0.0843
Net income per share consolidated	19,308	2,754,050,771	Ps. 7.0107	Ps. 6.1929

Net earnings per share diluted for the years ended December 31, 2016 and 2015 are shown below:

			2016	2015
	NET INCOME	WEIGHTED SHARE AVERAGE	EARNINGS PER SHARE	EARNINGS PER SHARE
Net income per share	Ps. 19,308	2,773,729,563	Ps. 6.9610	Ps. 6.1708

34 - RISK MANAGEMENT (unaudited)

Authorized bodies

For proper Risk management, the Board of Directors established since 1997 the Risk Policy Committee (CPR) to manage the risk that the Financial Group is exposed to as well as to monitor the performance of operations and that it sticks to the objectives, policies and procedures for risk management.

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

The CPR is integrated with proprietary members of the Board, the CEO, the Directors of the entities, Risk Management and Audit, this last one participates with voice but no vote.

For the adequate performance of its objective, the CPR plays, among others, the following functions:

1. **Propose for approval by the Board:**
 - The objectives, guidelines and policies for overall risk management.
 - The global limits for risk exposure.
 - The mechanisms for the implementation of corrective actions.
 - The cases or special circumstances which may exceed the overall limits as much as the specifics.
2. **Approve and review at least once a year:**
 - Specific limits for discretionary risks and the risk tolerance levels for non-discretionary.
 - The methodology and procedures to identify, measure, monitor, limit, control, report and disclose various types of risk to which the Financial Group is exposed to.
 - The models, parameters and settings used to carry out the valuation, measurement and control of risks proposed by the unit for comprehensive risk management.
3. **Approve:**
 - The methodologies for the identification, valuation, measurement and control of risks of new business, products and services that the holding intends to offer to the market.
 - The corrective actions proposed by the drive for comprehensive risk management.
 - Manuals for comprehensive risk management.
 - The technical evaluation aspects of risk management.
4. **Appoint and remove the unit responsible for overall risk management, it is ratified by the Board.**
5. **Report to the Board at least quarterly, the risk exposure and its possible negative effects and follow-up to the limits and tolerance levels.**
6. **Report to the Board on corrective actions taken.**

35 - COMPREHENSIVE RISK MANAGEMENT UNIT (UAIR) (unaudited)

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

1. RISK MANAGEMENT'S OBJECTIVES, SCOPE AND FUNCTION

Institution's Risk Management's main objectives are:

- Provide to different business areas, clear rules that contribute to its correct understanding to minimize risk and ensure compliance with the parameters established and approved by the Board of Directors and the Risk Policies Committee (CPR).
- Establish mechanisms to monitor the risk taking across the Institution through the use of robust systems and processes.
- Verify the observance of the Risk Appetite to protect the Institution's capital against unexpected losses from market movements, credit bankruptcies, and operational risks.
- Calculate and monitor the Financial Group's capital, under normal and adverse scenarios, in order to cover unexpected losses due to market movements, credit crises and operational risks.
- Implement pricing models for different types of risks.
- Establish procedures for portfolio optimization and credit portfolio management.

Moreover, the Institution 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 expected losses on borrower or counterparty defaults.

Market Risk: revenue volatility due to market changes, which affect the valuation of positions for active, liabilities or causative of 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 hiring others to the Institution in normal conditions, 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 the Institution's performed 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 the Institution 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:

- Financial Group's Risk Appetite Framework.
- Comprehensive Risk Management framework.
- Risk exposure limits, risk tolerance levels and mechanisms for corrective actions
- The Contingency Plan.
- The Results of the Supervisory and Internal Scenarios for Adequacy of Resources.

The Board of Directors designates the CPR (Risk Policy Committee) as accountable for managing the risks that the Financial Group is exposed to; in order to monitor the performance of operations; and, to comply with objectives, policies and procedures for 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 with proprietary and alternate members of the Board, the CEO, the Managing Directors of the Financial 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 and the Capital and Liquidity Group, analyze, surveys, and make decisions regarding rate's risks in the balance sheet, the financial margin, liquidity and net capital of the Institution.

The Unit for the Comprehensive Risk Management is in charge of the Risk Management department (DGAR) and among its functions helps to identify measure, monitor, limit, control, report and disclose the different types of risk to which the Financial Group 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 the Financial Group's risk management

The function of the Risk Management extends to all subsidiaries comprising the Financial Group. Depending on each of the businesses' lines, Credit, Concentration, Market, Liquidity and Operational Risks are measured, managed and controlled.

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

At the Financial Group, there are policies and procedures for hedging, mitigation and compensation strategies for each risk type in and off balance, same that are enclosed in models, methodologies and procedures of Risk Management. Within these policies and procedures, are detailed among others: features, seating, legal issues, instrumentation and coverage level to be considered to mitigate risk while covering. These policies and procedures also consider running guarantees as a risk compensation mechanism whenever there is any not remedied breach by debtors. As part of the strategies and processes for monitoring the coverage or mitigating effectiveness for each type of risk, there are limits for each of them (Credit, Market, Liquidity and Operational Risks), which are monitored continuously, also there are procedures established for the documentation of excesses and its causes, and corrective actions are implemented to return to acceptable risk levels.

2. CREDIT RISK

It is the risk that clients, issuers or counterparts do not fulfill their payment obligations therefore, proper management is essential to maintain the loan quality of the portfolio.

The objectives of Credit Risk Management at the Financial Institution 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 funding placement and follow-up.
- Create economic value for shareholders by efficient Credit Risk Management.
- Define and keep updated the regulatory framework for the Credit Risk Management.
- Comply with the information requirements that the authorities set forth 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.

Financial Institution'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 when taking Credit Risks for the 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 Methodologies

2.1.1. Individual credit risk

The Financial Institution separates 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 the Institution'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 the Institution'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 the 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

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

This Credit Risk methodology provides the current value of the entire loan's portfolio at the Institution, that is, the loan exposure, allowing monitoring of the risk concentration levels per 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.

Estimating loan exposure implies generating cash flow for each and every loan, of both capital and interests, in order to discount them later. This exposure is sensible to changes in the market, thereby facilitating calculations under different economic scenarios.

The methodology, in addition to contemplating 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 the Financial Institution 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 are risk measures such as the expected and unexpected loss at a one-year horizon. The expected loss is the credit portfolio's loss distribution average, 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 the institution is 99.5% and expected loss.

The results obtained are used as a tool for better decision-making in granting loans and in the diversification of the portfolio, according to the Institution'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 of evaluating the Credit Risk of the different types of originators / issuers and counterparts. Credit Risk is assigned by means of a rating obtained with an internal methodology, through 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.

Analysis policies includes the type of information and features considered to analyze transactions with financial instruments when presented to the corresponding committee for authorization, including information on the issuer or counterparty, financial instrument, operation's target within the group and market information.

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.

Administration policy for transactions with financial instruments includes procedures, Instrumentation, Regulatory Compliance, Reviewing, Consumer Affairs Monitoring, Administration and Accountability Lines of the areas and organs involved in the operation with financial instruments.

On an individual level, the concentration of loan risk with 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 by means of the rating associated with the issuer, security or counterparty which has assigned a 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 December 31st, 2016 the total amount of the exposure subject to the Standard Method to calculate the Capital Ratio is the following:

GROSS EXPOSURES SUBJECT TO STANDARD METHOD	BANORTE	ARRENDADORA Y FACTOR	SÓLIDA	TOTAL PORTFOLIO
Commercial	Ps. 161,067	Ps. 22,768	Ps. 25	Ps. 183,860
Revenues or Annual sales < 14 MM UDIS	63,482	1,048	-	64,530
Revenues or Annual sales >= 14 MM UDIS	97,585	21,719	25	119,330
Federal States or Municipalities	85,688	84	-	85,772
Decentralized Government Agencies and State- controlled companies	47,852	1,071	-	48,923
Projects with their Own Source of Payment	46,548	-	-	46,548
Financial institutions	20,241	192	-	20,432
Mortgage	115,856	-	-	115,856
Consumer	89,832	5	1,743	91,579
Credit card	30,068	-	-	30,068
Non-revolving	59,763	5	1,743	61,511
Total Portfolio subject to Standard Method	Ps. 567,083	Ps. 24,120	Ps. 1,768	Ps. 592,970
Eliminations				(15,853)
Total portfolio				Ps. 577,117

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

2.2.1. Loan portfolio

The Financial Group's Credit Risk loan portfolios as of December 2016 presented an exposure of Ps. 577,117, growing Ps. 47,025 in the year (+8.9%).

Variations per product of the Financial Group's total portfolio are:

PRODUCT / SEGMENT	TOTAL PORTFOLIO		VAR. VS 2015	
	2015	2016	\$	%
Government	Ps. 130,119	Ps. 134,798	Ps. 4,679	3.6%
Commercial	128,467	128,799	332	0.3%
Corporate	101,024	115,856	14,832	14.7%
Mortgage	91,885	106,085	14,200	15.5%
Payroll	39,683	\$46,281	6,598	16.6%
Credit card	26,316	\$30,068	3,753	14.3%
Automobile	12,598	\$15,229	2,632	20.9%
Total portfolio	Ps. 530,091	Ps. 577,117	Ps. 47,025	8.9%

As of 2016, the Financial Group's performing loans, past due loans and the distressed portfolio, grouped by subsidiary are detailed below:

SUBSIDIARY	PORTFOLIO		DISTRESSED		TOTAL	TOTAL
	PERFORMING	PAST-DUE	PERFORMING	PAST-DUE	PORTFOLIO	RESERVES
Banorte*	Ps. 539,794	Ps. 4,407	Ps. 1,375	Ps. 5,653	Ps. 551,229	Ps. 13,751
Arrendadora y Factoraje	23,936	60	4	120	24,120	312
Sólida	1,695	47	-	25	1,768	122
Accounting records						198
Total portfolio	Ps. 565,425	Ps. 4,515	Ps. 1,379	Ps. 5,798	Ps. 577,117	Ps. 14,384

* Banorte's total portfolio includes eliminations for (Ps. 15,853).

Total reserves Ps. 14,834 include rating reserves for Ps. 14,185 and accounting records (to reserve 100% overdue interests, valuation, negative debts in the credit bureau and registered in recoveries) for Ps. 198.

The Financial Group's performing, past due and distressed portfolios in 2016, grouped by sector and subsidiary are detailed in the two following tables:

SECTOR	PORTFOLIO		DISTRESSED		TOTAL	RESERVES	WRITE-OFFS	DAYS
	PERFORMING	PAST-DUE	PERFORMING	PAST-DUE	PORTFOLIO	2016	4Q16	OVERDUE**
Government	Ps. 134,798	Ps. -	Ps. -	Ps. -	Ps. 134,798	Ps. 736	Ps. -	-
Services*	56,551	67	251	530	57,399	864	50	264
Commerce	43,079	54	61	3,235	46,429	1,847	706	949
Construction	43,186	18	135	512	43,850	617	38	283
Manufacturing	40,191	53	304	1,213	41,761	980	169	321
5 Major Sectors	Ps. 317,804	Ps. 192	Ps. 752	Ps. 5,490	Ps. 324,237	Ps. 5,044	Ps. 963	Ps. -
Other sectors	44,483	26	628	308	45,445	696	31	
Mortgage	114,807	1,049	-	-	115,856	748	342	
Consumer	88,332	3,247	-	-	91,579	7,698	2,176	
INB Commercial	-	-	-	-	-	-	1	
Accounting records						198		
Total portfolio	Ps. 565,425	Ps. 4,515	Ps. 1,379	Ps. 5,798	Ps. 577,117	Ps. 14,384	Ps. 3,514	

* Includes financial, real estate and other services.

** Days past due from Non-Performing Loans.

SECTOR / SUBSIDIARY	BANORTE*	AYF	SÓLIDA	TOTAL PORTFOLIO
Government	Ps. 133,540	Ps. 1,258	-	Ps. 134,798
Services**	52,737	4,662	-	57,399
Commerce	42,914	3,490	25	46,429
Construction	35,844	8,007	-	43,850
Manufacturing	37,312	4,449	-	41,761
5 Major Sectors	Ps. 302,346	Ps. 21,866	Ps.25	Ps. 324,237
Rest	248,883	2,254	1,743	252,880
Total portfolio	Ps. 551,229	Ps. 24,120	Ps.1,768	Ps. 577,117

* Banorte's total loans include eliminations for (Ps. 15,853).
 ** Includes Financial and Real estate Services.

As of 2016, the Financial Group's performing, past due and distressed portfolios grouped by federal entity and subsidiary are detailed in the following two tables:

STATE	LOANS		DISTRESSED		TOTAL LOANS	TOTAL RESERVES
	PERFORMING	PAST-DUE	PERFORMING	PAST-DUE		
1 Federal District	Ps. 161,471	Ps. 1,020	Ps. 743	Ps. 3,583	Ps. 166,817	Ps. 4,671
2 Nuevo León	96,959	591	93	326	97,969	1,832
3 Estado de México	43,433	452	71	272	44,228	1,183
4 Jalisco	33,659	299	66	163	34,186	748
5 Tamaulipas	19,416	144	27	122	19,709	436
6 Sinaloa	15,350	236	46	109	15,741	489
7 Coahuila	15,104	110	26	112	15,353	284
8 Veracruz	14,992	101	18	\$56	15,167	329
9 San Luis Potosí	14,357	65	20	\$69	14,511	252
10 Sonora	13,957	107	19	\$76	14,158	292
Top 10	Ps. 428,697	Ps. 3,124	Ps. 1,131	Ps. 4,887	Ps. 437,839	Ps. 10,518
Other Federal Entities	136,728	1,390	249	911	139,278	3,668
Accounting records						198
Total Loans	Ps. 565,425	Ps. 4,515	Ps. 1,379	Ps. 5,798	Ps. 577,117	Ps. 14,384

ENTITY / SUBSIDIARY		BANORTE*	AYF	SÓLIDA	TOTAL LOANS
1	Federal District	Ps. 161,758	Ps. 4,324	Ps. 736	Ps. 166,817
2	Nuevo León	87,241	10,658	70	97,969
3	Estado de México	42,193	1,912	124	44,228
4	Jalisco	33,421	749	16	34,186
5	Tamaulipas	19,504	158	47	19,709
6	Sinaloa	15,464	167	111	15,741
7	Coahuila	14,826	511	15	15,353
8	Veracruz	14,008	1,125	33	15,167
9	San Luis Potosí	13,938	529	44	14,511
10	Sonora	13,447	668	42	14,158
Top 10		Ps. 415,799	Ps. 20,802	Ps. 1,238	Ps. 437,839
Other Federal Entities		135,430	3,318	530	139,278
Total portfolio		Ps. 551,229	Ps. 24,120	Ps. 1,768	Ps. 577,117

* Banorte's total loans include eliminations for (Ps. 15,853).

As of 2016, the Financial Group's performing, past due and distressed portfolios grouped by remaining term are detailed below:

REMAINING TERM	PORTFOLIO		DISTRESSED		TOTAL LOANS	TOTAL RESERVES
	PERFORMING	PAST-DUE	PERFORMING	PAST-DUE		
0 - 1 year	Ps. 85,505	Ps. 1,748	Ps. 229	Ps. 3,953	Ps. 91,435	Ps. 6,537
1 - 5 years	102,246	401	507	1,117	104,270	2,152
5 - 10 years	93,047	135	63	239	93,484	584
> 10 years	258,997	2,124	576	344	262,040	4,478
Banorte*	Ps. 539,794	Ps. 4,407	Ps. 1,375	Ps. 5,653	Ps. 551,229	Ps. 13,751
Factoraje	12,365	7	3	40	12,415	112
Arrendadora	11,571	53	1	80	11,705	199
Sólida	1,695	47	-	25	1,768	122
Accounting records						198
Total portfolio	Ps. 565,425	Ps. 4,515	Ps. 1,379	Ps. 5,798	Ps. 577,117	Ps. 14,384

* Banorte's total portfolio include eliminations for (Ps. 15,853).

The total distressed portfolio is Ps. 7,177, below is the 4Q16 balance of loan loss provisions for this book:

LOAN LOSS RESERVES FOR IMPAIRED LOAN CREDIT RISKS	BANORTE	INTER NATIONAL BANK	4Q16 ARRENDADORA Y FACTOR	SÓLIDA	TOTAL
Initial Loan Loss Reserves	Ps. 4,021	Ps. 14	Ps. 71	Ps. 15	Ps. 4,122
Charged to earnings	118	(Ps. 14)	(Ps.1)	-	Ps.1 03
For written off loans	121	-	-	-	Ps. 121
For foreign exchange variations	2	-	-	-	Ps. 2
For credit risk adjustments	(5)	(14)	(1)	-	(Ps. 20)
Payment in kind	(683)	-	-	-	(Ps. 683)
Write-offs, Cancellations, and Debt forgiveness	(311)	-	-	-	(Ps. 311)
Final Loan Loss Reserves	Ps. 3,145	Ps. -	Ps. 70	Ps. 15	Ps. 3,231
Loan recoveries	Ps. 76	Ps. -	Ps. -	Ps. -	Ps. 76

2.2.2. Exposure with financial instruments

As of December 31st, 2016, exposure to Credit Risk for Securities Investments of Banco Mercantil del Norte was Ps. 286,965 billion, of which 99.2% 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 September 2016. 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 September 2016 has similar rating to AAA(mex) and is comprised of (average considered term, amount in billion pesos and rate): market and bond certificates from: Pemex to 14 years and 9 months for Ps. 15,973 at 5.2%, Banco Inbursa market certificates for 1 year and 3 months for Ps. 7,335 at 6.2% and Banamex market certificates for 4 months for Ps. 6,500 at 2.9%

For Derivatives operations, the 3 main counterparties other than the Federal Government, State Governments and National Financial Institutions represent 1% of the Tier 1 Capital as of September 2016.

As for Casa de Bolsa Banorte Ixe, the exposure to the Credit Risk of Investments in Securities is Ps. 77,433 million pesos, of which 100% has a rating greater than or equal to A + (mex) on a local scale, which places them in investment grade and the 3 main issuers other than Federal Government, Parastatals and National Financial Institutions represent 32% of Stockholders' Equity to September 2016. In addition, the exposure of investments with a same issuer other than Federal Government that represent a concentration Greater than or equal to 5% of the Stockholders' Equity as of September 2016 have a rating greater than or equal to A + (mex) and are composed by (weighted average term, amount in millions of pesos and yield at the weighted average annualized maturity): stock certificates Of CFE at 2 years and 7 months for Ps. 1,994 at 7.0%; 1-year and 11-month PEMEX stock certificates for Ps. 1,914 at 7.2%; HSBC Mexico securities certificates at 1 year and 11 months for Ps. 1,151 at 6.4%; 8-month securities certificates of Banamex for Ps. 903 at 6.2%; Scotiabank Inverlat stock certificates at 1 year and 3 months for Ps. 730 at 6.3%; Bancomer securities certificates at 1 year and 3 months for Ps. 621 to 6.4%; Deutsche Bank bonds at 6 years and 5 months for Ps. 505 at 11.3%; Banco Inbursa securities certificates at 1 year and 7 months for Ps. 473 at 6.3%; Banco Interacciones 3-year and 1-month securities certificates for Ps. 386 to 7.1%; 2-year CABEL bonds for Ps. 160 to 6.0%; And Banco Monex stock certificates at 1 year and 7 months for Ps. 143 to 7.1%. In the case of Derivatives, there are no operations.

For Arrendadora and Factor Banorte the exposure of Investments in Securities is \$ 401 thousand pesos, the totality corresponds to shares. In the case of derivatives transactions, we have an exposure of Ps. 2 million pesos with private counterparties.

In Solid Portfolio Manager, the investment exposure in Securities is Ps. 1,456 million pesos, all of which corresponds to shares. The exposure with derivatives is Ps. 251 million pesos 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

POSITION (AT YEAR'S END)	2016
Forwards	(Ps. 14)
Options	(12)
Swap Interest Rate (IRS)	2,678
Cross Currency Swap (CCIRS)	(10,280)
Total	(Ps. 7,628)
Positive Fair Value	12,732
<i>(Positive Market Value)</i>	
Netting effect*	20,360
Guaranties Given (-) / Received (+)	
Cash	(6,153)
Securities	8
Total	(Ps. 6,145)

* Difference between the positive fair value (not considering the net positions) and the portfolio market value.

The following table represents the current and potential levels of exposure at the year's end.

FINANCIAL COUNTERPARTIES	POTENTIAL RISK	CURRENT RISK
FWD	Ps. 10	(6)
OPTIONS	1,164	918
SWAP RATE	14,776	5,575
CCS	939	(10,267)
Total	Ps. 14,485	(Ps. 3,781)
Clients (Non Financial)		
FWD	15	(8)
OPTIONS	6	(930)
SWAP RATE	132	(2,897)
CCS	10	(12)
Total	Ps. 163	(Ps. 3,847)

Based on conditions set forth in derivatives agreements, tolerance levels of exposure are considered according to rating of involved entities. The following table lists the amount of guarantees to be delivered, in case of a rating downgrade:

NET CASH OUTLAYS (AT YEAR'S END)	2016
Cash Outflow with 1-notch Downgrade	Ps. -
Cash Outflow with 2-notch Downgrade	-
Cash Outflow with 3-notch Downgrade	-

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

RATING	2016
AAA/AA-	Ps. -
A+/A-	(710)
BBB+/BBB-	(3,106)
BB+/BB-	(2,049)
B+/B-	(166)
CCC/C	(8)
SC	(1,588)
Total	(Ps. 7,628)

2.3. Credit Guarantee

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

The main types of real guarantees 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 Financial Group 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 guarantee at the end of 2016 is as follows:

GUARANTEE TYPE	2016			
	BANORTE	ARRENDADORA Y FACTOR	SÓLIDA	TOTAL*
Total Loan portfolio	Ps. 567,083	Ps. 24,120	Ps. 1,768	Ps. 577,117
Guarantee				
Real Financial Guarantees	19,157	-	-	19,157
Real Non-Financial Guarantees	292,361	5,700	25	298,086
Pari Passu	17,260	-	-	17,260
First Losses	28,216	-	-	28,216
Personal Guarantees	17,158	6,397	-	23,555
Total Covered Portfolio	Ps. 374,152	Ps. 12,097	Ps. 25	Ps. 386,274

* Includes eliminations for (Ps. 15,853).

2.4. Expected losses

As of December 31, 2016, the total portfolio of Banco Mercantil del Norte is \$ 567,083 million pesos. The expected loss represents 2.0% and the unexpected loss is 4.4% both with respect to the total portfolio. The average of the expected loss represents 2.2% of the period September - December 2016.

Regarding Casa de Bolsa Banorte-Ixe, the credit exposure of investments is Ps 77.433 billion and the expected loss represents 0.04% of the exposure. The average expected loss is 0.03% between September-December 2016.

The total portfolio of Arrendadora and Factor, including pure leasing is Ps 27.632 billion. The expected loss represents 0.8% and the unexpected loss is 5.1% of the total portfolio. The average expected loss represents 0.7% during the September-December 2016 period.

The total portfolio of Sólida Administradora de Portafolios was Ps 1.768 billion. The expected loss of the portfolio represents 12.5% and the unexpected loss 13.2%, both with respect to the total portfolio. The average expected loss for the period of September-December 2016 was 8.6%.

2.5. Risk diversification

In December 2005, the Commission 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 SEPTEMBER 30, 2016		Ps. 82,898
I. Financing whose individual amount represents more than 10% of basic capital:		
Loan Operations		
Number of financings		1
Total amount of financings		8,561
% in relation to Tier 1		10%
Overnight Operations		
Number of financings		2
Total amount of financings		19,574
% in relation to Tier 1		24%
II. Maximum amount of financing with the three largest debtors and common risk groups		Ps. 37,022

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding **Arrendadora y Factor Banorte** is provided below (million pesos):

EQUITY AS OF SEPTEMBER 30, 2016		Ps. 4,268
I. Financing whose individual amount represents more than 10% of equity:		
Loan Operations		
Number of financings		4
Total amount of financings		4,344
% in relation to Equity		102%
II. Maximum amount of financing with the three largest debtors and common risk groups		Ps. 6,161

In compliance with the risk diversification rules for asset and liability transactions, the following information regarding **Sólida Administradora de Portafolios** is provided below (million pesos):

EQUITY AS OF SEPTEMBER 30, 2016		Ps. 4,754
I. Financing whose individual amount represents more than 10% of equity (group level):		
Money market /derivatives operations		
Number of financings		-
Total amount of financings		-
% in relation to Equity		-
Overnight operations		
Number of financings		-
Total amount of financings		-
% in relation to Equity		-
II. Maximum amount of financing with the three largest debtors and common risk groups		Ps. 475

3. MARKET RISK

The objectives of Market Risk in GFNorte are:

- Comply with the Desired Risk Profile defined by the Group's Board of Directors.
- Maintain an adequate follow-up of the Market Risk.
- Keep the Senior Management properly informed in a timely manner.
- Quantify the exposure to Market Risk through the use of different methodologies.
- Define the maximum levels of risk that the Institution is prepared to maintain.
- Measure the Institution's vulnerability to extreme market conditions and consider those results for decision-making.

The Market Risk policies in GFNorte are:

- New products subject to market risk should be evaluated and approved using the new product guidelines approved by the Risk Policy Committee.
- The Board is the body empowered to approve global limits and metrics for market risk appetite, as well as modifications to the previous ones.
- The Risk Policy Committee is the body authorized to approve specific models, methodologies and limits, as well as modifications to the previous ones.
- Market risk models will be validated by an area independent of the one that develops and manages them.
- Inputs and market risk models will be validated according to a policy duly approved by the Risk Policy Committee.

Market Risk management is managed through a series of fundamental pillars, among which the use of models and methodologies such as Value at Risk (VaR), Retrospective Analysis (BackTesting), Sensitivity Analysis and Low Testing Extreme Stress Testing, all of which are used to measure the risk of products and portfolios of instruments traded on financial markets.

Risk management is also supported by a framework of policies and manuals, which establishes the implementation and monitoring of Market Risk limits, the disclosure of the referred risk metrics and their follow-up with respect to the established limits.

The key risk indicators are disclosed through monthly reports to the CPR and through a daily report to the main executives in the Financial Group related to the taking of Market Risk positions.

3.1. Exposure to market risk

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, 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 and hedging purposes) classified for accounting purposes as trading and available for sale assets, both on and off the balance sheet.

The average VaR for 4Q16 was Ps. 71 million (Ps. 142 million less than the average VaR for 4Q16). The VaR at the close of 4Q16 corresponds to \$ 101 million.

The decrease presented in the fourth quarter of 2016 is due to an adjustment in over-valued inputs, CCIRS position criteria and changes to origin currency to align them with accounting; With a downward impact on VaR.

The result shows that the Bank's potential loss will be above Ps 71 million in one out of a hundred days.

	4Q15	1Q16	2Q16	3Q16	4Q16
VaR Banorte*	Ps. 300	Ps. 313	Ps. 286	Ps. 213	Ps. 71
Banorte net capital**	80,509	83,453	90,155	90,264	97,991
VaR / net capital Banorte	0.37%	0.38%	0.32%	0.24%	0.07%

* Quarterly Average

** Sum of net capital at the end of the quarter

The average VaR by risk factor for Banorte's portfolio had the following behavior during the fourth quarter of 2016:

RISK FACTOR	1Q16	2Q16	3Q16	4Q16
Rates	Ps. 319.6	Ps. 284.6	Ps.71.1	Ps. 56.2
FX	188.2	143.4	166.6	25.9
Variable Income	1.4	5.2	4.3	7.2
Diversification effect	(196.1)	(147.3)	(28.7)	(18.6)
Banorte's Total VaR	Ps. 313.0	Ps. 285.9	Ps. 213.4	Ps. 70.7

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

RISK FACTOR	1Q16	2Q16	3Q16	4Q16
Rates	62.8%	65.7%	29.4%	62.9%
FX Rate	37.0%	33.1%	68.8%	29.0%
Variable Income	0.2%	1.2%	1.8%	8.1%

3.2. Sensitivity analysis and tests under extreme conditions (Stress Testing)

Since VaR indicates the potential losses under normal market conditions, Banorte complements its risk analysis by applying 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 institute's positions of extreme movements in risk factors.

3.3. Backtesting

In order to validate the effectiveness and accuracy of the VaR, a monthly Backtesting 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 estimated.

During 2015, there were two surplus events of the forecasted VaR vs. the Actual VaR for the Financial Group's portfolio.

3.4. Value of Risk for Casa de Bolsa (Brokerage House)

The average VaR of the portfolio was Ps. 5 million for the last quarter of 2016. (\$ 28 million lower than the VaR of the previous quarter). The VaR at the close of 4Q16 corresponds to \$ 5.5 million pesos.

The decrease presented in the fourth quarter of 2016 is due to an adjustment in over-valued inputs, CCIRS position criteria and changes to origin currency to align them with accounting; with a downward impact on VaR.

The result shows that potential loss will be above Ps 5 million in one out of a hundred days.

	4Q15	1Q16	2Q16	3Q16	4Q16
VaR *	Ps. 15	Ps. 27	Ps. 28	Ps. 33	Ps. 5
Net capital**	2,641	2,836	2,355	1,906	2,058
VaR / Net Capital	0.57%	0.95%	1.19%	1.73%	0.24%

* Quarterly average

** Sum of net capital at the end of the quarter.

VaR by risk factor of the instrument portfolio described for the Financial Group behaved during the fourth quarter of 2016 as follows:

RISK FACTOR	1Q16	2Q16	3Q16	4Q16
Rates	Ps. 26.5	Ps. 28.1	Ps. 32.5	Ps. 5.0
FX Rate	-	-	-	-
Variable Income	-	-	-	-
VaR Diversification Effect	-	-	-	-
VaR Total Casa de Bolsa	Ps. 26.5	Ps. 28.1	Ps. 32.5	Ps. 5.0

3.5. Sensitivity analysis and tests under extreme conditions (Stress Testing)

Since VaR indicates the potential losses under normal market conditions, Casa de Bolsa Banorte-Ixe complements its risk analysis by applying 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 institute's positions of extreme movements in risk factors.

3.6. Backtesting

In order to validate the effectiveness and accuracy of the VaR, a monthly Backtesting 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 estimated.

4. LIQUIDITY RISK

Financial Institution's Liquidity Risk objectives are:

- Comply with the Risk Appetite defined by the Group's Board of Directors.
- Give proper monitoring of Liquidity Risk, both supplemented with stress tests and contingency plan that includes corrective measures, as well as the follow-up of the diversification of funding sources.
- Keep the Senior Management properly informed in a timely manner.
- Quantify using different methodologies, exposure to Liquidity Risk.
- Define the maximum risk levels that the institution is willing to maintain.
- Measure Institution vulnerability to extreme market conditions and consider such results for decision making.

Financial Group's liquidity risk policies are:

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

4.1. Liquidity Risk Methodology and Exposure

Liquidity risk is managed through a series of fundamental pillars that include the use of key indicators such as the Liquidity Coverage Ratio (LCR), concentration, funding and stability ratios as well as liquidity stress testing. The latter based on a framework of policies and manuals, including a liquidity contingency plan, and similarly, is enhanced with the follow up on limits and Risk Appetite metrics of 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	1Q16	2Q16	3Q16	4Q16	VAR VS. 1Q16
Demand deposits					
Local Currency	Ps. 288,568	Ps. 298,404	Ps. 306,594	Ps. 331,280	14.8%
Foreign Currency	37,227	38,203	42,587	51,179	37.5%
Demand deposits	325,795	336,607	349,181	382,459	17.4%
Time Deposits - Retail					
Local Currency ⁽¹⁾	131,891	137,386	143,069	149,861	13.6%
Foreign currency	19,398	20,255	16,554	17,792	(8.3%)
Core Deposits	477,084	494,248	508,805	550,112	15.3%
Money market					
Mexican pesos ⁽²⁾	62,158	60,139	35,788	24,391	(60.8%)
Foreign currency⁽²⁾	Ps. 539,242	Ps. 554,387	Ps. 544,593	Ps. 574,502	6.5%

4.3. Liquidity Coverage Ratio

The LCR allows the quantification of 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 the liquidity to meet its short term obligations, under an extreme scenario using exclusively high quality liquid assets as source of funding.

The following table shows the average evolution of LCR components in 4Q16.

LCR COMPONENTS		BANK AND SOFOMES	
		UNWEIGHTED AMOUNT (AVERAGE)	WEIGHTED AMOUNT (AVERAGE)
COMPUTABLE LIQUID ASSETS			
1	Total Computable Liquid Assets	NA	Ps. 82,899
CASH DISBURSEMENTS			
2	Unsecured retail financing	Ps. 313,558	Ps. 24,725
3	Stable financing	132,607	6,630
4	Less stable financing	180,951	18,095
5	Unsecured wholesale financing	214,641	57,864
6	Operational deposits	168,386	31,747
7	Non-Operational deposits	45,608	25,470
8	Unsecured debt	647	647
9	Secured wholesale financing	257,196	21,279
10	Additional requirements:	703,414	26,062
11	Disbursements related to derivatives and other guarantee requirements	412,073	7,452
12	Disbursements related to losses from debt financing	-	-
13	Lines of credit and liquidity	291,341	18,611
14	Other contractual financing obligations	-	-
15	Other contingent financing obligations	-	-
16	TOTAL CASH DISBURSEMENTS	NA	129,931
CASH INFLOW			
17	Cash Inflows for secured operations	Ps. 56,635	Ps. 42,953
18	Cash Inflows for unsecured operations	34,486	1,364
19	Other cash inflows	1,818	1,818
20	TOTAL CASH INFLOW	N/A	Ps. 46,135
		Adjusted amount	
21	TOTAL COMPUTABLE LIQUID ASSETS	NA	Ps. 82,899
22	TOTAL NET CASH DISBURSEMENTS	NA	Ps. 83,796
23	LIQUIDITY COVERAGE RATIO	NA	99.55%

During 4Q16, an average CCL for Banco and Sofomes of 99.55% was observed, with CCL at the close of 4Q16 of 89.73%, standing above the Desired Risk Profile and the regulatory minimum established in the current regulations. The above results indicate that Banorte is in a position to meet all of its short-term obligations in the face of a crisis scenario.

Evolution of LCR Components

LCR COMPONENT	1Q16	2Q16	3Q16	4Q16	VAR VS. 1Q16
Liquid assets	Ps. 69,680	Ps. 79,090	Ps. 81,449	Ps. 82,074	17.8%
Cash Inflow*	57,406	55,711	34,250	43,883	(23.6%)
Cash Outflows*	116,009	115,432	111,647	135,354	16.7%

* See main LCR results.

The Liquid Assets that compute in the LCRs for the Bank and Sofoms during 2016 are distributed as follows:

TYPE OF ASSET	1Q16	2Q16	3Q16	4Q16	VAR VS. 1Q16
Total	Ps. 69,680	Ps. 81,662	Ps. 81,449	Ps. 82,074	17.8%
Level I	60,619	71,881	71,818	71,795	18.4%
Level II	9,061	9,781	9,631	10,278	13.4%
Level II A	7,957	8,425	8,060	8,238	3.5%
Level II B	1,104	1,356	1,571	2,041	84.8%

Net assets grew by 17.8% between 1Q16 and 4Q16, mainly driven by an increase in liquid assets level I and level II B during 2016.

4.4. LCR Results' Main Causes

Changes in the Liquidity Coverage Ratio between 3Q16 and 4Q16 are mainly due to the issuance made by Banorte in October of subordinated debentures for USD \$ 500MM, which had a positive implication on the liquidity of the institution.

4.5. Liquidity Risk in Foreign Currency

For Liquidity Risk quantification and follow-up, 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.

4.6. Exposure to Derivatives and possible Margin Calls

Banorte applies the regulatory methodology to determine cash outflows for derivatives. At the end of 2016, estimated outflows for derivatives were as follows:

DERIVATIVES CASH OUTFLOWS	1Q16	2Q16	3Q16	4Q16	VAR VS. 1Q16
Net cash outflows at market value and for potential exposure	Ps. 2,383	Ps. 2,658	Ps. 3,531	Ps. 5,164	116.7%
Cash outflows for a 3 notch credit rating downgrade	Ps. 469	Ps. 627	Ps. -	Ps. -	(100.0%)

The former measurement shows that potential outflows for derivatives may represent a liquidity requirement up to Ps. 5.164 billion.

4.7. 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 4Q16 are presented in the following table.

CONCEPT	1Q16	2Q16	3Q16	4Q16	VAR VS. 1Q16
Cumulative 30 day Gap	(53,270)	(55,434)	(45,220)	(22,552)	(57.7%)
Liquid assets	69,680	79,355	56,392	59,791	(14.2%)

Mismatch among inflows and outflows (gaps) for the next 30 days are covered with liquid assets. It should be noted that during the quarter, the Risk Policy Committee approved a new methodology for calculating the liquidity gap, which involves an own model to determine the survival of demand and time deposits. The new methodology is the main reason for the difference against the calculations presented in the previous quarter. In addition, the new methodology allows us to make a more granular breakdown of the liquidity gaps, remaining as follows for 4Q16:

CONCEPT (MILLIONS OF PESOS)	1 DAY	7 DAYS	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
Natural Gap	(1,911)	(17,363)	(3,278)	7,530	(9,369)	2,810
Accumulated Gap	(1,911)	(19,274)	(22,552)	(15,022)	(24,392)	(21,582)

4.8. 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. 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.

4.9. Contingency Funding Plan

For the purpose of having 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.

4.10. Interest Rate Risk

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

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

The table below shows the effect on the Financial Margin of a movement of 100 basis points over the rates, which is considered Available for Sale, which at the close of 4Q16 corresponded to 153,128 million pesos, and on average during the 4Q16 to 130,480 million pesos.

	1Q16	2Q16	3Q16	4Q16	VAR VS. 1Q16
Margin Sensitivity	Ps. 854	Ps. 983	Ps. 1,066	Ps. 1,180	38%

4.11. Subsidiaries

Liquidity Risk Management processes for the Bank and its Sofoms are centralized in GFNorte's Risk Management General Direction (DGAR). To follow-up on Sofoms' liquidity, an analysis of the balance sheet structural behavior is made, as well as to the funding diversification. Furthermore, a maturity gap analysis is performed. Specifically for the Brokerage House, regulatory liquidity requirements are monitored.

The following chart shows the composition of the gap indicators of the Bank's subsidiaries and Sofoms at the end of 4Q16.

LIQUIDITY RATIO	CASA DE BOLSA BANORTE IXE	ARRENDADORA Y FACTOR	SÓLIDA
Cumulative 30 days Gap	Ps. 1,214	(Ps. 3,125)	(Ps. 4,269)
Liquid assets	Ps. 1,689	Ps. 8	Ps. 9

5. OPERATIONAL RISK

The Financial Institution 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) To allow and support the organization to reach its institutional objectives through prevention and management of operational risks; b) To insure that the existing operational risks and the required controls are duly identified, assessed and in line with the risk strategy established by the organization; and c) To insure that operational risks are duly quantified to make the proper capital allocation 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 Directorship maintains close communication and coordination with the Regulatory Comptrollership in order to facilitate effective Internal Control in which the proper procedures and controls are established that will mitigate Operating Risk in the processes, and provide follow up 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 follow up 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 insure adequate internal control.

5.2. Quantitative and qualitative measuring tools

5.2.1. Operating 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 and 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 make it possible in the future to have enough information to calculate the capital requirements as per Advances Models.

5.2.2. Legal and Fiscal Contingencies Database

For the recording and monitoring of legal, administrative and tax issues that may arise from adverse ruling, an internal system called "Legal Risk Issues Monitoring System" (SMARL) 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 the Financial Institution'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 create the necessary reserves in a determined term (according to lawsuit's term) to face such Contingencies.

5.3. Risk Management Model

The Financial Group and its subsidiaries have 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 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 Calculating

In accordance with the Capitalization for Operational Risk Regulations in effect, the institution has adopted the Basic Model, which is calculated 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. Technology Risk

At the Financial Group, technology 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 Commission or Technology Risk Management are performed by the Institution under institution 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 cover 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 THE FINANCIAL GROUP

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

The Financial Group 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 “unreplaced ineligible loan” in question. If Banorte identifies any non-eligible loan, it must be notified and replaced or make the corresponding payment.

Particularly in Trusts 374 and 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 Financial Group also acts as an investor by acquiring titles of market certificates issued by the trusts set up for securitizations. As of December 31, 2016, the Financial Group had the following position in securities and securitization amounts carried out by the same institution:

SECURITIZATION	BANORTE		INSURANCE		TOTAL	
	SECURITIES	AMOUNT	SECURITIES	AMOUNT	SECURITIES	AMOUNT
91_BNTECB_07	50,763,776	2,037	500,000	20	51,263,776	2,057
91_BNTECB_07-2	563,059	19	-	-	563,059	19
97_BNORCB_06	4,938,137	27	500,000	3	5,438,137	29
97_BNORCB_06-2	576,011	4	-	-	576,011	4
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	ISSUED SECURITIES	BANORTE	INSURANCE	TOTAL	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%	50.6%	49.4%
97_BNORCB_06	19,853,820	24.9%	2.5%	27.4%	72.6%
97_BNORCB_06-2	620,431	92.8%	0%	92.8%	7.2%
97_FCASACB_06U	1,351,386	-	-	-	100%

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	
	LOCAL	GLOBAL	LOCAL	GLOBAL	LOCAL	GLOBAL
91_BNTECB_07					Aa2.mx	Baa2
91_BNTECB_07-2					A3.mx	Ba3
97_BNORCB_06	mxAAA		AAA (mex)		Aaa.mx	A3
97_BNORCB_06-2	mxAA		AA-(mex)			
97_FCASACB_06U	mxAA		A(mex)			

As of December 31, 2016, the amounts of the underlying assets of each securitization were:

SECURITIZATION	AMOUNT		
	PERFORMING	PAST-DUE	TOTAL
91_BNTECB_07	Ps. 2,937	Ps.-	Ps. 2,937
91_BNTECB_07-2			
97_BNORCB_06	Ps. 134	Ps. 95	Ps. 228
97_BNORCB_06-2			
97_FCASACB_06U	Ps. 129	Ps. 141	Ps. 270

* Figures correspond to securities valuation of trust securitizations.

In November 2016, 3 credits from the State of Nayarit that were part of Trust 477 were liquidated, according to their payment schedule.

There are no impaired assets in Trust 477.

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

CONCEPT	BALANCE	CAPITAL REQUIREMENT
Securitizations with Risk Level 1 (weighted 20%)	Ps. 27	Ps. -
Securitizations with Risk Level 2 (weighted 50%)	2,056	82
Securitizations with Risk Level 3 (weighted 100%)	4	-
Securitizations with Risk Level 4 (weighted 350%)	-	-
Securitizations with Risk Level 4, 5, 6 or not rated (weighted 1250%)	-	-

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

The securitizations of Trusts 563, 583 and 477 considers early amortization provisions, while that of Trust 374 does not consider any. The institution has not conducted revolving securitization or re-securitization operations.

There have been no significant changes to the previous quarter's figures.

6.1. Applicable 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:

- a) Eliminate transferred financial assets at the last book value;
- b) Recognition for the consideration received in the operation;
- c) 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 are 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: are 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. POSICIÓN EN ACCIONES

At the end of December 2016, Banco Mercantil del Norte held shares amounting to Ps 4.057 billion, with gains of Ps 204 million.

During the fourth quarter, accumulated profits from sales and settlements were Ps 27 million.

For the purpose of calculating the Capital Ratio, only Ps 110 million were deducted for the calculation of the Core Tier 1. For negotiable securities, the capital requirement for Market Risk was Ps 16 million. For Securities available for sale, the capital requirement for Market Risk was Ps 110 million and for Credit Risk Ps 188 million.

INSTITUTION	TYPE OF QUOTATION	ACCOUNTING CLASSIFICATION	CAPITALIZATION TREATMENT	MARKET VALUE 4Q16	GAIN / LOSSES 4Q16	ACCUM. PROFIT/LOSS 4Q16
Banorte	Public	Negotiable Securities	Subject to Market Risk Requirement	Ps. 370	Ps. 76	(Ps. 9)
Banorte	w/o public quote	Securities available for sale	Subject to Market and Credit Risk Requirements	3,435	32	36
Banorte	Public	Securities available for sale	Subject to Market and Credit Risk Requirements	22	(24)	-
Banorte	Public	Securities available for sale	Subject to Core Tier 1 Deduction	110	16	-
Banorte	Public	Securities available for sale	Subject to Credit Risk Requirement	120	103	-
Total				Ps. 4,057	Ps. 204	Ps. 27

In December 2016, net equity instruments in Casa de Bolsa Banorte - Ixe, amounted to Ps 387 million with a positive valuation of Ps 153 million.

During the quarter, losses were recorded for Ps 1.57 million from sales and settlements.

For the purpose of calculating the capitalization ratio, investments that are deducted from the Net Capital are not included. For securities available for sale, the capital requirement for Market risk was Ps. 1 million.

INSTITUTION	TYPE OF QUOTATION	ACCOUNTING CLASSIFICATION	CAPITALIZATION TREATMENT	MARKET VALUE 4Q15	GAIN / LOSSES 4Q15	ACCUM. PROFIT/LOSS 4Q15
Casa de Bolsa Banorte-Ixe	Cotización Pública	Títulos para Negociar	Sujeta a Requerimiento Riesgo Mercado	Ps. 387	Ps. 153	Ps. 1.6
Casa de Bolsa Banorte-Ixe	Sin Cotización Pública	Títulos Disponibles para la Venta	Sujeta a Requerimiento Riesgo Mercado y Crédito	-	-	-
Casa de Bolsa Banorte-Ixe	Cotización Pública	Títulos Disponibles para la Venta	Sujeta a Requerimiento Riesgo Mercado y Crédito	-	-	-
Casa de Bolsa Banorte-Ixe	Cotización Pública	Títulos Disponibles para la Venta	Sujeta a Deducción Capital Fundamental	-	-	-
Casa de Bolsa Banorte-Ixe	Cotización Pública	Títulos Disponibles para la Venta	Sujeta a Requerimiento Riesgo Crédito	-	-	-
Total				Ps. 387	Ps. 153	Ps. 1.6

36 - MEMORANDUM ACCOUNTS

	2016	2015
Operations on behalf of third parties		
Banks customers (current accounts)	Ps. 118	Ps. 165
Settlement of customer transactions	(3)	45
Customer securities received in custody	609,288	587,734
Customer repurchase agreements	77,781	145,667
Collateral pledged on account of clients	77,746	145,225
Managed trusts	90,205	87,009
Investment banking transactions on account of third parties, (net)	93,306	79,643
	Ps. 948,441	Ps. 1,045,488
Proprietary transactions		
Contingent assets and liabilities (unaudited)	Ps.45	Ps. 20
Assets in trust or under mandate (unaudited)	292,174	299,148
Managed assets in custody (unaudited)	446,626	438,213
Credit commitments (unaudited)	324,528	160,529
Collateral received	89,288	147,797
Collateral received and sold or given as a pledge	101,473	235,143
Deposits of assets	2,550	3,023
Interest accrued but not charged of past due loans	439	482
	Ps. 1,257,123	Ps. 1,284,355

37 - COMMITMENTS

As of December 31, 2016 and 2015, the Financial Group had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 324,573 (Ps. 160,548 in 2015), which are recorded in memorandum accounts.
- Certain operating equipment is leased. Total property lease payments for the years ended December 31, 2016 and 2015, were Ps. 130 and Ps. 110, respectively.

38 - CONTINGENCIES

As of December 31, 2016, there are lawsuits filed against the Financial Group in civil and business court cases; however, the Financial Group's attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Financial Group's consolidated financial position. As of December 31, 2016, the Financial Group has recorded a reserve for contentious matters of Ps. 873 (Ps. 627 in 2015).

39 - PREVENTIVE MECHANISM FOR SAVINGS' PROTECTION

The objective of the Institute for the Protection of Bank Savings (IPAB) is to protect the deposits of small customers and thereby contribute to maintain the financial system's stability and the proper functioning of the payments systems.

According to the Law of Bank Savings Protection (LPAB), the IPAB manages a bank savings protection system that guarantees the payment of bank deposits or loans or credits to Full Service Banking Institution up to an amount equivalent to 400 thousand UDIS per individual or business entity, regardless of the number or type of such obligations in the customer's favor and charged to a single bank.

On July 30, 2007, general rules were issued for addressing joint accounts or those in which there is more than one account holder, referred to in art. 14 of the LPAB, as well as the rules banks must observe for classifying information relative to transactions associated with guaranteed obligations.

The IPAB plays a major role in the implementation of the LPAB resolutions methods and the Law of Credit Institutions (LIC) as timely and adequate mechanisms for salvaging and liquidating Full Service Banking Institutions in financial trouble that may affect their solvency. The purpose is to provide maximum protection to the public while minimizing the negative impact that salvaging an institution may have on others in the banking system.

During 2016 and 2015, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps 2,325 and Ps 2,101, respectively.

40 - NEW ACCOUNTING GUIDELINES

Improvements to NIF 2017 - The following improvements were issued with effect from January 1, 2017, which could generate accounting changes.

The improvements consist in specifying the scope and definitions of these NIF to indicate more clearly their application and accounting treatment.

NIF B-7, Business Acquisitions - It is indicated that the recognition of the change to this NIF effective as of January 2016 should be done prospectively and not retrospectively as previously indicated. Said change establishes that it is not within the scope of NIF B-7 the acquisitions of entities under common control, regardless of how the amount of the consideration has been determined.

NIF B-13, Events after the date of the financial statements - If, at the date of authorization for the issuance of the financial statements, an agreement is reached to maintain the long-term payments of a liability contracted with said payment conditions and Which has fallen into default, it is permitted to classify such liability as a long-term item at the date of the financial statements, allowing its early application for the years beginning on or after January 1, 2016.

NIF C-11, Stockholders' Equity - Stipulates that the expenses of registering on a stock exchange of shares of an entity that at the date of said registration were already owned by investors and for which the issuing entity had already received the corresponding funds must be recognized in the net profit or loss at the time of their deference, when considering that there was no capital transaction. It also clarifies that any expense incurred in the repositioning of repurchased shares must be recognized as a decrease in issued and placed capital.

NIF D-3, Employee benefits - It is amended to establish, as a basic principle, that the discount rate to be used in determining the present value of long-term labor liabilities should be a free market rate of, or with Very low, credit risk, representing the value of money over time; Consequently, either the market rate of government bonds or the market rate of high-quality corporate bonds in absolute terms in a deep market could be used indistinctly, provided that the latter complies with the requirements set out in the Appendix B-Application guides, B1-Guide for the identification of high-quality corporate bond issues in absolute terms in a deep market. Permit your anticipate app.

Improvements to NIF 2017 - The following improvements were issued that do not generate accounting changes:

NIF C-3, Accounts Receivable
Bulletin C-15, Impairment of long-lived assets and their disposition

At the date of issuance of the consolidated financial statements, the Parent Company determined that the effects of these new standards do not affect its financial information.

The following NIFs have been issued with effect from January 1, 2018. As of the date of the financial statements, the Commission does not consider some of these NIFs as part of the application of particular rules referred to in criterion A- 2 issued by the Mass Commission:

NIF B-17, Determination of fair value
NIF C-3, Accounts Receivable
NIF C-9, Provisions, contingencies and commitments
MNIF C-16, Impairment of financial instruments receivable
NIF C-19, Financial instruments to be paid
NIF C-20, Financial instruments to charge principal and interest
NIF D-1, Income from contracts with customers
NIF D-2, Customer contract costs

As of the date of issuance of these consolidated financial statements, the Parent is in the process of determining the effects of these new standards on its financial information, but the effects are not expected to be material.